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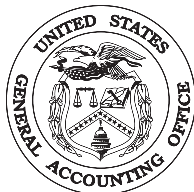
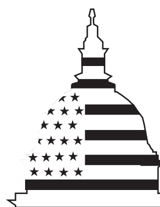
Report to the Chairman, Subcommittee on Livestock and Horticulture, Committee on Agriculture, House of Representatives

January 2000

BEEF AND LAMB

Implications of Labeling by Country of Origin





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United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-284193

January 27, 2000

The Honorable Richard W. Pombo
Chairman, Subcommittee on Livestock
and Horticulture
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

Currently, all meat entering the United States must be marked by country of origin. However, once the meat is sliced, cut, ground, or otherwise processed, it may lose that identity. Similarly, all livestock entering the United States must be identified by country of origin but becomes part of the domestic meat supply when slaughtered. Both imported meat and meat from animals slaughtered in U.S. meatpacking plants go to U.S. processors, distributors, retail grocers, or food service facilities to be cut, blended into ground meat, or blended into processed products, such as cold cuts. Relatedly, several legislative proposals have been introduced over the years that would require imported meat or meat from imported animals to be labeled by country of origin all the way to the consumer. In October 1998, Senate and House conferees for the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, directed the U.S. Department of Agriculture (USDA) to study the potential effects of mandatory country-of-origin labeling to the retail level for imported fresh cuts (such as steaks and chops) of beef and lamb.[1] USDA was required to issue its study by April 21, 1999; USDA completed its analysis and released its report on January 12, 2000.

Concerned about the delay in USDA's release of its report, in July 1999 you asked us to review a number of issues associated with the potential costs and benefits of mandatory country-of-origin labeling to the retail level for beef and lamb. In addition to fresh cuts of beef and lamb, which were the focus of USDA's study, you asked us to consider processed products, such as ground or blended beef and lamb and frozen, prepared, and preserved

[1]Conference Report 105-825 accompanied H.R. 4328, which became the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277, Oct. 21, 1998).

beef and lamb products. Specifically, this report provides information on the potential (1) compliance costs associated with mandatory country-of-origin labeling for fresh and processed beef and lamb, (2) enforcement costs associated with such a requirement, (3) trade issues associated with such a requirement, and (4) benefits of mandatory country-of-origin labeling. As you requested, we addressed these issues in the context of H.R. 1144, a bill pending before your Subcommittee at the time of your request. [2] H.R. 1144 calls for labeling fresh and processed meat from cattle, sheep, swine, and other hoofed animals through to the ultimate purchaser, which is generally the consumer. It also requires that meat from imported animals slaughtered in the United States be identified by the country or countries in which the animal was born and raised.

Results in Brief

Mandatory country-of-origin labeling for meat as prescribed under H.R. 1144 would necessitate changes in the meat industry's current practices. These changes would, in turn, create compliance costs across all sectors of the industry. However, the magnitude of these costs is uncertain. Although the beef and lamb industries have not developed cost estimates for complying with the specific requirements of H.R. 1144, certain industry sectors have developed some estimates for maintaining country-of-origin information. For example, the meat industry has estimated an annual cost of $182 million for meatpackers and processors to maintain information solely on the country of origin for beef. While we have no basis to assess the validity of this estimate, we note that it did not include the costs to packers and processors of also identifying and maintaining country-of-origin information for meat from cattle that were imported and raised in the United States—if that were to be required. Although this meat is considered domestic under current laws, it would be considered imported under H.R. 1144. The grocery industry has estimated that the nation's 156,300 large and small retail grocers would incur annual costs of about $375 million for record-keeping, inventory management, and the labeling of meats that they cut, blend, and grind in their stores. U.S. packers, processors, and grocers would, to the extent possible, pass their compliance costs back to their suppliers—U.S. cattle and sheep ranchers and foreign exporters—in the form of lower prices or forward to consumers in the form of higher retail prices.

[2]Another bill pending before your Subcommittee–H.R. 222–requires country-of-origin labeling for imported meat; however, it does not require that the label be maintained to the retail level.

Enforcement costs would be incurred to adequately oversee all sectors of the meat industry affected by the legislative requirements. USDA had estimated, on the basis of a 1998 proposal to label imported beef and lamb at the retail level, that its Food Safety and Inspection Service would incur a cost of $60 million per year–more than 10 percent of its budget–to enforce country-of-origin labeling for those meats. Although we did not assess the validity of USDA's enforcement estimate, it did not take into account all the requirements of H.R. 1144. For example, the estimate did not include enforcement costs for other sectors of the meat industry, such as the pork industry. USDA's estimate also did not consider monitoring and enforcement costs for ensuring the identity of meat from imported animals raised at U.S. feed facilities before being slaughtered.

According to federal officials and industry trade representatives, mandatory country-of-origin labeling for beef and lamb, as provided in H.R. 1144, could have negative ramifications for U.S. trade. U.S. trading partners could view any such law as inconsistent with U.S. trade obligations. In particular, officials with the Office of the U.S. Trade Representative and the Department of State said that U.S. trading partners could raise concerns that such country-of-origin labeling requirements might adversely affect their exports to the United States by, for example, raising costs and/or lowering the demand for their products. In fact, according to Department of State officials, Australia, Canada, and New Zealand said they would view any such U.S. law that they believed would adversely affect their exports to the United States as a trade barrier. These countries are among the United States' largest sources of beef and lamb imports. Furthermore, mandatory country-of-origin labeling could have adverse repercussions for U.S. beef and other exports. At least 11 U.S. trading partners already have some requirements for country-of-origin labeling through the retail level for at least some meats. Currently, these countries accept meat exported by the United States to be labeled as a product of the United States as long as it bears a marking indicating that USDA inspected it. According to USDA officials, these countries might decide to more strictly enforce their own labeling laws if a new U.S. law were enacted. Moreover, countries that do not currently require such labeling might be prompted to impose such requirements. Finally, according to federal officials, a stringent U.S. law would make it more difficult for the United States to oppose an impending European Union proposal for country-of-origin labeling that these officials believe may adversely affect U.S. meat exports.

H.R. 1144's country-of-origin labeling requirements would benefit consumers who prefer to purchase U.S. beef and lamb by giving them the

information to make that choice. According to surveys of consumers sponsored by beef producers, if the prices of domestic and imported beef were the same, most consumers, if given the choice, would purchase domestic beef so that they could support U.S. businesses and farmers. However, domestic meat might be accompanied by higher prices in grocery stores if demand for it increases or if labeling costs are passed on to consumers. Certain industry sectors might also benefit from mandatory country-of-origin labeling. For example, if consumers were to increase their purchases of domestic beef and lamb, U.S. cattle and sheep producers–as well as U.S. meat packers, processors, and distributors who handle U.S. beef and lamb–could realize increased sales or higher prices.

In summary, it is difficult to quantify the cost of labeling meat by country of origin or to put a value on the potential benefits. Certainly, such labeling would benefit consumers who want to know where their food comes from and might increase sales in some sectors of the U.S. meat industry. However, these benefits would not come without costs. All industry sectors expect to incur compliance costs that may be passed on to consumers, and some level of federal enforcement resources would be needed. In addition, a meat labeling law could have adverse trade implications.

Background

Total U.S. consumption of beef increased 9 percent–from about 24.3 billion pounds to nearly 26.6 billion pounds–between 1993 and 1998, the most recent year for which USDA has compiled such data.[3] During this same period, the amount of beef the United States imported increased 10 percent, from 2.4 billion pounds to 2.6 billion pounds. Measured in dollars, most beef imported into the United States in 1998 came from Australia, Canada, and New Zealand. The United States also imported about 2 million cattle in 1998: about 1.1 million cattle from Canada for immediate slaughter and about 170,000 cattle from Canada and about 720,000 cattle from Mexico to be raised in the United States before slaughter.[4] The imported cattle represented about 5.5 percent of the cattle slaughtered in the United States that year.

[3]These data include veal.

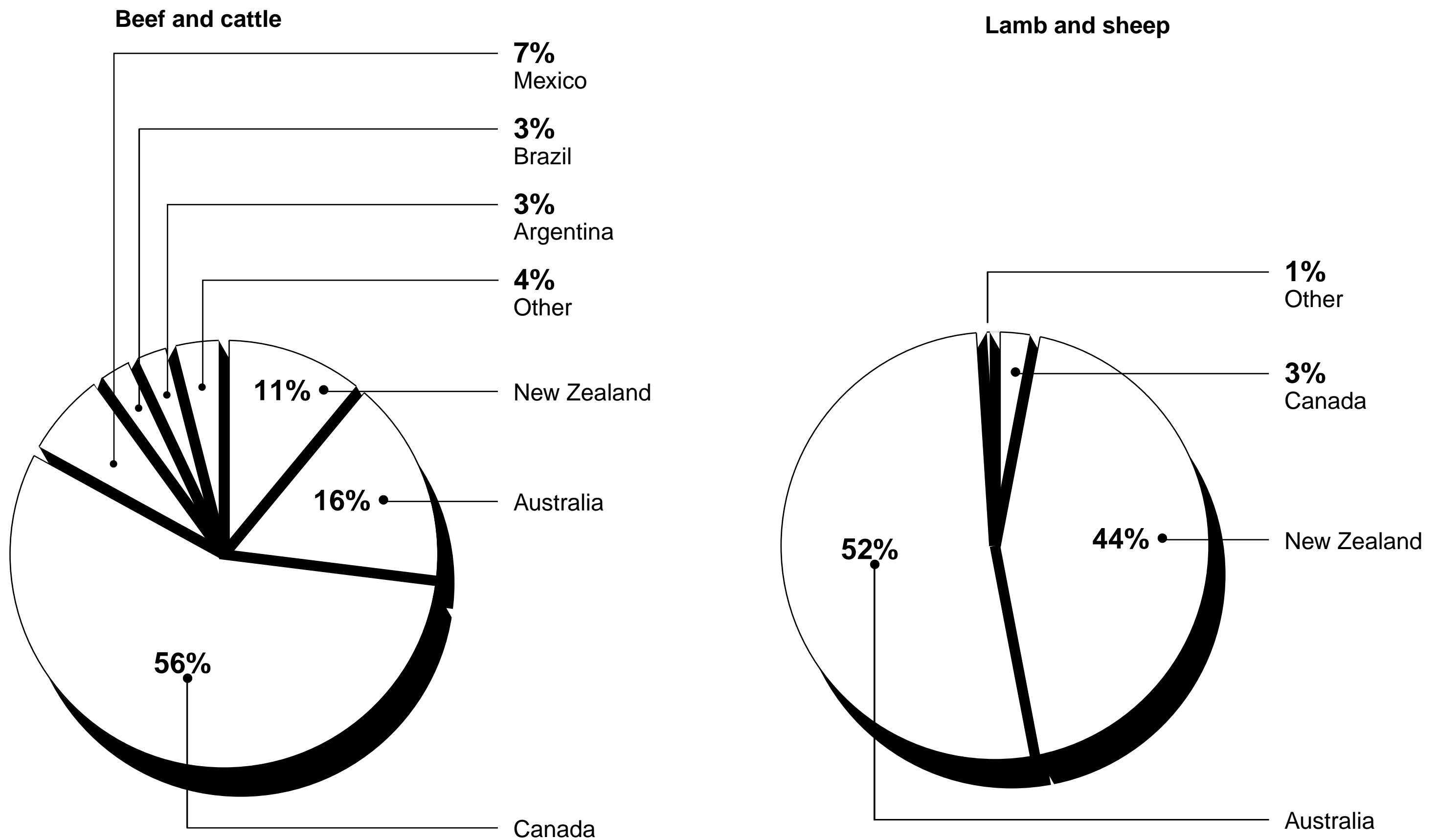
[4]Nearly 90 percent of cattle imported to be raised in the United States before slaughter weigh less than about 700 pounds at the time they are imported. These cattle include stocker calves, which generally weigh up to about 400 pounds, and feeder cattle, which weigh over 400 pounds. Cattle are slaughtered at about 1,300 pounds.

Between 1993 and 1998, total U.S. consumption of lamb decreased 6 percent–from about 381 million pounds to about 359 million pounds.[5] At the same time, the amount of lamb imported more than doubled, from about 53 million pounds to about 112 million pounds. As measured in dollars, most lamb imported in 1998 came from Australia and New Zealand. In addition, in 1998, the United States imported about 46,000 sheep from Canada, which represented about 1 percent of the total sheep slaughtered in the United States that year.

Figure 1 shows the sources of imported beef and cattle, as well as imported lamb and sheep, in 1998, in percentages determined by the dollar value of the imports.

[5]These data include mutton.

Figure 1: Sources of Imported Beef and Cattle and Imported Lamb and Sheep, 1998, in Percentages Determined by the Dollar Value of Imports



Source: GAO's analysis of USDA's data.

In 1998, we estimate that, by weight, imported beef and beef from imported cattle accounted for about 14 percent of the U.S. beef supply; imported lamb and lamb from imported sheep accounted for about 32 percent of the U.S. lamb supply.[6] The United States also exported about 2.2 billion pounds of beef and about 6 million pounds of lamb in 1998.

[6]These estimates were calculated from USDA data, including (1) Economic Research Service data on beef and lamb production, (2) Economic Research Service and Foreign Agricultural Service data on imports, and (3) National Agricultural Statistics Service data on slaughter.

Two country-of-origin meat-labeling bills were pending before the House Subcommittee on Livestock and Horticulture in July 1999–H.R. 222 and H.R. 1144. Both bills apply to meat from cattle, sheep, swine, goats, horses, mules, and other equines and amend the provisions of the Federal Meat Inspection Act that deal with issues of misbranding. USDA has oversight and enforcement responsibilities for misbranding violations under the act. Specifically:

- H.R. 222, which was introduced in January 1999, requires that imported meat and meat food products containing imported meat carry a label identifying the country of origin. The bill does not require that the label be maintained to the retail level.
- H.R. 1144, which was introduced in March 1999, applies to imported and domestic meat and meat from imported animals. It requires that meat labels inform the "ultimate purchaser" of the country or countries in which the animal (from which the meat was derived) was born, raised, and slaughtered, and, if imported, the country from which it was imported. It defines the "ultimate purchaser" as the person who bought the meat for consumption or the institution, restaurant, or other food service establishment that served the meat for consumption. For blended meat or meat food products, it requires that the country or countries of origin of the animals from which the meat was derived be listed in descending order of predominance. To be considered domestic, the meat had to come from an animal born, raised throughout its entire life, and slaughtered and otherwise processed in the United States. The bill identifies meatpackers and processors as initially responsible for labeling; each subsequent reseller is responsible for ensuring that the label is maintained.

Because our study focused on the implications of carrying country-of-origin meat labeling information to the retail level, we discuss the study issues only in the context of the requirements of H.R. 1144.

H.R. 1144 was among several bills that have been introduced in the Congress over the last 5 years that would require country-of-origin labeling for meats at the retail level. In addition, at least a dozen states have at various times over the past four decades proposed–and several have passed–laws requiring country-of-origin labeling for meats at the retail level. However, in 1967, a Supreme Court ruling affirmed a lower court's finding that one state's country-of-origin law unreasonably discriminated against imported meat and was unconstitutional. Following that ruling, some states stopped enforcing their laws and others repealed theirs. An

official in Wyoming, a state that recently enacted a country-of-origin retail labeling law for meat, told us the state is in the process of determining how to enforce its law.

In view of the proposed bills that the Congress has considered, it is important to note that, to some extent, a country-of-origin labeling requirement already exists for beef and lamb. The Tariff Act of 1930, as amended, generally requires imported articles to be marked by country of origin through to the ultimate purchaser. However, meatpackers and processors do not routinely maintain country-of-origin information. This is due in part to the fact that the U.S. Customs Service (Customs), which administers the Tariff Act, does not generally enforce the act's labeling requirement for meat after inspection at the border. This may also be due to the fact that USDA has given meatpackers and processors different guidance on the need to maintain country-of-origin information. More specifically, USDA, which administers the Federal Meat Inspection Act, requires that the country of origin appear in English on the carcass or container of all meat entering the United States. However, unlike Customs, which requires an imported product to maintain its import identity through to the ultimate purchaser, USDA considers imported meat to be part of the domestic meat supply once it passes a USDA safety inspection. Consequently, any subsequent cutting, blending, or grinding may be done without maintaining country-of-origin labeling. USDA also considers imported livestock to be domestic after its Animal and Plant Health Inspection Service inspects and releases these animals. We are preparing a report, which will be issued later this year, on the differing treatment of country-of-origin labeling by Customs and USDA.

The provisions of H.R. 1144 differ from the Tariff Act requirements in many aspects. For example, the Tariff Act regards the meat from imported animals slaughtered in the United States as U.S. meat. H.R. 1144 would not regard the meat as domestic and would require its label to identify the country or countries in which the animal was born, raised, and slaughtered.

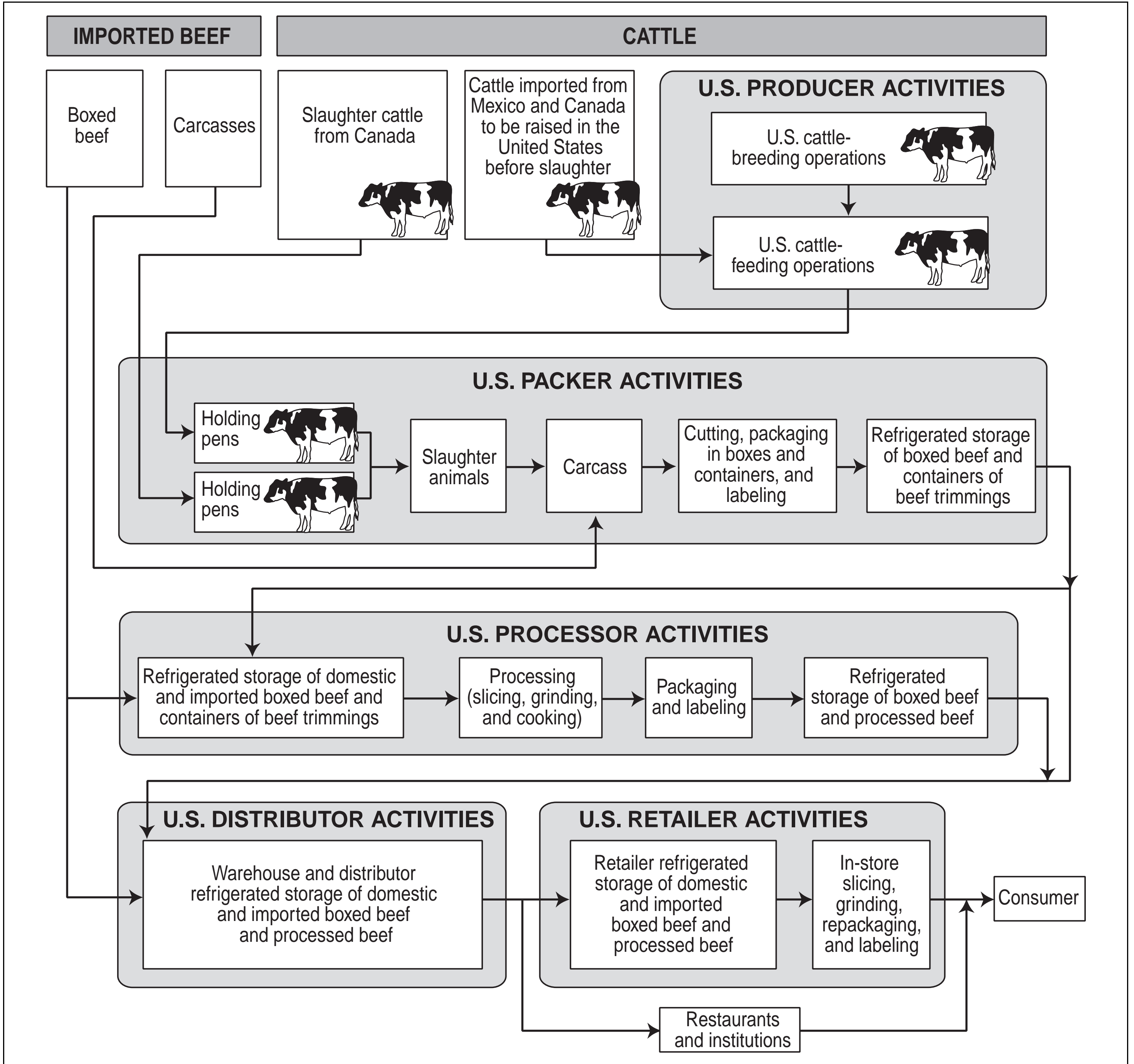
All Sectors of the Meat Industry Expect to Incur Compliance Costs, but the Magnitude Is Uncertain

Mandatory country-of-origin labeling for meat as prescribed by H.R. 1144 would necessitate changes in current meat industry practices; these changes would, in turn, impose compliance costs across all industry sectors. However, the magnitude of these costs is uncertain. It is also unclear who would bear those compliance costs.

Compliance Costs Would Stem From Changes in Current Practices

U.S. meat producers, packers, processors, distributors, and retailers would have to change their practices to comply with a mandatory country-of-origin labeling law at the retail level. To ensure the integrity of country-of-origin information on meat packages that reach consumers, origin information would need to be established and maintained from the animal in the field and from the point of importation to the grocery store. The additional efforts and associated costs for compliance for each industry sector would depend on the extent to which current practices would have to be changed. For the most part, information on country of origin is not maintained by these industries. Figure 2 presents a simplified version of the main activities involved in bringing beef to consumers and of the industry sectors that generally perform those activities, using the examples of the major beef exporters to the United States. It is followed by a discussion of the potential labeling costs for each sector.

Figure 2: Activities Involved in Bringing Beef to Consumers



Notes: By dollar value, beef imported in 1998 came from Canada (40 percent), Australia (25 percent), New Zealand (18 percent), Brazil (6 percent), Argentina (5 percent), and other nations (6 percent). Virtually all cattle imported for immediate slaughter in 1998 came from Canada (about 1.1 million head). Virtually all cattle imported in 1998 to be raised in the United States before slaughter came from Mexico (about 720,000 head) and Canada (about 170,000).

Potential Producer Costs

Under the provisions of H.R. 1144, only animals born, raised, and slaughtered in the United States would be considered "domestic" and their meat a U.S. product. In contrast, under current USDA rules, cattle that are imported to be raised and slaughtered in the United States may be considered part of the domestic herd after they have been inspected by USDA at the border and released. U.S. producers generally do not provide packers with information identifying the country of origin of the livestock when they are sold for slaughter.

Many U.S. producers import cattle from Mexico or Canada to raise to a slaughter weight of about 1,300 pounds. Producers who import these animals would incur compliance costs to maintain information on the country where each animal was born and raised. During 1998, about 720,000 head of cattle were imported from Mexico by ranchers located primarily in Arizona, New Mexico, and Texas; about 170,000 head of cattle were imported from Canada by ranchers located primarily in Idaho, Montana, North Dakota, and Washington State.

To comply with H.R. 1144, U.S. producers could be required to track and maintain detailed records of the movements of their livestock and have controls in place to ensure the accuracy of this information. The implementing regulations would determine the amount of information that would have to be maintained and the manner in which this information would be maintained–for example, whether ear tags or documentation that described the animals' international movements would be used. The American Meat Institute testified before your Subcommittee in April 1999 that ear tags would cost producers about $2.50 per animal.[7]

The requirements of H.R. 1144 would have a negligible impact on U.S. sheep producers because only a small number of live sheep are imported.

[7]The United Kingdom, which requires the tagging of cattle, has placed the cost of ear tags at about $1.60 to $3.20 (based on the current exchange rate) per animal. The Canadian Food Inspection Agency, which will be implementing a national cattle identification program that is set to go into effect on Dec. 31, 2000, has a lower preliminary estimate for ear tags of about $0.68 to $1.00 (based on the current exchange rate) per animal.

Potential Packer and Processor Costs

H.R. 1144 identifies packers and processors as initially responsible for ensuring that the integrity of country-of-origin meat labeling is maintained to the ultimate purchaser. Currently, both Customs and USDA regard the country in which an animal is slaughtered as the country of origin of the meat from that animal. Thus, the meat from cattle and sheep slaughtered in the United States is generally considered to be U.S. meat. Packers and processors generally neither need nor maintain detailed country-of-origin information concerning the animals they buy from U.S. or foreign producers.

To comply with H.R. 1144, which considers only animals born, raised, and slaughtered entirely in the United States as “domestic,” meatpackers and processors would need to receive and maintain accurate, detailed records about the international movements, if any, of the animals they purchase from U.S. producers. Furthermore, meatpackers would need to maintain accurate country-of-origin records on meat from both the cattle imported for direct slaughter and the cattle purchased from U.S. producers that had been imported and raised in the United States. Depending on the stringency of the implementing regulations, packers might need additional animal-holding pens and meat storage and chilling facilities to segregate animals and meat by country of origin. Packers might also need new labels and/or labeling equipment to indicate the country of origin of the carcasses, organ meats, and other animal parts used for human consumption from slaughtered animals. When we visited a large packer, we observed that the meat storage areas were fully stocked. The slaughter and carcass-cutting activities, which were carried out in an assembly-line process, also fully occupied the plant’s floor space. According to plant officials, if they were required to segregate meat from imported animals, they would have to build additional refrigerated storage space and enlarge the meat-cutting area.

Similarly, processors might need to separate meat from different countries before it enters their production runs–cutting, grinding, and blending. Depending on the strictness of the implementing regulations, preventing the contamination of one production run by another could require the entire production line to be shut down between runs for cleaning. The meats might have to be placed in different chilling and storage areas and/or marked in some way to ensure that country-of-origin information is maintained until the meat is packaged and labeled. Segregating meats may require additional equipment, such as refrigeration units, storage bins, and racks.

According to the Food Industry Trade Coalition, which is comprised of food processors, manufacturers, distributors, and marketers, labeling blended meats by country of origin would be particularly burdensome to U.S. processors. H.R. 1144 requires that, for blended meat, the country or countries of origin of the animals from which the meat is derived are to be listed in descending order of predominance. For example, to meet the demand by U.S. consumers for lean ground beef, U.S. processors typically blend the fatty trimmings from domestic beef with leaner cuts and trimmings from imported beef or domestic cows or bulls. In addition, the developing integration of the cattle industry among the United States, Canada, and Mexico further complicates the labeling scenario for ground beef. If any of the trimmings were from animals that were born in Canada or Mexico or spent any time at a Canadian or Mexican feed lot, that information would have to appear on the label for hamburger meat under H.R. 1144. Processors would face the challenge of maintaining detailed records to track a number of possible different countries of origin in their hamburger supply and to maintain accurate label information. And, depending on the requirements in implementing regulations, the complexity and associated costs could be increased if processors also had to track the relative proportion of meat from different sources in each production run of ground beef. Processors might also need new labels and/or labeling equipment, redesigned packaging, or some other way of indicating the country of origin of the meat and meat products.

The American Meat Institute surveyed its member companies to develop an estimate of annual compliance costs for an earlier country-of-origin labeling proposal. Basing its estimate on the provisions of that earlier proposal, the Institute estimated that compliance with country-of-origin labeling requirements would cost beef packers and processors $182 million, which would be equivalent to three-quarters of a cent per pound on all beef produced in the United States. Beef-packing plants that slaughter both domestic cattle and cattle imported for immediate slaughter reported their compliance costs would total 7 to 8 cents per pound on their plants' production. However, the estimate did not include the costs of identifying and maintaining country-of-origin information for meat from cattle that were imported and raised in the United States. As noted earlier, under current law, meat from such animals is considered to be domestic but would be considered imported under H.R. 1144. The Institute did not develop an estimate for compliance costs for lamb.

Potential Distributor Costs

Distributors, including wholesale distributors, generally handle boxed meats and carcasses, which may be imported directly or purchased from

U.S. meatpackers and processors. Distributors generally do not cut or process meat and generally would not repackage meats. Consequently, under H.R. 1144, their compliance burden would be limited to maintaining controls to ensure that records stay with the meats.

Potential Retail Grocery Costs

Retail grocery stores perform many of the same activities as meat processors and would have the same types of compliance burdens. That is, retail grocery stores receive boxes of large cuts of meat, which their meat departments cut up and repackage into smaller retail cuts; the stores also grind the trimmings into hamburger meat. On our visit to a typical store in a large grocery chain, we observed that space was limited; the single butcher on duty would prepare several packages of one cut of meat, such as chuck roast, followed by several packages of another cut, such as strip steak. We also observed that fat trimmings from various cutting operations were put into a single receptacle and subsequently ground together into hamburger meat. Segregating imported meats would be difficult under these space and labor constraints. In addition, many grocery stores and butcher shops make their own sausage and meat loaf mix.

The Food Marketing Institute and the National Grocers Association have estimated that complying with country-of-origin labeling for meat would cost the nation's approximately 156,300 large and small retail grocery stores about $375 million. To comply with H.R. 1144, stores might have to separate their storage, cutting, and grinding operations to keep meats from different countries segregated. Also, grocery stores typically use machines that, in addition to packaging retail meat cuts, place labels with such information as weight and price, as well as handling and cooking instructions, on the packages. The addition of country-of-origin information on meat packages, as required in H.R. 1144, might make it necessary for grocers to modify or replace existing labeling machines.

It Is Not Clear Who Would Bear Compliance Costs

Although a country-of-origin labeling law would create compliance costs for the beef and lamb industries, it is not clear how the burden of these costs would be distributed. U.S. packers, processors, distributors, and retailers would, to the extent possible, pass any compliance costs back to their suppliers or on to consumers. These industries might attempt to pass their costs to U.S. producers and foreign exporters in the form of lower prices paid for livestock and imported meat; they might also attempt to pass their costs to consumers in the form of higher prices for meat sold at the retail level. However, they would be limited in their ability to do so to the extent that consumers reduce their meat purchases in response to

higher meat prices. For example, some consumers may respond to higher prices by purchasing alternatives to beef and lamb, such as chicken. The success of such attempts would depend on the relative strengths of the various segments of the meat industry. Packers, processors, distributors, and retailers may also try to reduce their costs by deciding to handle only domestic livestock and meat products. Such a move could possibly lead to an increase in prices for domestic meat products, if the supply of meat were not sufficient to meet demand; it could also result in a reduction in choices for consumers. To the extent that they are unable to shift the costs for compliance, packers, processors, distributors, and retailers will have to accept a reduction in their profit margins.

Enforcement Resources Would Be Needed for an Inherently Difficult Task

Enforcement costs for country-of-origin labeling for meat, as embodied in H.R. 1144, would be incurred because government regulators would have to adequately oversee all sectors of the meat industry affected by the legislative requirements. The enforcing agency would have to implement a monitoring system to ensure that the identity of meat is maintained at the producer, packer, processor, distributor, and retail levels. Enforcement could require significant inspection resources to ensure that (1) producers and packers maintain the origin identity of their imported livestock; (2) packers, processors, distributors, and retail grocers maintain the original identity of the meats; and (3) the information on the labels that reach consumers are accurate and complete. Because inspectors would generally be unable to determine the country of origin of livestock or meat from visual inspection, they might need to periodically review the entire industry's internal controls, practices, and records.

No single federal agency has a presence throughout all sectors of the meat industry. Both USDA and Customs have the authority to enforce existing country-of-origin labeling requirements. Both agencies have inspectors at U.S. borders and ports of entry, and USDA and the states share the responsibility for inspecting U.S. packers and processors. State and local officials generally inspect retail grocery stores for compliance with state health and safety laws. USDA also collects ground beef samples at about 4 percent of the nation's grocery stores each year.

H.R. 1144 proposed amending the misbranding provisions of the Federal Meat Inspection Act, for which USDA has oversight and enforcement responsibilities. According to USDA officials, the Department did not develop an estimate of the cost to enforce H.R. 1144. However, USDA had determined, on the basis of a 1998 proposal to label imported beef and

lamb at the retail level, that enforcement "would require extensive record keeping, segregation and tracking of both imported animals and meat." [8] USDA estimated the annual cost to monitor for compliance with the 1998 bill would have been at least $60 million for its Food Safety and Inspection Service, which was more than 10 percent of that agency's entire annual budget. This estimate, prepared by USDA's Office of the Chief Economist, assumed that USDA would carry out all inspection and enforcement activities. It was based on two inspection visits annually to 250,000 retail establishments (grocery and convenience stores and meat markets) selling beef or lamb and 50,000 packers, processors, and other handlers of beef and lamb, at a cost of $100 per visit for labor, travel costs, and record-keeping. We did not independently verify this estimate. However, USDA's estimate did not take into account all the requirements of H.R. 1144. For example, the estimate did not (1) include enforcement costs for other meat industries nor (2) consider monitoring and enforcement costs for ensuring the identity of meat from imported animals that are raised at U.S. feedlots before slaughtering.

A Meat Labeling Law Could Have Adverse Trade Implications

Any labeling law would need to be consistent with international trade rules that the United States has agreed to, including those embodied in the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), in order to withstand any challenges that could be brought by U.S. trading partners.[9] WTO provisions recognize the need to protect consumers from inaccurate information while minimizing the difficulties and inconveniences that labeling measures may cause to commerce. While WTO rules permit country-of-origin labeling, they require, among other things, that the labeling of imported products not result in serious damage to the product, a material reduction in its value, or an unreasonable

[8] In July 1998, the Senate passed an amendment to the fiscal year 1999 appropriations bill that would have required fresh muscle cuts of beef and lamb, as well as ground or other processed beef and lamb, to be labeled as U.S. beef; U.S. lamb; imported beef; imported lamb; or, in cases where domestic and imported product was mixed, with the percentage content of U.S. and imported beef or lamb contained in the product. USDA's estimate was compiled as part of its comments on that bill.

[9] The WTO was established in 1995 as a result of the Uruguay Round of the General Agreement on Tariffs and Trade (1986-94). The WTO facilitates the implementation, administration, and operation of multiple agreements that govern trade among its member countries. NAFTA is a multilateral trade agreement that contains obligations governing trade among Canada, Mexico, and the United States.

increase in its cost.[10] WTO rules also require that imported products be provided national treatment–that is, that they be treated no less favorably than domestic products with regard to laws and regulations affecting their internal sale, offering for sale, purchase, transportation, distribution, or use. Likewise, NAFTA permits country-of-origin labeling but requires that any such marking requirement be applied in a manner that would minimize difficulties, costs, and inconvenience to a country's commerce. In addition, both WTO and NAFTA contain procedures for settling disputes between member countries over the consistency of these countries' laws, regulations, and practices with the agreements.

According to officials with the Office of the U.S. Trade Representative, USDA, and the Department of State, U.S. trading partners could raise concerns that a U.S. country-of-origin labeling law might adversely affect their meat exports to the United States by increasing the cost of, or reducing the demand for, these exports. In particular, both Australia and New Zealand have indicated they would view any new measures, such as a meat-labeling law, as an undue hardship and an unnecessary obstacle to trade, according to Department of State officials.[11] Specifically, a New Zealand official, in an October 1999 letter to the Department of State, noted that country's opposition to country-of-origin labeling for meat products. The letter stated that such labeling was not needed to address any food safety or health concerns and that the only purpose would be to imply a quality differential. It further stated that New Zealand, as a matter of principle, opposes such mandatory labeling for meat and that such labeling imposes an unjustifiable cost on foreign producers and, ultimately, American consumers.

Some cattle industry officials are also concerned that country-of-origin labeling requirements could adversely affect the developing integration of the cattle industry among the United States, Canada, and Mexico. Currently, a large number of cattle move across the borders of these countries. Canadian cattle enter the United States for slaughter, and U.S.

[10]In addition, country-of-origin labeling is covered as a technical regulation subject to the WTO Agreement on Technical Barriers to Trade. This agreement provides general guidelines for developing and applying technical regulations.

[11]In July 1999, the United States imposed a duty on imports of lamb from Australia and New Zealand. In the first year, the duty is 9 percent on amounts up to the allowable poundage and 40 percent on amounts above the allowable poundage. These percentages decrease in each of the 3 years for which the duty is to be in place.

cattle are sent for slaughter to Canada or Mexico. In addition, cattle born in Canada and Mexico are raised, slaughtered, and processed in the United States.

According to officials with the Office of the U.S. Trade Representative and the Department of State, Canada has expressed its view that a U.S. law requiring country-of-origin labeling all the way to the consumer–for imported meat that is further processed after it enters the United States and for meat from imported animals slaughtered in the United States–would be a violation of NAFTA and WTO provisions and that Canada would seek relief under those agreements. These officials told us that Mexico might raise similar concerns. Under NAFTA's dispute settlement provisions, Mexico had requested consultations with the United States to discuss its concerns that an earlier U.S. country-of-origin labeling bill for fresh produce would have violated certain NAFTA provisions.[12]

U.S. trade representatives have worked informally and cooperatively to oppose certain other countries' country-of-origin labeling requirements. However, the United States has not formally challenged any such requirements within the WTO. WTO officials said they were unaware of any formal challenges to any country's labeling requirements. Yet, according to both USDA and WTO officials, the absence of any formal challenge does not necessarily indicate that existing country-of-origin labeling requirements are consistent with WTO rules. The absence of formal challenges to existing laws also does not preclude such laws from being challenged in the future if, for example, they were considered to be discriminatory in nature or to create unnecessary obstacles to trade. Moreover, because the United States is such a large importer and exporter of fresh meat, USDA and Department of State officials pointed out that a U.S. labeling law is more likely to be formally challenged than are other countries' laws. USDA and Department of State officials are concerned about the impact on U.S. exports of a meat-labeling rule that the European Union plans to implement in the near future. If implemented, this rule would impose stringent country-of-origin labeling requirements that the U.S. meat industry would likely find difficult to comply with, according to USDA officials. These officials noted that a U.S. labeling law would make it

[12]For additional information on the implications of mandatory country-of-origin labeling for fresh produce, see *Fresh Produce: Potential Consequences of Country-of-Origin Labeling* (GAO/RCED-99-112, Apr. 21, 1999).

more difficult for the United States to oppose such a proposal under international trade agreements.

USDA officials and some industry representatives have also expressed concern that mandatory country-of-origin labeling for meat to the retail level could be viewed as a trade barrier and might lead to actions that could hurt U.S. exports. According to USDA's Foreign Agricultural Service, of the 15 countries that purchase the majority of U.S. beef, at least 11 already require that at least some of the meat they import be labeled by country of origin at the retail level. Currently, these countries accept meat exported by the United States to be a product of the United States as long as it bears a marking indicating that it was inspected by USDA–in lieu of a country-of-origin marking that identifies where the animal was born. According to the Foreign Agricultural Service, should the United States enact a labeling law that these countries found to be onerous, they could act to enforce their own laws more stringently by, for example, refusing to accept the USDA seal on meat exports from the United States. In addition, trading partners that do not currently require country-of-origin information at the retail level might be prompted to impose such requirements.

Country-of-Origin Labeling Would Provide Information to Consumers and Benefit Some Sectors of the U.S. Beef and Lamb Industries

Country-of-origin labeling for beef and lamb would benefit consumers who would prefer to purchase meat from U.S. cattle and sheep by giving these consumers the information to make that choice. The consumer groups with which we spoke—Consumers Union, the Consumer Federation of America, the Center for Science in the Public Interest–generally agreed that consumers would favor such labeling and that consumers have the right to know where their food comes from.

The National Cattlemen's Beef Association sponsored the only surveys of consumers' views on country-of-origin labeling for meat sold in grocery stores that we were able to identify during the course of our study. The Association testified before your Subcommittee that, according to a poll taken in November 1998, the majority of shoppers surveyed supported the concept of putting country-of-origin labels on fresh meat sold in supermarkets. In a nationwide survey in March 1999, 91 percent of the consumers polled said that given a choice between domestic and imported meats that were the same price, they would purchase ground beef or steak labeled "Product of the United States" over the same meats labeled

"imported product."[13] Of those who said they would select the U.S. meat, more than two-thirds said they would do so because they prefer to buy American and support American businesses and farmers; 13 percent thought U.S. beef would be safer; and 9 percent thought it would be of higher quality. When asked to choose among packages of beef labeled product of Canada, Australia, the United States, or New Zealand, nearly 90 percent said they would choose the U.S.-labeled beef if the prices were the same. However, the surveys did not ask consumers whether they would be willing to pay higher meat prices for country-of-origin information.

If country-of-origin labeling were to result in increased demand for domestic beef and lamb, then U.S. cattle and sheep producers who do not handle imported animals–as well as the packers, processors, and distributors who handle beef and lamb that come primarily from domestically born, raised, and slaughtered animals–might also benefit from higher prices and increased sales. However, because H.R. 1144 would allow only meat from animals born, raised, and slaughtered in the United States to be labeled as domestic meat, those producers who share feeding or slaughtering activities with Canadian or Mexican producers might see lower sales and revenues. In addition, packers, processors, and distributors who handle imported livestock and/or meat might see lower sales and reduced profits.

Agency Comments and Our Response

We provided USDA, the Office of the U.S. Trade Representative, and the Department of State with a draft of this report for their review and comment. We met with USDA officials, including the Food Safety and Inspection Service's Assistant Deputy Administrator, Office of Policy Program Development and Evaluation, and the Director, Internal Control Staff. USDA responded that the report provided an accurate and even-handed presentation of the potential compliance and enforcement costs, as well as the trade implications, associated with H.R. 1144. USDA also stated its concern that, if H.R. 1144 were enacted, countries to which the United States exports meat may impose requirements on the United States that would necessitate a comprehensive tracking system for all animals produced for consumption in the United States. With regard to the potential benefits, USDA believes that if consumer demand for U.S. meat truly existed, the industry would already be using labels to distinguish U.S. meat

[13]In commenting on a draft of this report, USDA pointed out that labels reading "imported product" might violate the national treatment requirements of WTO.

from other countries' meat because there would be economic incentives to do so. USDA also suggested technical clarifications that we incorporated as appropriate. We also spoke with the Director of Agricultural Affairs and Technical Barriers to Trade in the Office of the U.S. Trade Representative and with the Economic/Commercial Officer, Agricultural Trade Policy Division in the Department of State. These officials told us that the information in the report on potential trade implications was accurate; they also offered technical clarifications that we incorporated as appropriate.

Scope and Methodology

As you requested, we addressed the objectives of this study in the context of H.R. 1144. As agreed with your office, we did not conduct a detailed cost-benefit analysis, but we did discuss the potential benefits and costs of H.R. 1144 with federal officials and industry and consumer representatives. Also, because the USDA study on meat labeling was not released until January 12, 2000, we did not analyze and discuss that study in this report. Additionally, this report did not discuss the safety of imported meat because the United States imports meat only from the 37 countries that USDA has certified as having safety standards for meat that are equivalent to U.S. standards.

To determine the potential costs associated with compliance and enforcement, we interviewed officials and/or reviewed documents from USDA's Agricultural Marketing Service, Animal and Plant Health Inspection Service, Economic Research Service, National Agricultural Statistics Service, Foreign Agricultural Service, and Food Safety and Inspection Service; and the U.S. Customs Service. We reviewed the existing legislation related to country-of-origin labeling, including the Federal Meat Inspection Act and the Tariff Act of 1930, as amended. We also interviewed officials and/or reviewed documents from the Food Industry Trade Coalition, Food Marketing Institute, National Cattlemen's Beef Association, American Meat Institute, American Sheep Industry Association, and National Meat Association. In addition, we visited a beef-packing plant to examine how imported animals and the meats produced from them were segregated throughout slaughtering, cutting, chilling, and other activities occurring at the plant. We also visited a distribution facility and retail outlet for a large grocery chain to examine how meats are labeled when they arrive at the facility and retail outlet and how they are further processed, repackaged, and labeled. We did not independently verify the compliance and enforcement cost estimates developed by industry sectors and USDA. To learn about compliance and enforcement experiences with state labeling

laws, we spoke with state officials in Kansas, North Dakota, South Dakota, and Wyoming.

To determine the potential trade implications of country-of-origin labeling for beef and lamb, we reviewed documents and interviewed officials from the Office of U.S. Trade Representative, the Foreign Agricultural Service, the WTO, and the Department of State. We also examined international trade agreements. We identified U.S. trading partners that have country-of-origin labeling requirements for beef (and veal) and lamb (and mutton), and we reviewed the February 4, 1998, survey conducted by the Foreign Agricultural Service, *1998 Foreign Country of Origin Labeling*.

To determine the potential benefits of mandatory country-of-origin labeling, we examined documents and interviewed officials from the Consumer Federation of America, Center for Science in the Public Interest, Consumers Union, National Cattlemen's Beef Association, American Sheep Industry Association, American Meat Institute, and Food Marketing Institute. We also analyzed the results of a nationwide telephone survey of consumer opinions regarding mandatory country-of-origin labeling administered in March 1999. The survey was sponsored by the National Cattlemen's Beef Association and conducted by a contractor using a random-digit dialing methodology. We also spoke with officials and obtained documents from USDA's Food Safety and Inspection Service about the relative safety of imported and U.S. beef and lamb.

We conducted our review from September 1999 through January 2000 in accordance with generally accepted government auditing standards.

As requested, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after the date of this letter. At that time, we will send copies of this report to Senator Richard G. Lugar, Chairman, and Senator Tom Harkin, Ranking Minority Member, Senate Committee on Agriculture, Nutrition, and Forestry; and Representative Larry Combest, Chairman, and Representative Charles W. Stenholm, Ranking Minority Member, House Committee on Agriculture. We will also send copies of this report to the Honorable Dan Glickman, Secretary of Agriculture; the Honorable Madeleine Korbel Albright, Secretary of State; the Honorable Raymond Kelly, Commissioner of Customs; the Honorable Jacob J. Lew, Office of Management and Budget; and Ambassador Charlene Barshefsky, the U.S. Trade Representative. We will also make copies available to others upon request.

If you would like more information about this report, please contact me or Erin Lansburgh at (202) 512-5138. Key contributors to this report were Erin Barlow, Stephen Cleary, and Clifford Diehl.

Sincerely yours,

Robert E. Robertson
Associate Director, Food
and Agriculture Issues

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