

Country of Origin Labeling: What Does It Mean For The Nebraska Meat Industries?

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What is Country of Origin Labeling?

On May 13, 2002, President Bush signed into law the Farm Security and Rural Investment Act of 2002. Title X of this act provided for an addition to the Agricultural Marketing Act of 1946, Subtitle D. Subtitle D requires that some retail meat products and other “covered commodities” be labeled as to their country of origin by September 30, 2004. Included in these meat products are beef, pork, and lamb (excluding mutton) muscle cuts and ground beef, pork, and lamb, as well as farm-raised and wild fish. Country of origin labeling (COOL) will also be required for peanuts and perishable agricultural commodities like fresh fruits and vegetables.

COOL specifies that retailers must inform consumers of the country of origin for covered commodities at the final point of sale (e.g., supermarkets). To do so, retailers may use a label, stamp, mark, placard, or other type of sign on the package or display case. If the product is already individually labeled for retail sale as to country of origin, the retailer will not have to take additional measures to comply with Subtitle D.

There are two important exemptions to COOL noted in Subtitle D. The first is that COOL does not include the covered commodities when they are ingredients in a processed food product. For example, hamburger included as a topping on a frozen pizza would presumably be exempted from COOL. The second exemption to COOL excludes food service establishments from the retailers who must inform consumers of country of origin. These two COOL exemptions have the potential to exclude well over half of beef and pork produced. Although consumption data for beef and pork consumed at-home versus away-from-home is not available, an estimated 30 to 40 percent of beef and pork consumption occurs in food service establishments that are exempted from COOL (based on consumer expenditures for all food items). Further, processed and ready-to-eat meat products, which are exempt from COOL, are becoming increasingly popular in retail supermarkets and grocery stores.

What Qualifies For “Made In The U.S.A.?”

Early versions of the COOL law would have allowed meat from animals born in other countries, but raised, fed, and/or slaughtered in the United States to be labeled as originating from the U.S. The final version of the regulation is more stringent however. It requires that beef, pork, and lamb labeled “U.S. Origin” be exclusively from an animal that is born, raised, and slaughtered in the U.S. A 60-day allowance is made for U.S. cattle being transported from Alaska or Hawaii through Canada to be slaughtered in the continental United States. In the case of fish, farm-raised fish must be hatched, raised, harvested, and processed in the United States and wild fish must be harvested in U.S. waters and processed in the United States (with the label stating whether the fish are wild or farm-raised). Peanuts and other perishable commodities also must be produced exclusively in the United States.

Timeline and Enforcement

Although Subtitle D provides relatively specific language on which products are subject to COOL and which retailers are responsible for labeling, the methods to gather data and implement an accurate COOL system are not detailed in the legislation. Instead, it instructs the U.S. Secretary of Agriculture to develop guidelines for *voluntary* COOL by September 30, 2002. The Secretary is to enact COOL on a mandatory basis by September 30, 2004.

The Secretary of Agriculture is also responsible for enforcement of COOL. If the Secretary determines that a retailer is violating COOL, the retailer will be notified of such by the Secretary and provided a 30-day period (from the date of receiving notification) to comply with COOL. If the Secretary finds that the retailer is still willfully violating COOL after the 30-day period and a hearing with the Secretary, the retailer may be assessed a civil penalty with a fine up to \$10,000 per violation. Each day during which a violation continues will be considered a separate violation (7 U.S.C. §1636b).

Effect of COOL

The intent of COOL is to promote the sale of U.S. meat and other commodities by providing consumers with information regarding the origin of the meat and produce they purchase. Sparse information relating to consumers' willingness to pay a premium for U.S. meat, or labeled meat, exists. Costs to various industries to implement COOL could exceed the benefits they receive from consumer premiums for U.S. meat. One private industry association estimates that COOL will cost the red meat industry and USDA about \$1.06 billion.

Costs to implement a practical system for COOL will primarily stem from expenses associated with developing an individual animal identification and traceback system and segregating products in the meat packing industry. In the beef industry, such a system would likely require that a meat product be traced from the retail outlet downward through the supply chain to the boxed beef cut, carcass, and live animal. This would necessitate additional information sharing amongst consumers, retailers, wholesalers, packers, cattle feeders, stocker/growers, and cow-calf operators. Breed associations and other vertical alliances are currently building relationships that would facilitate the transfer of the animal or meat origin to consumers. However, only about 15 percent of cattle are marketed through an alliance (Cattle-Fax). Because the pork industry is more vertically integrated, implementing individual animal identification and traceback may be easier and less costly for the pork industry compared to the beef industry. Still, the marginal value to existing beef and pork alliances who label for country of origin may be relatively small compared to the premiums they already receive for differentiating their product.

Interestingly, the COOL regulation indicates that the Secretary of Agriculture may not use a mandatory identification system to verify country of origin. Instead, it directs the Secretary to use existing programs, including vertically integrated alliances. Therefore, these alliances may be among the first, and possibly only, beef and pork marketers to label for country of origin. Meat products that cannot be origin-verified will likely be destined for food service establishments or ingredients in processed food items. Speculation also exists that nonverified meat products may be labeled as originating from several countries, an alternative that may be unappealing to consumers.

Because COOL enforcement efforts will be directed at retailers, retailers will likely have to initiate a concentrated industry effort to *verify* meat as originating in the U.S. Because retailers will have to rely on, and be accountable for, the accuracy of information provided to them by industry participants further down the supply chain, they are likely to pass liability back to others in the industry (e.g., signing an affidavit guaranteeing country of origin). Liability for COOL

is therefore likely to eventually fall on livestock producers — either feeders, stockers/growers, or breeders. Of more concern, however, is that the identification and traceback system that may be associated with COOL could enable consumers or retailers to trace meat back to packers or livestock producers for the purpose of holding them liable for food safety issues (e.g., contamination with pathogens like *E. coli* or *Salmonella*). Although these were not explicitly goals of COOL, they may result from the legislation depending upon how it is enacted.

Intended to provide U.S. meat products with an advantage in U.S. retail markets, COOL may actually have the opposite effect. Countries with existing mandatory individual animal identification and traceback are already positioned to verify country of origin on meat products. For example, Canada instituted a mandatory identification program in 2001 featuring a database that allows an individual beef cut or ground beef product in the retail outlet to be traced back to the cow-calf operation. Therefore, beef from Canada could be source-verified and labeled as “Canadian beef” for retail sale in the U.S. and potentially be among the first origin-labeled beef in the U.S. market. Promotion of another country's brand may attract U.S. consumers if they find no difference between foreign and U.S. beef, or favor the foreign beef.

Although some foreign countries have hinted at challenging COOL under World Trade Organization (WTO) rules, the effect of COOL on U.S. imports and exports is uncertain. The majority of U.S. meat imports would likely be exempt from COOL because they tend to be either 1) lower-quality cuts and ground products that are used in processed foods, or 2) very high quality muscle cuts that are marketed in upscale restaurants and hotels. U.S. exports could be negatively affected if other countries reduce or limit imports of U.S. meat in response to COOL. Conversely, if the U.S. meat industries are successful in COOL and can increasingly promote U.S. beef and U.S. pork as branded products, export sales are likely to grow.

Until procedures for implementing COOL are developed, the effects of the legislation on the beef and pork industries will remain uncertain. How U.S. industry participants, consumers, and U.S. trading partners react to COOL as it is implemented will also be critical to determining whether the benefits outweigh the costs.

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