The Potential Impacts of Mandatory Country-of-Origin Labeling on U.S. Agriculture

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I. Introduction

The Farm Security and Rural Investment Act of 2002 (FSRIA) requires mandatory retail country-of-origin labeling on certain fresh and frozen foods by September 30, 2004. The regulations are currently voluntary. Mandatory country-of-origin label (MCOOL) provisions were supported by various segments of the livestock, beef, pork, fruit, vegetable, and peanut industries. Among the associations leading the push for MCOOL legislation were Florida Fruit and Vegetable Association, Florida Farmers and Supply Coalition, the Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF), Independent Cattleman’s Association, American Farm Bureau Federation, National Farmers Union, and Organization for Competitive Markets. Therefore, it is clear from the wide variety of supporters that MCOOL provisions appeared to have strong backing.

The Agricultural Marketing Service (AMS), USDA, charged with enforcing MCOOL, has had an open comment period and is developing guidelines and regulations. AMS will also be hosting a series of twelve listening sessions to be held around the United States in an effort to gather as much input into the process. These sessions will provide both supporters and opponents of MCOOL to learn the current status of the regulations and allow them to both provide suggestions and voice concerns.

It is important to understand the significance of imported meats, fruits, vegetables, and peanuts to U.S. food consumption. U.S. imports of these products were valued at $19.5 billion in

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2002, representing 2.3 percent of 2001 U.S. food consumption expenditure. The United States consumed about 12.7 million metric tons (mmt) of beef and 8.7 mmt of pork during 2002. According to *U.S. Agricultural Trade Update*, USDA (FAS), U.S. beef imports account for about 7.7 percent of U.S. beef consumption and 3.9 percent for pork. When beef from imported cattle and swine are added to the calculation, the percentage of imports as a share of consumption increase to approximately 21 percent for beef and 10 percent for pork. For fruits, vegetables and peanuts, imports account for 22 percent of fresh and frozen fruit consumption, 11 percent of fresh and frozen vegetable consumption, and five percent of peanut consumption.

When considering NAFTA partners, Canada shipped 1.7 million head of cattle, most ready for slaughter, and 5.7 million head of hogs, about two-thirds requiring additional feeding and one-third ready for slaughter, to the U.S. in 2002 (figure1). Mexico shipped 800,000 head, mostly calves, to the United States in 2002. These imports represent over 99 percent of all U.S. cattle and swine imports and illustrate the high degree of economic integration present in the North American livestock industry. Further, U.S. imports of beef from Canada totaled 382 thousand metric tons (tmt) and 326 tmt of pork, or about 34 percent of total U.S. beef imports and 89 percent of pork imports (figure 2). While U.S. imports of beef from Mexico are growing, this volume was only about 4,000 tons in 2002.

![Figure 1. U.S. Imports of Livestock from Canada and Mexico](image-url)
Mexico and Canada also supply most of the U.S. fresh and frozen vegetable import market and much of the U.S. fruit import market. Figure 3 reveals that U.S. imports of vegetables from Mexico totaled 2.4 mmt in 2002 and Canada accounted for 876 tmt of these imports, representing 65 percent and 24 percent, respectively, of U.S. vegetable imports. For fruit imports, Mexico’s 1.2 mmt of fresh and frozen shipments to the U.S. accounted for 34 percent of U.S. imports, excluding bananas, while the 137 tmt of fruit imports from Canada account for four percent of that same total. The exclusion of bananas is important to note because most of the bananas consumed in the United States are imported, accounting for 4.1 mmt of the total of 7.6 mmt (54 percent) of U.S. fruit imports.
This paper is divided into three main parts. First, the provisions of country-of-origin Labeling will be described. Next, issues surrounding MCOOL will be examined, including foreign-only labels, consumer views, costs and their burden, and the amount of trade which could be potentially impacted. The final section will explore the potential implications of MCOOL on U.S. and foreign agriculture and potential reactions from our trading partners. It is hoped that the results and other information provided in this paper will improve the understanding of country-of-origin labeling provisions and their potential impacts.


Country-of-Origin Labeling became voluntary on October 11, 2002 and is set to become mandatory no later than September 30, 2004. Under MCOOL, retailers are responsible for the accurate labeling of origin for a wide variety of fresh and frozen meats, fruits, vegetables, and peanuts. All covered products are required to carry the label, including those produced entirely in the United States.

Commodities covered by MCOOL include fresh, chilled, and frozen muscle cuts of beef, pork, and lamb, including ground product, fresh and frozen farm-raised and wild fish, fresh and frozen fruits and vegetables, and peanuts. To qualify for a “Product of USA” label, the product must have originated and be entirely produced in the United States. Non-U.S. products must have their countries-of-origin listed on the label, regardless of how many countries are involved in the production of the product. The labels may be in the form of standard labels, stickers, stamps, or placards on packages, containers, or bins.

There are several major exceptions to the MCOOL provisions. First, covered commodities that enter the Hotel/Restaurant/ Institutional (HRI) trade are exempt. This would include Australian ground beef bound for a McDonald’s or Burger King hamburger and Mexican
tomatoes and peppers headed for restaurant salads. Second, covered commodities that are processed or used as ingredients in further processing are not subject to MCOOL. For instance, cured hams, sausage, peanut butter, tuna fish, and produce to be used in soups would be exempt. Third, retailers selling less than $230,000 per year of any perishable commodity would be exempt as are butcher shops and fish markets. This would exclude most independent grocers from MCOOL provisions. Also, retail outlets which are exclusively meat and seafood markets are exempt from the provisions. Therefore, large retail outlets selling covered commodities to grocery shoppers are likely to be the only place country-of-origin labels will be required. AMS estimates this to be a total to 31,000 stores nation-wide and includes well-known retail chains such as Albertson’s, Kroger’s, Safeway, Winn Dixie, and WalMart as well as most regional chains.

Specifically, there are four separate categories of origin for a covered commodity:

1. Exclusively U.S. origin;
2. Origin and production entirely outside the United States;
3. Products of U.S. and non-U.S. combined origin; and
4. Products of blended origin.

Products that are of exclusive U.S. origin may be labeled as “Product of U.S.A.” Therefore, beef from a calf that is born in Texas, fed in New Mexico, and slaughtered in Colorado qualifies for the U.S. label, as does a tomato grown in Florida or peanuts grown in Virginia. State promotion programs do not satisfy the labeling requirements. Washington apples and Idaho potatoes, for example, will still require a country label.

Products grown and processed entirely outside of the United States will be required to have their country of origin listed. Examples of these are onions produced in Mexico, grapes
grown in Chile, and beef imported from Canada. Each of these products sold at retail grocery outlets will have to have “Product of Country X” type labels.

The previous two categories are fairly clear in the labeling requirement. The next two, mixed origin and blended products, are slightly more complicated. Mixed origin products are most commonly found in livestock/meat products. The supply chain in both cattle/beef and hogs/pork traverse national boundaries within North America. Two-way trade between the United States and Canada occurs in both cattle and hogs, and calves are imported each year by the United States from Mexico. This will result in country of origin labeling by supply chain. Beef from Mexican-born cattle imported into the United States then fed and slaughtered in the United States may list countries-of-origin in the following manner: “Born in Mexico, raised and processed in the U.S.A.” Likewise, beef from cattle born in the United States, fed in Canada, and slaughtered in the United States may say “Born in U.S.A., raised in Canada, and processed in the U.S.A.”

The final category, blended products, will most likely impact only fruits and vegetables, frozen mixes in particular. For instance, frozen vegetable mixes which may have cauliflower, broccoli, and carrots may have product solely from the United States, or combined with product from Mexico, Chile, or some other country or countries. This is highly dependent upon the time of year, which affects harvest times. At one point during the year, the bag may say “Product of U.S.A.,” while other times it may say “Contains carrots from U.S.A., broccoli from Chile, and cauliflower from Mexico,” with other combinations possible during different times of the year. Similar situations can be imagined for frozen melon or other fruit mixes. Under MCOOL guidelines, the retailer will be responsible for ensuring their suppliers have country of origin listed accurately on each package.
Finally, several misunderstandings regarding the MCOOL provisions have surfaced. One was the belief by some in the U.S. peanut industry that peanut paste and peanut butter were to be covered by the rules. However, since peanut paste and peanut butter are processed products, they are not covered by the regulations. A second pertains to traceback, or whether or not producers will be required to provide documentation verifying origin. The provision states that USDA may require any handler of covered commodities bound for retail sale to maintain a “verifiable recordkeeping audit trail” to indicate country of origin, and that any supplier of covered commodities to retailers must provide information to the retailer regarding country of origin. The regulations currently being developed state that, “Every person that prepares, stores, handles, or distributes a covered commodity for retail sale must keep records on the country of origin for a period of at least two years.” This would include feedlots and ranches. There is also great dispute regarding the cost of labeling and which part(s) of the food industry will bear the greatest burden of the costs. These and other MCOOL issues have prompted the scheduling of twelve listening sessions have around the country to educate effected parties and gain input from the industry.

**Emerging Issues in Country-of-Origin Labeling**

There are many emerging issues related to the implementation and costs of MCOOL. One basic issue is whether or not and how intensely consumers desire to know where their fresh meat and produce originate, even though supporters of the provisions based their support on the consumers’ right to know. A survey which appeared in the 2001 The Packer Fresh Trends annual report showed four in five supported mandatory country-of-origin labeling of fresh produce; however, other attributes such as nutrition and handling.
A survey conducted in 2002 for the International Food Information Council showed 75% of U.S. consumers say there is no need for additional information on product labels. Other surveys show apparently divergent results. For instance, a survey recently published by the Southern Rural Development Center said 68 percent of U.S. consumers would pay more for food grown in the United States rather than abroad. However, only two percent of respondents in a 2003 survey by The Packer considered country of origin as a reason for not purchasing a fresh fruit or vegetable. Therefore, it is unclear whether or not consumers have great concern over country of origin, or how much that concern is worth to them.

Another issue regards whether or not only foreign products will require a country-of-origin label. For instance, the Florida MCOOL law requires country-of-origin labels only for foreign fresh fruits and vegetables, and it was hoped by supporters that this would be the model for U.S. MCOOL implementation. However, this would be in direct violation of the WTO rules regarding equal treatment, that is, no rule may be imposed only on imported products – all products must be treated in a like manner. The differences in these applications of the rule have major cost implications for U.S. producers in particular.

Costs are indeed a major issue as the MCOOL provisions are developed. The AMS/USDA estimated first-year compliance costs of MCOOL to be $1.97 billion. The National Pork Producers Council, who supported the inclusion of MCOOL into FSRIA, estimated compliance costs to the pork industry alone to be $1.02 billion per year and for this reason are now opposed to the ultimate implementation of MCOOL provisions.

The degree to which the present supply chain would be affected by MCOOL is difficult to quantify. Kerr contends that Mexican and Canadian red meats will have a cost advantage relative to U.S red meats because they will not be required to implement monitoring and tracing
systems that will be necessary for U.S. products. Mexican and Canadian table ready products will only have to be labeled ‘Product of Mexico’ or ‘Product of Canada’ when leaving the packing plants. Kerr also demonstrates that the current supply chain of mixed origin products, such as live animals and boxed meats, will be replaced by a more specialized, export-oriented system.

These export-oriented systems will ultimately increase the demand for feeder cattle in Mexico and fed steers and hogs in Canada, and could lead to lower U.S. beef exports to both countries. Two forms of supply chains are likely to develop to service the retail red meat market in the United States. One will specialize in producing only U.S. products in the United States and the other will produce foreign consumer ready products. It is also likely that a new supply chain servicing only the H-R-I trade will be developed. Specialization in consumer ready meats will become more profitable in both Canada and Mexico and the mixed supply chains may very well disappear.

Impacts of these new market and supply chain systems need to be assessed. U.S. packing plants, feedlots-especially those in South Texas and along the U.S./Mexico border, and cow-calf operations will likely experience some disruption to operations, increased costs, and lower profitability.

It is also likely that higher costs of U.S. beef relative to poultry, and possibly pork, will result in lost market share and lower prices for beef producers and gains for poultry and pork. This may occur at a time when U.S. beef producers are rebuilding cattle herds from the present low levels of inventory, making herd restocking even more costly.

There is also the possibility that MCOOL may spur retaliation by trading partners, or at the very least, challenges in NAFTA or WTO dispute settlement bodies. It does not seem that
Canada or Mexico would impose their own MCOOL systems if they would incur substantial costs associated with verification and record keeping.

Under the National Treatment rules of the WTO, any import requirements must also apply to U.S. products. This requirement will likely impose significant verification and tracing costs on the U.S. cattle hog industries. It also appears that requirement to label livestock from Canada and Mexico will reduce exports of live animals to the U.S. market. More exports of beef from Canada should be expected, but it is not clear that much more meat will be exported from Mexico.

Finally, it may be that some foreign firms or producer groups view MCOOL as an opportunity to differentiate their product, capture a market niche, and receive a premium price. This has occurred in some cases, such as fresh produce, without legislation. Further, much of the fresh produce imported into the U.S. market already has country of origin markings or labels. U.S. products will be required to verify origin, resulting in higher costs and loss of competitive advantage in some instances.

**Potential Impacts**

North American livestock, meat, and fruit and vegetable trade are characterized by a high degree of economic and product integration. Intra-NAFTA beef/cattle trade totaled $2.8 billion in 2002, up 22 percent since 1994 (table 1). While U.S. exports of beef/cattle to Canada were valued at $268 million, U.S. imports from Canada were $2.24 billion. These imports were evenly split between slaughter cattle and beef. Intra-NAFTA hog/pork trade was $1.2 billion in 2002. U.S. exports of beef to Mexico were $592 million, while the United States
imported $301 million worth of Mexican feeder calves that same year. This trade reflects the development of well-integrated mixed production systems, with Mexico specializing in feeder calves and Canada specializing in slaughter cattle and beef.

U.S. exports of pork to Canada were $112 million, while exports to Mexico were $124 million. The United States imported $301 million in live hogs and $572 million in pork from Canada. This system also reflects a high degree of integration and a mixed supply chain among the three countries, with Canada supplying hogs and pork to the U.S. market, while the United States also exports both to Mexico and pork to Canada.
There are at least three potential outcomes of MCOOL related to consumer reactions. First, U.S. products may be perceived as having more value or as being safer than foreign goods. In this case, U.S. products are differentiated from foreign products and would be sold at a price premium. Under these conditions, more U.S. product would be available for U.S. consumption and exports would fall. Foreign products displaced from the U.S. market would likely find outlets in other countries in the short term. As U.S. producers respond to higher prices and increase output, U.S. exports could expand.

Second, U.S. consumers may be indifferent to MCOOL. In a market as price sensitive and competitive as the United States, there would not be a premium for U.S. products. No major market shifts would occur, but U.S. producers would incur the additional costs of labeling and therefore lose market share to foreign items and experience falling exports. In this case, however, since there is no price premium, exports may not recover over time.

If foreign products are perceived as having more value and are successfully differentiated from U.S. products, imports may sell at a premium. As U.S. imports rise, it is likely that as U.S. products are displaced, exports would rise, somewhat compensating producers for loss of U.S. market share. Long-term effects might include the development of streamlined export oriented businesses in the United States with economies of scale capable of competing with foreign products.

Finally, retail shelf space is at a premium in the U.S. grocery market. It appears likely that some U.S. grocery retailers may reduce the number of suppliers, relying on only those who can supply products at lowest cost, properly labeled, and documented. In the short term, this may mean more reliance on U.S. products. Some retailers may eliminate their foreign supplies altogether, depending upon their analysis of consumer preferences for U.S. labeled products. If a
significant portion of the Canadian beef destined for retail is diverted to HRI or processing, then there would likely be a short term surplus of this product and much lower prices.

Another possible outcome is the development of an export oriented Mexican beef and pork production supply chain to supply the growing Hispanic market along the U.S.-Mexico border. At 20 million people, this market has become one of the fastest growing in the United States. Tastes and preferences favor Mexican products, resulting in the establishment of several large Mexican owned groceries in southern California.

Summary and Conclusions

U.S. imports of meats, fish and shellfish, fruits and vegetables, and peanuts were valued at $19.5 billion in 2002. This represents about 2.3 percent of total U.S. food consumption expenditure.

Mandatory country of origin labeling is scheduled to become effective on September 30, 2004, after a two-year voluntary period. All beef, pork, lamb, fruits and vegetables, and peanuts will be required to display a country of origin label at retail. Producers of covered products will be required to keep records to verify product source for two years. Hotels, restaurants, institutions, butcher shops, fish markets, small groceries, processed foods, and products for export are exempt from the required labeling. Quantitative impacts of MCOOL are difficult to measure, but several estimates place the costs of implementing the legislation and record keeping between $1.0 and $1.9 billion.

U.S. producers will face higher costs under MCOOL than without it, resulting in a loss of competitive advantage relative to Mexico and Canada and relative to products not covered by the legislation. The development of two major cattle/beef supply chains in North America could be
one of the results of MCOOL. The Mexican and Canadian systems will be lower cost than the U.S. system if current regulations are implemented.

There is little doubt that Mexican and Canadian cattle will be discounted, disrupting or possibly eliminating the current mixed supply chain of beef produced from cattle raised and fed in Canada, and processed in the United States and cattle raised in Mexico, but fed and processed in the United States. It is likely that any retail meats imported from Canada will be produced in export-oriented systems using Canadian cattle, feeding, and processing. A separate supply chain for foreign source HRI meats may evolve over time.

It may be possible that the United States will be challenged in NAFTA or WTO. If that occurs, the outcome is uncertain, depending on the elements of the law that are challenged. Other forms of retaliation could also occur, such as the imposition of bound tariffs from lower applied rates.
Selected References


Food Marketing Institute. Letter from Tim Hammonds, President, to The Honorable Bill Hawks, USDA Undersecretary for Marketing and Regulatory Programs, August 9, 2002.


