



Mandatory Country of Origin Labeling

Mandatory Country of Origin Labelling (MCOOL), which was part of the 2002 Farm Bill, finally went into effect September 30, 2008. The initial legislation making COOL mandatory was delayed in 2004 and 2006 and was amended in 2008 before the current version was included in this year's Farm Bill. The law amended the Agricultural Marketing Act of 1946 and is intended to inform retail consumers of the origin of commodities covered in the law. These include: muscle cuts and ground meats of beef, lamb, goat and pork; wild and farm-raised fish and shellfish; fresh and frozen fruits and vegetables; raw peanuts, pecans, macadamia nuts and ginseng. Chicken muscle cuts and ground meat were added to MCOOL with the 2008 amendments.

MCOOL applies to retail grocery fresh and frozen meat sales with exemptions for small grocery stores, butcher shops, restaurants and food service outlets. Processed meats are also exempt and the United States Department of Agriculture (USDA) has definitions and categories for covered products. There is a six-month educational phase in the period where the USDA will be monitoring implementation before enforcement is fully imposed. See more details at: www.ams.usda.gov/cool/.

Logistics

MCOOL requires retailers to inform consumers at the point of purchase of the origin of the covered commodity, and the retailer must maintain sufficient records to substantiate the label claim. In the Interim Rule, USDAAMS states that "the supplier of a covered commodity (packer) that is responsible for initiating a country of origin declaration must possess or have legal access to records that are necessary to substantiate the claim."

Packers are allowed to accept a signed affidavit from

the producer to establish the origin of the animal.

Producers are expected to maintain normal business records at their farm to support their affidavit claim if an audit of a label claim leads to their farm.

Congress and the USDA have identified four categories of meat products under MCOOL. These are:

1. Born, raised and slaughtered in the U.S.:
"Product of the U.S."
2. Multiple countries of origin, i.e., Canadian-born feeder pigs/cattle fed in the U.S.: *"Product of U.S. and country X and/or country Y."* Ground beef: *"May include product of (list sources)."*
3. Animals imported for immediate slaughter:
"Product of country X and U.S."
4. Imported finished products (to be sold at retail):
"Product of country X."

Implications

Initially, many packers and retailers planned to use Category B for most, if not all, of their product, including those animals that were Category A animals. This strategy was aimed at reducing costs of labelling and product segregation by having only one label. Proponents of MCOOL and some members of congress that supported the rule raised concerns that such action was not the intent of the law.

In late September, at the urging of Congress, the USDA changed their stance on the use of the Category B label to reaffirm that if animals are born, raised and slaughtered in the U.S. their product should carry the "Product of the U.S." label. As a result, some packers have now switched to using both A and B, or in some cases only buying Category A animals.

It is too early in the process to know what the implications of MCOOL will be on prices at the farm or retail level. Some packers have stated that they will buy

only U.S. animals. Others have designated a specific plant or time (day or shift) that they will take Category B or C animals. This strategy will minimize labelling confusion and costs, but increase transportation costs for the animals — and perhaps the meat — that have to go to a different plant. Producers that had fed Canadian-born cattle or hogs may choose to not buy imported feeders if they have to haul the finished animal further to sell them. Likewise, producers near a plant that is buying Canadian-born animals may choose to feed imported animals as prices adjust.

The price impact is even less clear. The cost of labelling and record keeping is borne by all products because U.S. as well as imported product must be labelled and records must be kept. Companies that do not buy imported animals will have less of these costs because they only have one label to track. However, if they had bought imported animals before, they will have to bid additional U.S. animals away from other packers, which should be supportive of farm level prices. Packers that do buy imported animals will want to buy enough to run the plant, day or shift efficiently and may at times have to bid up for imported animals.

Conventional wisdom and early rumours are that imported animals are being discounted by packers. However, it is difficult, if not impossible, to track because the USDA is not reporting separate prices for separate categories of product or animals. Envision the market report on the radio with prices for different grades and origins of animals. While one report for cattle prices did state “Domestic sources only,” there was not a price for cattle fed in the U.S. but born outside the U.S. as a point of comparison.

If there is a higher cost of processing, labelling, segregation, transportation, etc. for Canadian-born pigs or Canadian- or Mexican-born slaughter cattle, it will be passed forward to consumers or, more likely, back to the feeder in the form of lower prices. In turn, the feeder will pay less for the feeder animal. All else equal, lower prices for imported feeder animals would discourage Canadian and Mexican producers from sending feeder animals to the U.S. One result is that the animals may be fed and slaughtered in their home country and the meat may be imported directly to retail with the appropriate label. We would expect this product to be less competitive at the retail counter, otherwise this trade would already be occurring rather than importing the feeder animals to the U.S. Another possibility is that these animals are fed in their home country but compete with U.S. meat in export countries. The overall supply of meat does not change until prices are low enough in Canada or Mexico to cause their producers to reduce supplies.

However, everything is not equal. First, MCOOL will increase farm-to-retail cost at least some from where it was before. Imported product going direct to retail will not have new added cost from their previous procedures.

Second, and perhaps more important economically (but unrelated to MCOOL), is that the value of the U.S. dollar has increased relative to other countries. As a result, imported products are now cheaper on U.S. shelves than they were before the financial crisis. Likewise, feeder pig and feeder cattle producers in Canada and Mexico receiving dollars for their animals

may not notice a discount for origin.

What's Next?

Producers must communicate with their buyers to know their marketing options and they should talk to them well in advance of marketing day in case they need to find another buyer. If they are thinking about selling exported feeder animals, they should talk to buyers about locations where they can deliver and what, if any, price discounts they may expect. U.S. producers who are buying feeder animals from anyone they need to get a signed affidavit from the seller stating the origin of the animals and keep the paperwork on file for at least a year so that they can make a claim of origin when they sell the finished animal. ■