

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Country of Origin Labeling: It's Time To Start Keeping Records

Market Report	Yr Ago	4 Wks Ago	3/28/03
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$70.90	\$79.15	\$78.87
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	87.86	83.50	89.23
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	95.02	89.53	94.00
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	108.42	120.00	119.15
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	34.50	35.00	34.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	46.61	40.50	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	95.90	94.07	90.35
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	*	*	96.00
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	142.95	180.60	194.06
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.06	3.63	3.42
Corn, No. 2, Yellow Omaha, bu	1.86	2.28	2.23
Soybeans, No. 1, Yellow Omaha, bu	4.52	5.66	5.70
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.51	4.28	4.07
Oats, No. 2, Heavy Minneapolis, MN, bu	2.42	2.33	1.99
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	150.00	127.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	60.00	77.50	77.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	92.50	115.00	115.00
* No market.			

Labeling meat and other perishable agricultural products was vigorously debated prior to the approval of the 2002 farm bill. The passage of the Farm Security and Rural Investment Act in May, 2002 did create country of origin labeling (COOL); however, the controversy over COOL did not end there. In fact, it has intensified amongst producers, processors and retailers as they struggle to determine how to comply with COOL and exactly how it affects their operations.

Much of the current debate regarding COOL centers around how it will be implemented and whether the additional costs imposed by COOL will be offset through increased demand at the retail level. Although we have limited research to suggest that consumers will pay a premium for meat products labeled for country of origin, there are indications that selected consumers would pay a higher price for U.S. meat. A recent study found that 73 percent of consumers participating in a controlled experimental auction would pay a premium of 11 percent and 24 percent for steak and hamburger, respectively, which are labeled for country of origin (Umberger, et al.). That study also identified a premium for steak guaranteed to originate from the U.S. Regardless if consumers would actually pay this premium, there may be little for the U.S. meat industry to gain in terms of market share, as about 90 percent of beef and pork consumed in the U.S. is from domestic animals.

Cost estimates for COOL must be based on a number of assumptions, so they tend to vary widely. USDA's Agricultural Marketing Service (AMS), the agency responsible for implementing COOL, estimates that the additional record keeping associated with COOL would cost nearly \$2 billion. This figure includes record keeping for all commodities covered by COOL, but does not account for all of the changes in marketing or management practices, modifications of facilities or potential negative impacts of lower domestic or international demand for U.S. products.



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The reality is that whether producers support or disapprove of COOL, it is necessary to take steps now to comply with *expected* regulations for mandatory COOL. The COOL legislation makes a distinction between voluntary and mandatory COOL. Guidelines for voluntary COOL were issued in October 2002 and are likely to be the basis for the mandatory COOL regulation which AMS must promulgate by September 30, 2004.

The voluntary COOL guidelines specify that to be labeled as a U.S. product, meat products must be from animals born, raised and slaughtered in the U.S. Country of origin labeling applies to beef, pork and lamb muscle cuts, ground beef, ground pork and ground lamb, as well as farm-raised and wild fish. Poultry are excluded from COOL. Also exempt from COOL are meat products used as ingredients in other food items and all meat sold in food service establishments. The voluntary COOL guidelines place the burden of proof on retailers, but also indicate that suppliers to retailers (including producers, packers and processors) must make auditable records documenting the origin available to retailers.

Although USDA is prohibited from instituting a mandatory animal identification system, it does not preclude industry participants from establishing one. It appears though that a mandatory identification system will not be used to track country of origin labeling, partly because the industry is years away from being able to practically implement an individual identification system. Instead, country of origin will likely be traced through a certification system. Such a certification system will likely be stricter than some programs producers are already accustomed to (e.g., quality/breed guarantees, no ruminant protein sources fed to ruminants). Although details are not yet clear, the COOL certification system will likely require third party verification. USDA has stated that self-certification of country of origin is not sufficient. Further, retailers have already informed their suppliers (packers and processors) that they will begin requiring documentation of country of origin that is verified by a third party. Meat packers and processors are now passing this requirement to livestock producers.

Along with the documentation requirement for country of origin certification being passed down the supply chain from retailers to producers, indemnification for liability associated with incorrect COOL documentation is being required of suppliers at each level of the supply chain. In other words, retailers are requiring their suppliers (e.g., packers) to guarantee country-of-origin information and be responsible for any penalties the retailer receives resulting from the suppliers' information. Meat packers, in turn, are requiring the same of their suppliers (cattle feeders).

At this point, producers planning to sell livestock to packers after September 30, 2004, will likely be required to provide COOL documentation. Calves born this spring

could be sold after that date (pigs born in November or December of this year may also be sold after September 30, 2004). Therefore, cow-calf producers should be documenting country of origin now for calves born on their farm or ranch. Therein lies the difficulty with implementing COOL: it is not yet clear what documentation will be required and the regulations for mandatory COOL will not be finalized for months.

AMS has suggested that record keeping for COOL may be done as a component of an operation's regular records. For cow-calf producers, this may mean tagging new-born calves and recording the date and location of birth and description of the animal along with other information routinely collected (birth weight, etc.). There currently are no official forms or record keeping systems for producers to use in tracking COOL information. Producers must also be prepared for third party verification of their records. Again, it is not clear who qualifies to be a third party verifier. Veterinarians or possibly producer associations may become involved in record verification.

There remain many uncertainties with COOL implementation, both for producers and others in the meat industry. It is clear, though, that producers should be making an effort to record birth location for calves born this spring and be ready to supply that information to buyers when they sell their calves. Additionally, producers' guarantees of accuracy and availability of third party verification will likely be necessary. Meat packers, faced with increased transaction costs, have the incentive under COOL to purchase larger numbers of livestock from fewer operations. Livestock producers who pro-actively adopt COOL (regardless of whether they support the legislation's intent) could become packer's 'preferred suppliers.' They would, at least, be able to maintain access to the market, something that will be difficult for producers to do without COOL documentation.

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For more information:

Mark, D.R. and D. Feuz. "Country of Origin Labeling: What Does It Mean For the Nebraska Meat Industries?" University of Nebraska Cooperative Extension, NF02-552. Available online at: <http://agecon.unl.edu/mark/papers.htm>

Umberger, W.J., D.M. Feuz, C.R. Calkins and B.M. Sitz. "Country-of-Origin Labeling of Beef Products: U.S. Consumers' Perceptions." Presented at 2003 FAMPS Conference, Washington, D.C., March 20-21, 2003.

United States Department of Agriculture, Agricultural Marketing Service. <http://www.ams.usda.gov/cool>.