Mandatory Country-of-Origin Labeling (MCOOL) Its Economic and Trade Policy Implications

William A. Kerr

Van Vliet Professor University of Saskatchewan, Canada

and

Shannon L. Hall

Department of Agricultural Economics

University of Saskatchewan, Canada

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Mandatory Country of Origin Labelling (MCOOL)

The laws concerning corn may everywhere be compared to the laws concerning religion. The people feel themselves so much interested in what relates either to their subsistence in this life, or to their happiness in a life to come, that *government must yield to their prejudices*, and, *in order to preserve the public tranquillity*, establish that system which they approve of. It is upon this account, perhaps, that we so *seldom find a reasonable system* established with regard to either of those two capital objects [emphasis added]

Adam Smith, 1776

MCOOL - A Curious Policy

- **Curious** - because it may well hurt those who were its major proponents
- **Curious** - because it became law despite both public and private scrutiny that condemned it
  - ⇒Private sector - retailers, packers, commodity groups
  - ⇒Public Sector - USDA, FSIS, GAO, Glickman
- **Curious** - because those in whose name it was put in place, consumers, have little or no interest in it
- **Curious** - because the US is recently on record opposing it in US export markets

MCOOL - Not in US Exports Markets!

- Korea has stepped back from a new country-of-origin labeling rule for meat that U.S. officials argued would have completely choked off U.S. beef and pork exports to Korea.
- Korea last month agreed to delay implementation of the rule by one year, after Secretary of Agriculture Dan Glickman and Deputy U.S. Trade Representative Richard Fisher told Korean officials that the U.S. could not implement the rule as written and so could not export beef and pork to Korea, which is the third largest market for U.S. beef exports (***Inside US Trade*, Jan 25, 2001)**

MCOOL - A Curious Policy

- **Curious** - because it applies to beef and pork but not chicken
- **Curious** - because it applies to products sold in supermarkets but not restaurants
- **Curious** - because it applies to muscle cuts and ground beef but not processed foods

MCOOL - A Curious Policy

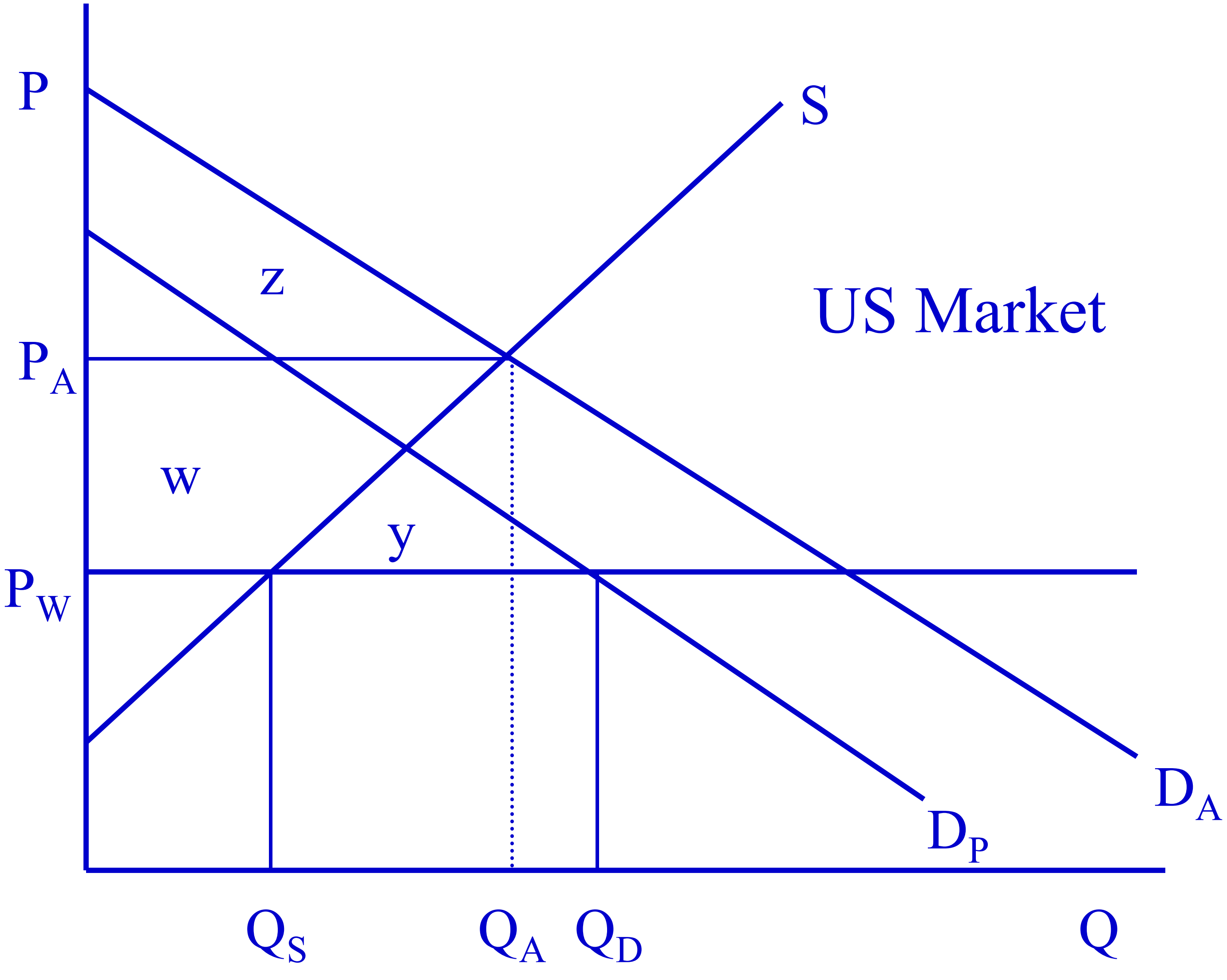
- **Curious** - because it imposes more costs on US supply chains than it does on foreign supply chains

- **Curious** - because no one sees a commercial advantage in the voluntary stage.

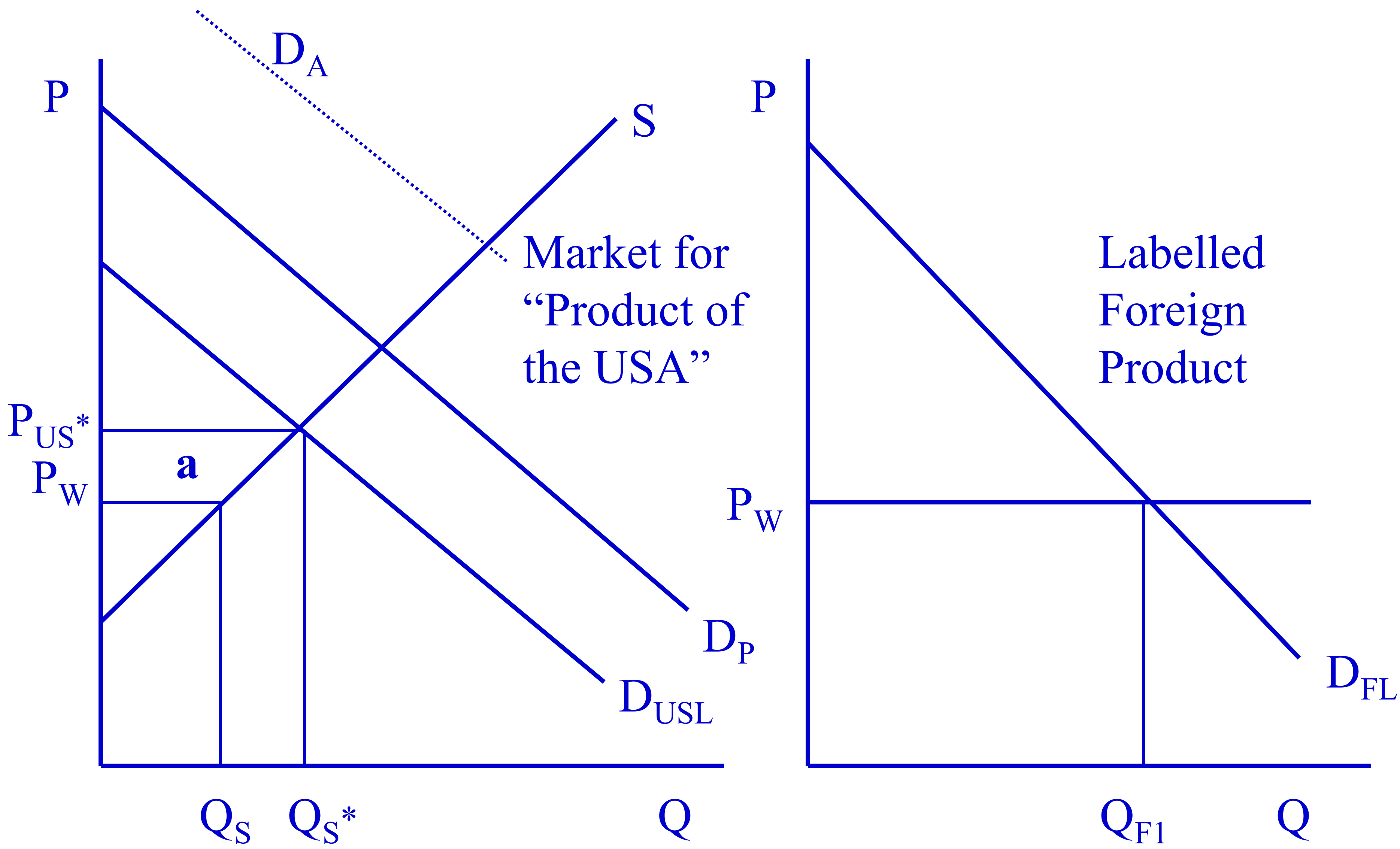
The Economics of MCOOL

Accept for the moment that there is a market failure in the US

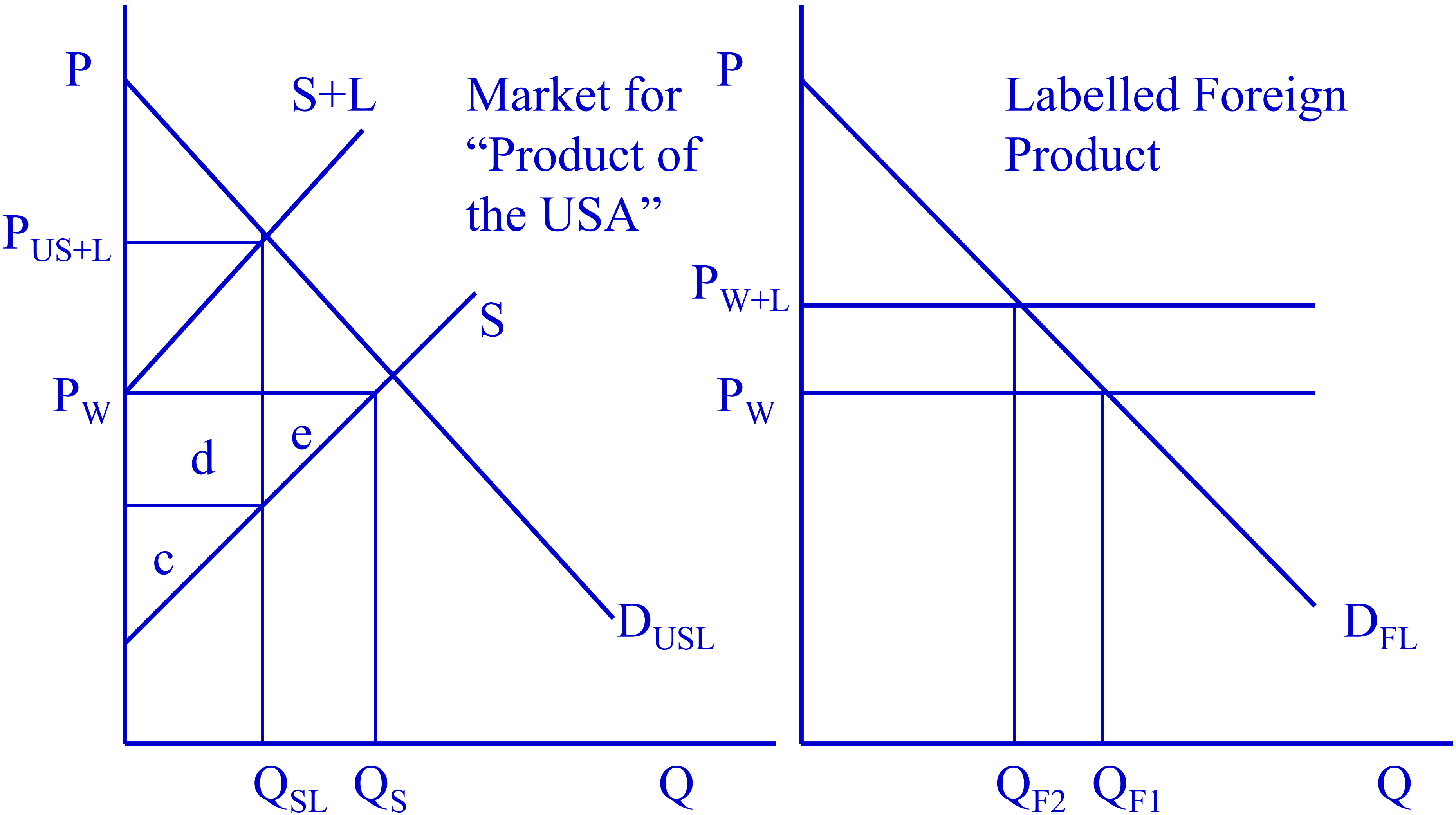
Market Failure in the US



Country of Origin Labelling Assuming Zero Labelling Costs



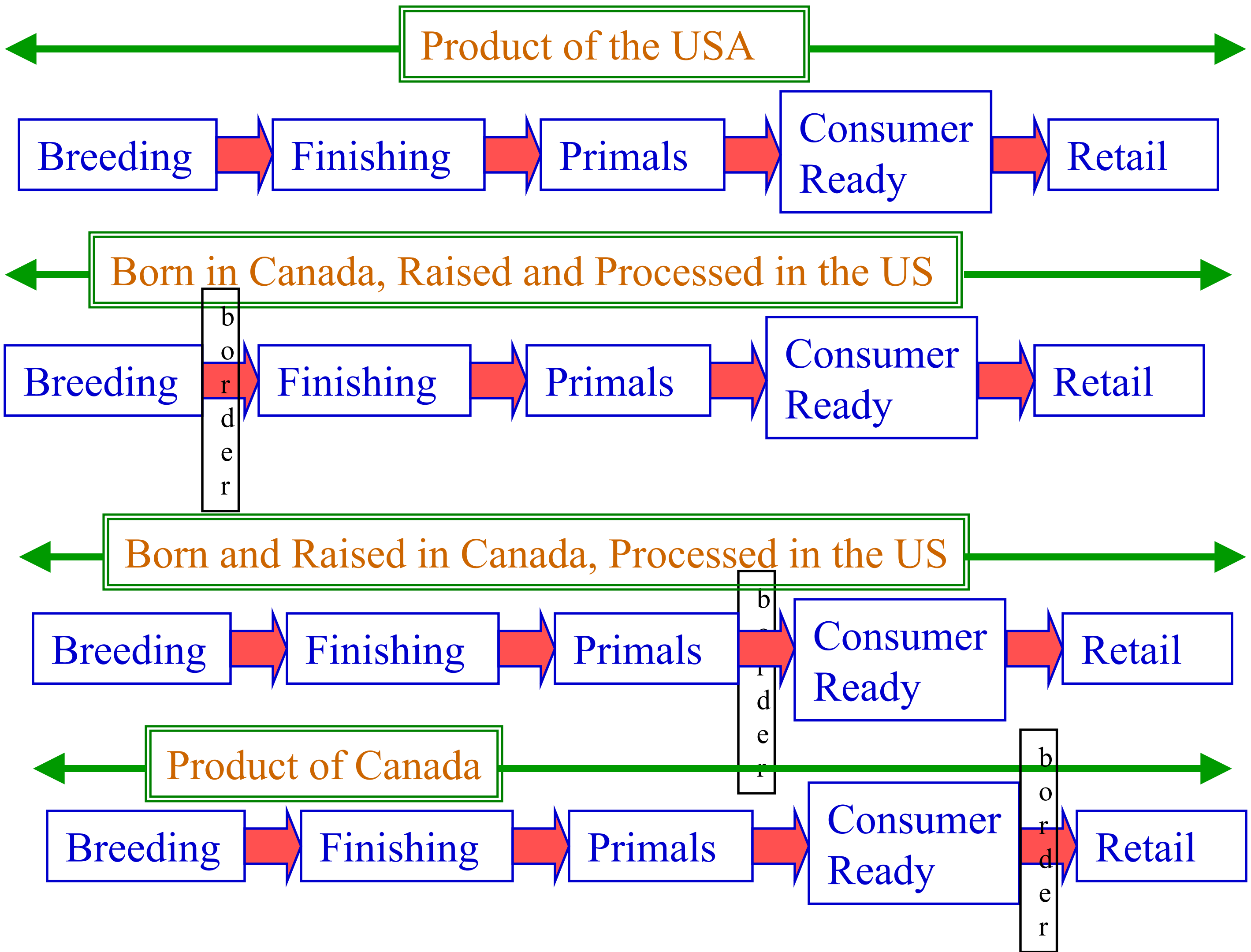
Country of Origin Labelling with Labelling Costs Included



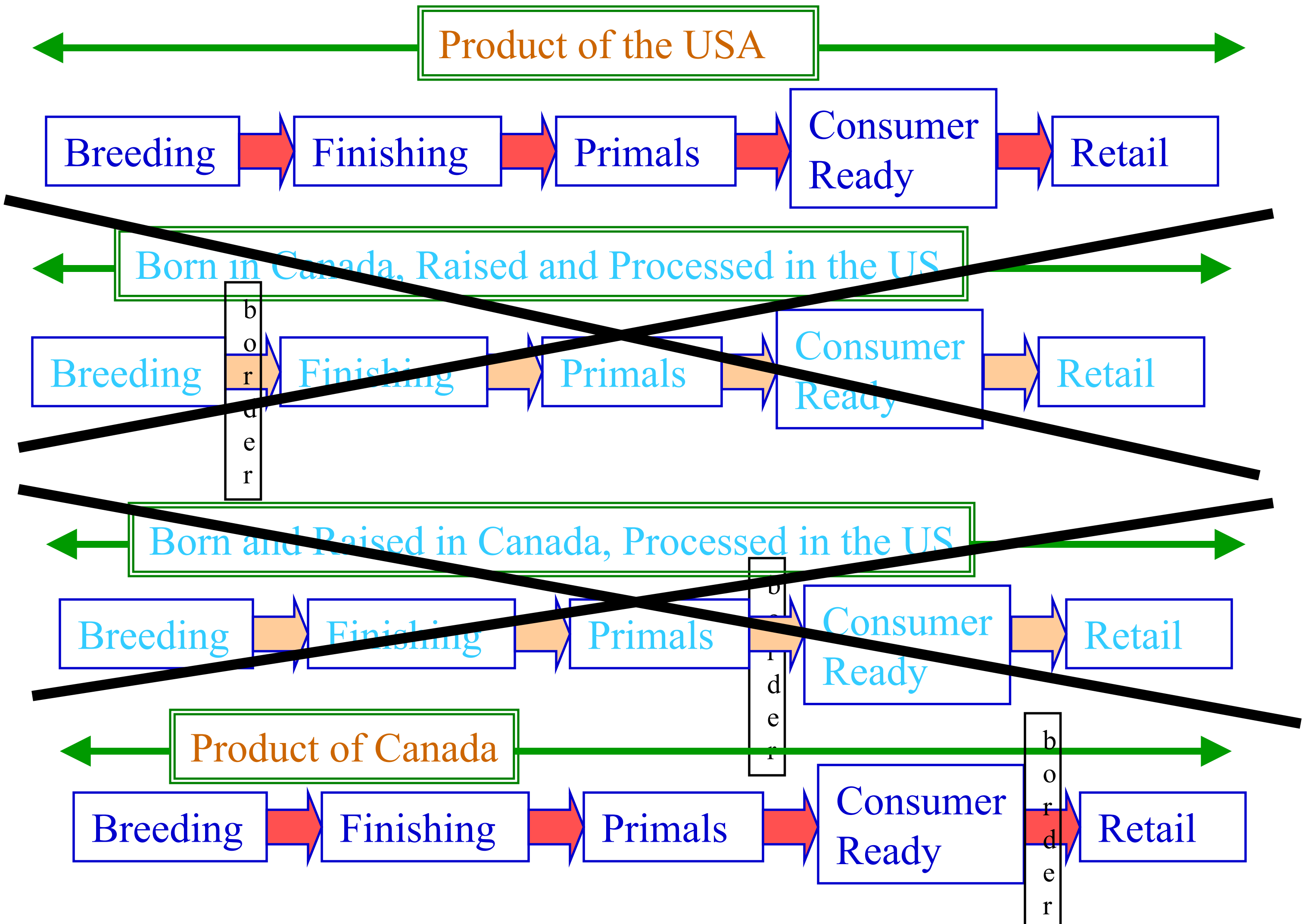
The Effect of MCOOL on North American Supply Chains

- Transaction cost theory suggests that through competition the most efficient supply chains will survive
- The real effect of MCOOL will be to alter the relative efficiency of the ways of organising North American supply chains for beef and pork

North American Supply Chains



North American Supply Chains in the Long Run



North American Supply Chains in the Long Run

- Mixed country of origin supply chains will decline or disappear
- A higher cost ‘Product of the USA’ supply chain will emerge
- Lower cost ‘Product of Canada/Product of Mexico’ supply chains will expand
- A new unlabelled segregated mixed country of origin supply chain may emerge for HRI market
- Canadian/Mexican offshore market shares will expand at the expense of the US

MCOOL and Trade Law

- Can MCOOL be challenged at the WTO? - yes
- Article IX states that COOL labelling is allowed "so long as the marking requirement does not seriously damage the imported products, *materially reduce their value*, *or unreasonably increase their cost*."

MCOOL - WTO Challenge

- *materially reduce their value*
- *unreasonably increase their cost*
- problem is that these cannot really be challenged at the WTO until it happens
- most of the damage to the Canadian and Mexican beef and pork industry is expected to be in the short run
- the criteria are untested - so we don't know how the panels will interpret *materially* and *unreasonably*
- Canada/Mexico could lose the case

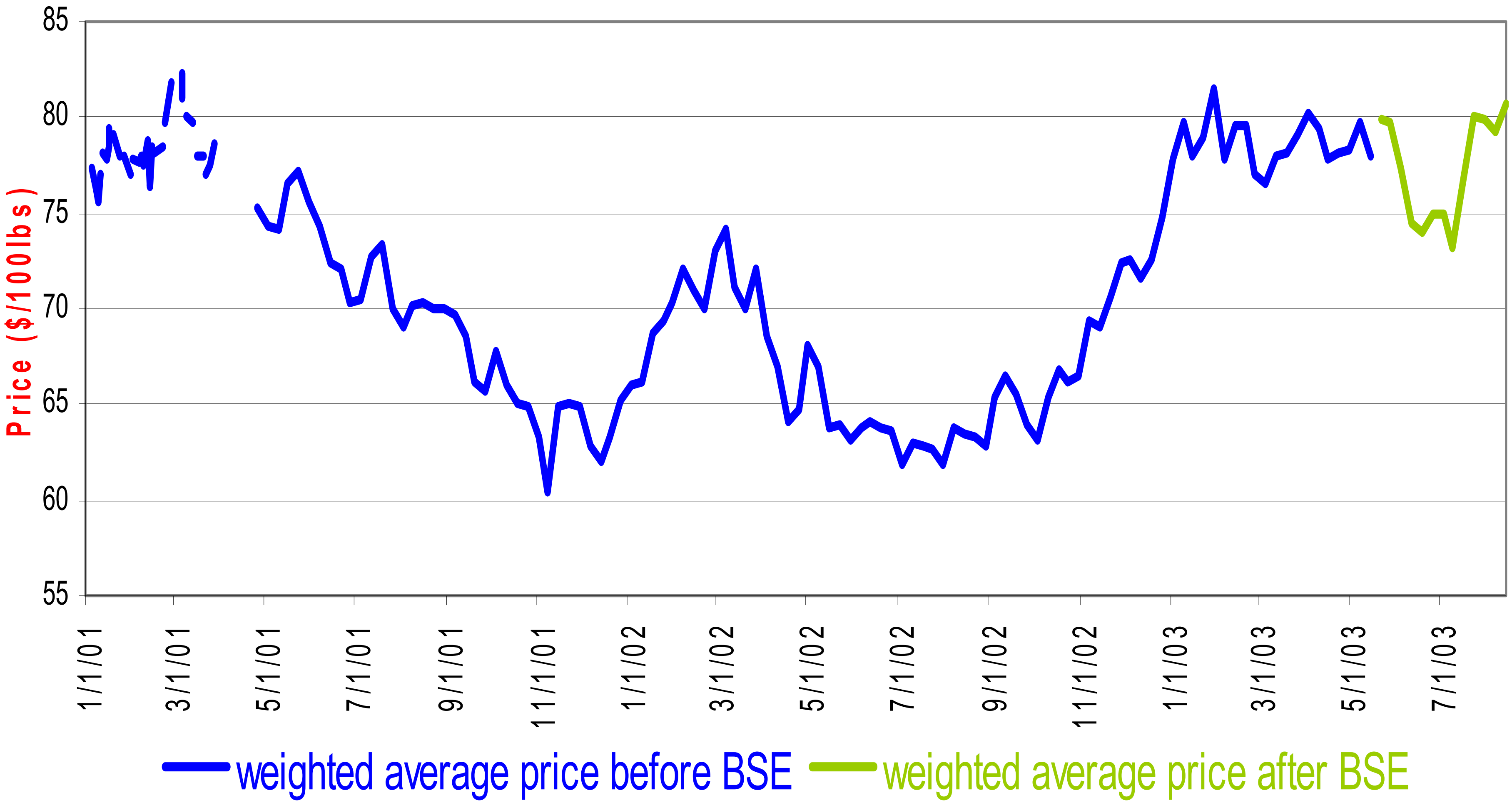
MCOOL - NAFTA Challenge

- NAFTA Annex 311 (4) states: "Each Party shall, in adopting, maintaining and applying any measure relating to country of origin marking, ***minimize*** the ***difficulties***, costs and ***inconveniences*** that the measure may cause to the commerce and industries of the other Parties."
- ***minimize, difficulties, inconvenience*** - there is no precedent to go by

Lessons from the BSE Border Closure

- The BSE closure of the US border to Canadian cattle and beef is a ***protectionist fantasy*** come true
- Equivalent to the best case BSE Scenario
  - Live cattle not imported due to segregation costs
  - US consumers exhibit a strong preference for US beef and stop buying labelled foreign beef
- What have been the price effects in the US market?

U.S. 5- Area Weighted Average Price of Slaughter Steers
January 1, 2001 - August 14, 2003



USDA Market News Service Texas/Oklahoma; Kansas; Nebraska; Colorado; Iowa/Minnesota www.ams.usda.gov/mnreports/lm_ct100.txt

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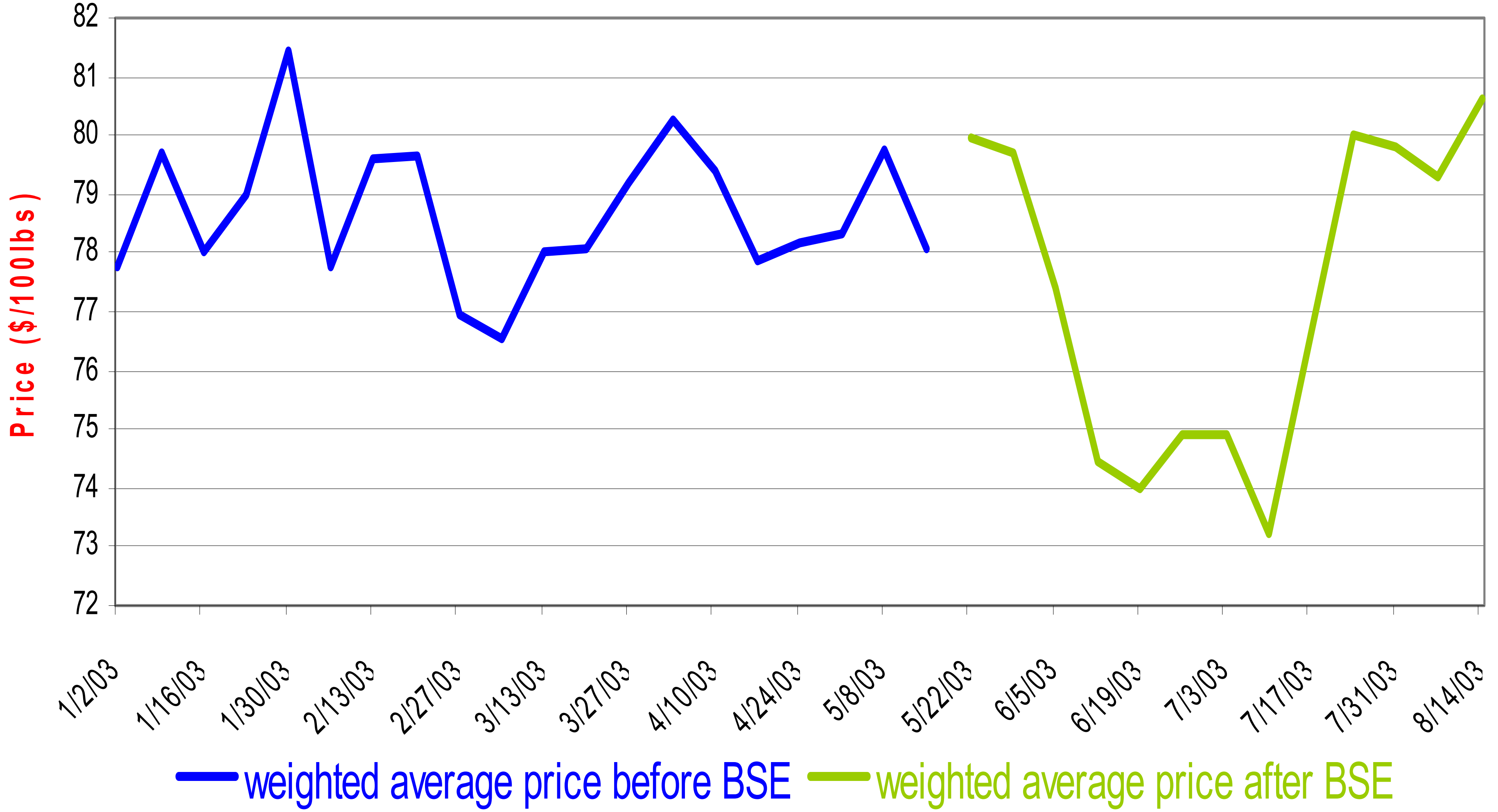

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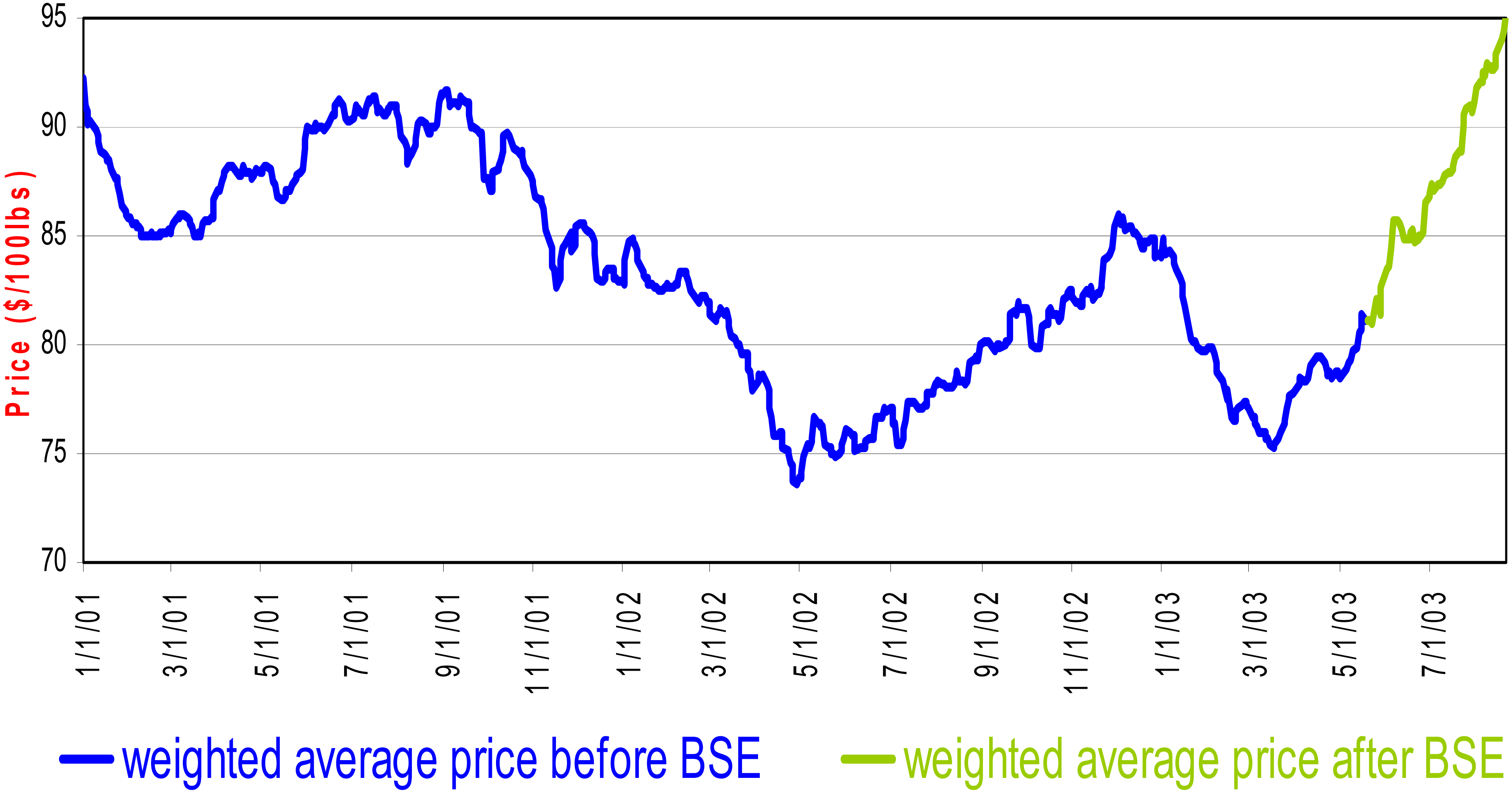
U.S. Composite Weighted Average Price of Feeder Steers
January 1, 2001 - August 21, 2003



Chicago Mercantile Exchange amalagamation of US auction market reports w w w .cme.com

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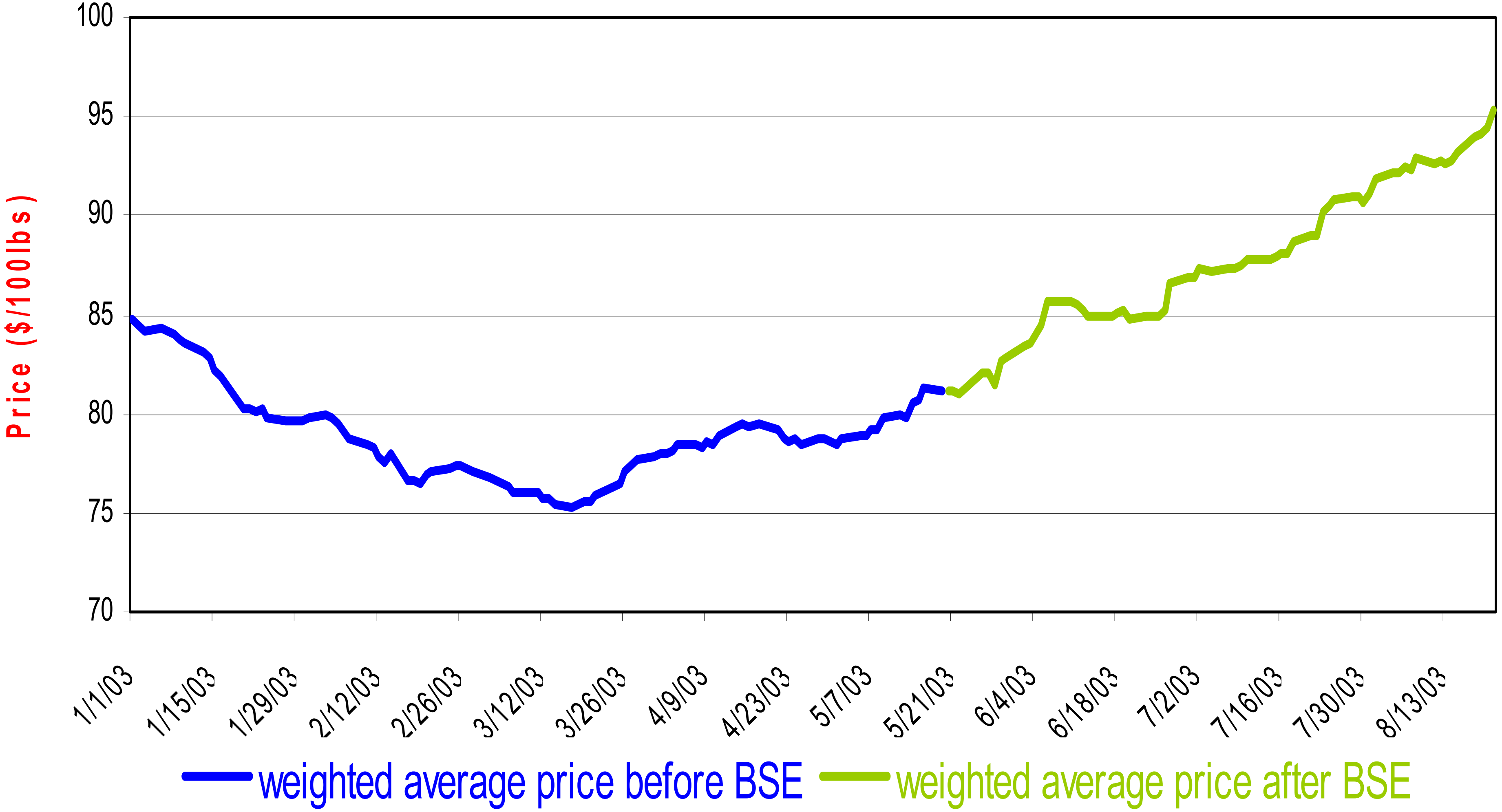


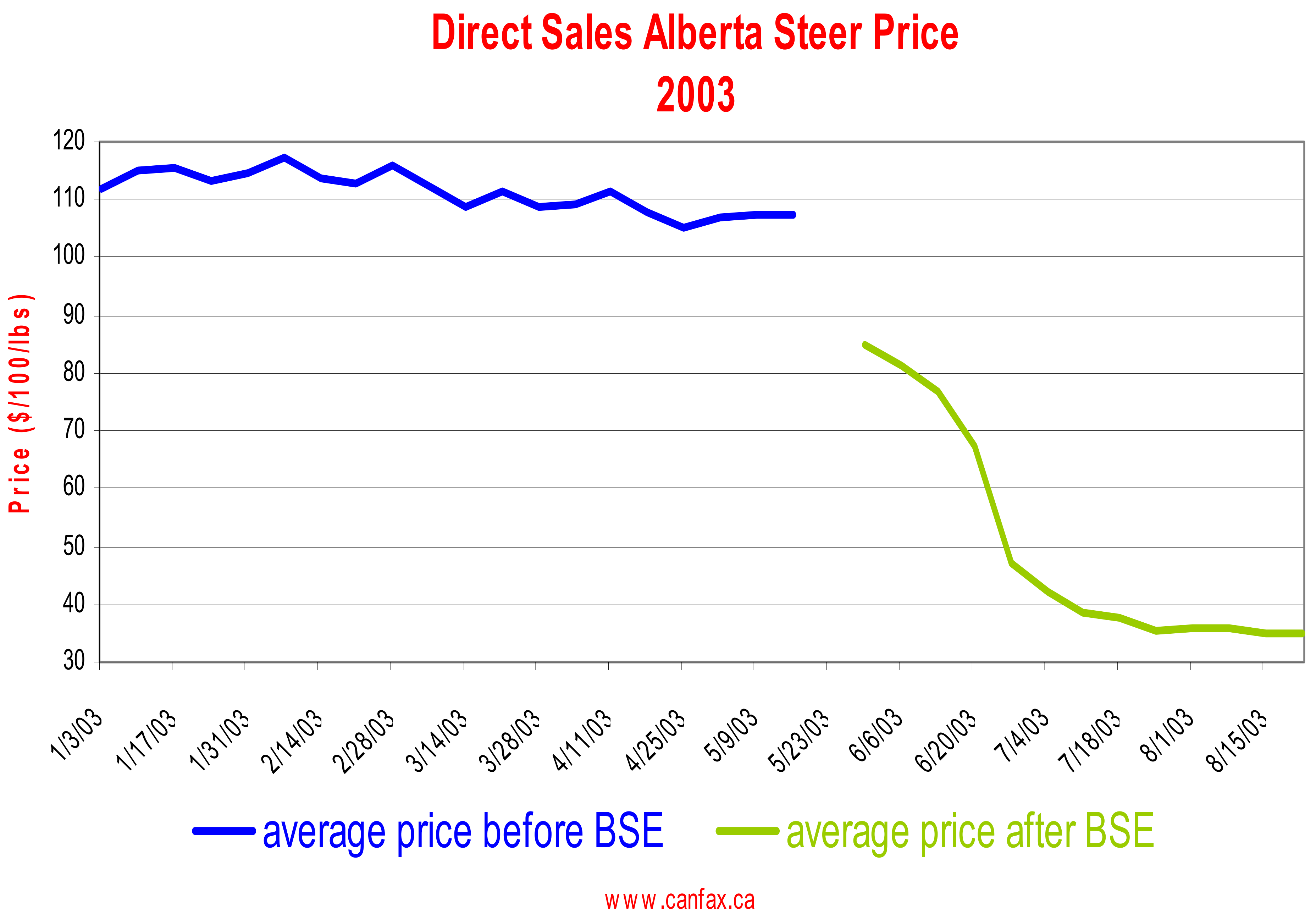
Chicago Mercantile Exchange amalagamation of US auction market reports w w w .cme.com

Effect of BSE Border Closure on US Prices

- US Slaughter Steer Prices (average)
  - ❖ 13 weeks prior to May 20, 2003 - **$78.48**/cwt
  - ❖ 13 weeks after May 20, 2003 - **$77.30**/cwt
- US Feeder Steer Prices
  - ❖ 13 weeks prior to May 20, 2003 - **$77.95**/cwt
  - ❖ 13 weeks after May 20, 2003 - **$87.95**/cwt

What would a NAFTA Panel Conclude?

- "Each Party shall, in adopting, maintaining and applying any measure relating to country of origin marking, ***minimize*** the ***difficulties***, costs and ***inconveniences*** that the measure may cause to the commerce and industries of the other Parties."
- Based on the BSE experience!



Direct Sales Alberta Steer Price
2003
Price ($/100/lbs)
120
110
100
90
80
70
60
50
40
30
1/3/03
1/17/03
1/31/03
2/14/03
2/28/03
3/14/03
3/28/03
4/11/03
4/25/03
5/9/03
5/23/03
6/6/03
6/20/03
7/4/03
7/18/03
8/1/03
8/15/03
average price before BSE
average price after BSE
www.canfax.ca

CONCLUSIONS

- The costs could easily be more than the benefits in the US - even for those who asked for it
- The short run disruptions to Mexican and Canadian producers involved in mixed country of origin supply chains may be considerable
- In the long run the US will have higher costs than Canada or Mexico - may alter international market shares
- The BSE experience suggests that the benefits for US producers from MCOOL will not be large
- Adam Smith would have understood MCOOL for what it is

Thank You

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