

USA COOLs Canada

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■ Introduction

While the U.S. and Canadian producers have had different opinions on a number of topics in recent history, we have agreed upon one thing from the start: Mandatory country of origin labeling (MCOOL) is a bad deal for our combined pork industries. MCOOL just isn't cool. Period.

While a minority of U.S. producers would disagree with that statement, the vast majority see MCOOL for what it is – a back-door protectionist measure that has nothing to do with product quality or safety. It is based on a desperate belief that adding costs to Canadian pigs will keep them north of the border. The other erroneous belief is that in so doing, those pigs and the pork they produce will not affect U.S. pork and hog prices. It's difficult to believe that anyone in this day of global markets and instant communications would actually believe that, but they do.

The United States' National Pork Producers Council (NPPC) has opposed a mandatory country of origin labeling program since the idea was first proposed nearly a decade ago. In keeping with its long-standing support of free market solutions, NPPC supports a credible market-based voluntary country of origin labeling program. As a voluntary measure, this system would only be used by producers and processors to provide product to consumers who a) truly value such information and b) are willing to pay for the extra costs that such a system would impose.

■ The U.S. Pork Industry

First, allow me to provide a snapshot of the U.S. pork industry. Some key facts are:

- The production sector is comprised of 65,540 operations under the ownership of 58,220 individuals
- U.S. pork producers supply over 21 billion pounds (carcass weight) of wholesome and nutritious pork protein to domestic and international customers each year.
- The pork consumed by U.S. consumers had a consumer-level value of over \$41 billion in 2006
- In 2005--U.S. pork exports totaled 1.2 MT valued at \$2.6 B-- pork exports have steadily grown over the past 15 years and now account for about 15% of U.S. production
- About 550,000 US jobs are involved with various aspects of the pork industry—from input suppliers to main street businesses that benefit from pork production
- The pork industry generated about \$34B in value added economic activity in 2006.
- Canada exported 5.8 million feeder/weaner pigs and 2.3 million market hogs to the U.S. in 2006. 2007 shipments through October 7 were 7.1% larger than in 2006 for feeder/weaner pigs and 21.1% larger for market hogs.

■ MCOOL: History and Current Situation

MCOOL became law as part of U.S. agricultural legislation in 2002. Note that I did not say that MCOOL passed as part of the 2002 Farm Bill. The MCOOL provisions never passed either house of Congress as part of the houses' separate farm bills but were stuck into the final version of the bill in the conference committee which hammers out differences between the two houses' versions of laws. It was an eleventh-hour deal by several populist-leaning Senators from the Midwest. It represents much of what I believe is wrong with the way we make laws in the United States. Conference committees are the scene of great wheeling and dealing and, as in this case, terrific mischief but MCOOL is now the law of the land.

MCOOL was originally to go into effect in September 2003 but was delayed, first by USDA as it wrote implementation rules and then twice by Congress as the industry pressed for repeal. MCOOL is now scheduled to commence on September 30, 2008 and the Democrats that control both houses of Congress will not allow that to be changed. MCOOL is coming next year.

The U.S. House of Representatives passed its version of 2007 U.S. farm legislation in July. That bill contains language that changes some of the original MCOOL legislative language.

The changes enacted this summer fall in three main categories:

Ground meat labeling

Ground beef, pork or lamb can be labeled with a list of countries that the meat may come from. That provides much needed flexibility for U.S. grinders and affects primarily beef since ground lamb and fresh pork are relatively minor commodities and sausage was already exempt from the legislation as a processed product.

Records

Suppliers of covered commodities cannot be required to keep records that are beyond those that they keep as a normal part of their business operations. Whether this means much remains to be seen but we believe that this will allow producers to provide the purchaser of livestock with a statement that says "Here is where the animals come from and I have records that prove this" and that will be all there is to it. A string of those documents through the marketing system will eventually allow someone to confirm the origin of an animal.

Country of origin labels

Congress basically decreased the number of labels that would be required for pork from 4 to 3 so that will be a help. The final wording, though, prevents that number from being reduced to 2 by saying that animals born, raised and slaughtered in the U.S. cannot be part of a mixed-origin label and thus must be labeled as Product of the U.S. Some people don't agree with my take on that one but I think it is correct and USDA's attorneys apparently agree with my read of the language. Any pig with a Canadian heritage of any sort will carry a "Product of the U.S. and Canada" label while imported meat will carry a "Product of Canada" label.

One thing to remember: The U.S. Senate has not (as of the writing of this paper) passed its version of the 2007 Farm Bill. That means that all of these are ideas that must be considered and nothing more. The Senate has not publicly proposed any large changes to the House-passed language but it has, to date, not begun debating the Farm Bill. And, as was the case 5 years ago, there is no telling what could happen in the conference committee.

■ MCOOL Issues and Implications

My long-standing opposition to MCOOL is founded on a number of factors. Among them are these:

- MCOOL will not result in long-term higher hog prices for U.S. pork producers;
- MCOOL does not provide additional food safety assurances for U.S. consumers, especially since it only applies to about half of all of the pork eaten in the U.S. since it excludes product that sells through foodservice. MCOOL's exclusion of processed items cuts this percentage by 30-50% again, meaning that perhaps one-quarter of U.S. pork consumption is actually covered;
- MCOOL will reduce long term U.S. pork exports by creating comparative advantages for our export competitors such as Canada;
- MCOOL will place U.S. pork producers at financial risk if they either have to indemnify their customers or if either the packer or a pork producer were to fail an audit;
- MCOOL will favor more vertically integrated pork production systems in both the U.S. and Canada;
- MCOOL creates a permanent cost advantage for poultry, even if those species were to be covered by the law. The only cost of MCOOL for U.S. poultry is the ink to print the label. No poultry is imported into the U.S. and virtually all comes from vertically integrated systems where the cost of records will be near zero.

Interestingly, the U.S. chicken industry is now actively campaigning to be included in MCOOL. The reason is the stated intentions of China and Brazil to export cooked chicken products to the U.S. The U.S. chicken industry realizes that its compliance costs for MCOOL are near zero and that the label may be an effective defense against imported products, especially that of China given the food and product safety issues that have arisen there over the past few months.

I see huge problems in the details of implanting a law that is aimed at labeling less than 50% of the product from animals that go to market in the U.S. My fears are compounded by the fact that U.S. consumers have indicated no willingness to pay for country-of-origin labeling. Even if consumers did find value in the labels, that value would vanish as soon as all product has the label. There will be no differentiation upon which to base price differences!

In addition, the system will:

1. **Create a two- tiered pricing system.** This law creates a "price wedge" between US-sourced and Canadian-sourced pigs, of which we have 5.5 M pigs coming mainly into IA, MN, SD, NE, and some in IL. These pigs may be restricted to certain plants and days of the week for marketing. They could also be discounted because of the extra recordkeeping required and the fact that product from these pigs will have to be segregated and labeled separately

thus creating an entire new set of stock-keeping units (skus) for packers that process them.

2. **Likely hurt the U.S. position in international pork trade.** U.S. prices paid for Canadian pigs will fall, thus driving down prices of pigs and finished hogs in Canada. This will provide a cost advantage for Canadian packers that will give them an advantage in international trade. We really fear that lower pig prices will likely force the government of Canada to compensate farmers—especially in Ontario and Quebec. And you know our opinion of that.

3. **We see problems in the details** of implementing a law that is aimed at labeling less than 50 % of the product while requiring the identification and tracking of all of the animals that go to market in the U.S.

4. **Traceback System** -The statute prohibits USDA from implementing an animal ID or a traceback system. There is nothing, though, that prohibits retailers, processors and packers from doing so. The U.S. pork industry is well on its way to getting this system in place and it will actually help MCOOL at some point – but first things need to be first.

5. **Possibly create a significant record-keeping problem.** As long as the statute requires “a verifiable audit trail” we believe it implies three things:

- USDA in their proposed rules say that “self certification” is not sufficient
- Producers must keep records regarding the source of pigs establishing their origin.
- Legal documentation that states the origin of pigs and that records are kept and available for review will have to accompany each load of pigs that is delivered to the packer
- Some kind of periodic audits to verify claims made by producers—are backed by a “verifiable record trail”. There is no requirement for this but our question is “If you aren’t going to audit and verify, why have a law?”

The House-passed 2007 Farm Bill eases some of these apparent requirements by limiting the records requirement to those items that are presently kept as part of “normal business operations.” In addition, the new version reduces the potential civil penalties, making the risk of a large economic loss much less.

6. **Effective Date issues** – If the fish rule is a model, enforcement would begin 12 months after date of publication of final rule. USDA is just now taking comments on its published 2003 rule and, based on history, will not likely have a rule published much before the September 30 commencement of MCOOL, much less in time to allow producers to get their records in order to satisfy the requirements on the date of implementation. The House version of the Farm Bill simplifies this issue by saying that product from every animal in

the U.S. on January 1, 2008 will be called Product of the U.S. That means that producers need to start keeping adequate records on any animals born or imported on January 1 or after.

7. Impacts on certain types of pork producers – The law will have widely varying impacts on producers of different types. For instance:

- Producers that are involved in more integrated production and slaughter system will find compliance comparatively easy. It will be simpler to provide legal documents - but not likely for every load of hogs since they are not likely to be mixed loads. The companies will incur minimum costs/and no segregation at their plants. Audits can be done “in-house.” Retailers will favor this type of producer because of less risk. The sum of these factors will be a competitive advantage.
- Producers that work in a Contract Coordinated System will have some advantage over producers that sell on the spot market. They still must have sufficient recordkeeping and supply legal documents and incur costs (direct or indirect). This producer’s edge is that he/she has established chains of communication and business.
- Producers that work in an independent production system will have the highest costs and provide animals that are the riskiest. These producers are generally small and these smaller producers will have much higher per-unit records costs.

■ **Summary**

MCOOL’s roots trace back to the late 1990s and, more specifically the North American industry’s severe financial crisis of 1998 and 1999. During this critical period, Canada was shipping more and more pigs to the U.S. That did not happen, of course, without willing buyers of pigs in the U.S. but the critical factor was the continued increase in the Canadian breeding herd even during those difficult times. Many U.S. producers, including some quite reasonable people, were asking “How is it that finances can be this bad and Canada is still expanding?” One response was “If they want to do that, let’s force the pigs to stay in Canada.”

This all happened again in spades in 2002 and 2003 giving rise to this legislation and NPPC’s decision to ask for countervailing duties on imported Canadian pigs.

Was MCOOL the correct response? Of course not. And the U.S. in general and NPPC in particular remain committed to free trade. That’s the reason

NPPC has opposed this from day one. But should tough economic times return and the Canadian sector not respond in a way that is at least close to what U.S. responses and economic theory suggest is correct, there will be more tension. Senators from the Midwest and Northern Plains carry considerable clout and have been quite united in their interest in these market-meddling legislative proposals.

The biggest irony, or course, is that MCOOL will hurt most of those small, independent “family” farmers that the Senators and Representatives believe they are protecting.

A few years ago, Rod Smith of Feedstuffs newspaper lead off his editorial on the proposed mandatory price reporting system with this line:

“Mandatory price reporting is a bad, bad, bad, bad idea whose time has come.”

I believe the same could be said for MCOOL which will take a great deal of time, effort and money and generate hardly any benefits. But the Congressmen and Senators “did something” and that seems to be what counts.