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Trade Policy Monitoring

The Impact of Country-Of-Origin Labeling in Canada

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Report Highlights: U.S. Farm Bill provisions requiring mandatory country-of-origin labeling (COOL) on imports of certain agricultural products have precipitated outcries of U.S. protectionism by several prominent Canadian farm and commodity organizations. The Canadian livestock and red meat industry is particularly concerned that COOL will lead to deep discounts on Canadian cattle, hogs, and red meat, or even stop shipments of Canadian livestock and products to the United States altogether. The Canadian livestock and meat industry also believes that COOL will impact negatively on U.S. livestock producers, packers and retailers.

Includes PSD changes: No
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OVERVIEW:
U.S. Farm Bill provisions requiring mandatory country-of-origin labeling (COOL) on imports of certain agricultural products have precipitated outcries of U.S. protectionism by several prominent Canadian farm and commodity organizations. The Canadian livestock and red meat industry is particularly worried about the prospect of COOL provisions becoming permanent in September 2004. Industry leaders fear that the law will lead to deep discounts on Canadian cattle, hogs, and red meat, or even stop shipments of livestock and products to the United States altogether. Interestingly, in an apparent twist on their traditional arguments against county-of-origin labeling, the Canadian livestock and meat industry is increasingly emphasizing how these regulations will impact negatively on U.S. producers and packers. According to Canadian trade and government sources, the COOL regulations will lead to increased marketing costs, record-keeping and auditing requirements for both sides, and could cause more problems for U.S. industry than COOL was intended to solve. The COOL provisions will likely have severe negative consequences for U.S. live cattle exports to Canada -- particularly shipments under the Restricted Feeder Cattle Program, which has helped boost U.S. exports of live cattle to Canada by as much as $200 million annually. The Restricted Feeder Program is but one example of USG market access initiatives for agriculture that may face a more difficult negotiating environment in Canada if the COOL provisions are implemented on a permanent basis.

BACKGROUND:
The Farm Security and Rural Investment Act of 2002 created the framework for country-of-origin labeling. Section 10816 of the Act effectively requires retailers to provide country-of-origin labels at the final point of sale for muscle cuts of beef, lamb or pork; ground beef, lamb and pork; fish or shellfish, either farm-raised or wild; fresh and frozen fruits and vegetables; and peanuts. Certain ingredients and processed food items are exempt from COOL provisions. Food service establishments and facilities such as restaurants are also exempt.

On October 8th, 2002, the Agricultural Marketing Service (AMS) issued interim voluntary COOL guidelines which are expected to be finalized in early 2003. Mandatory labeling will take effect by September 30, 2004. In the case of beef, lamb, and pork, under the current voluntary guidelines, a retailer may label these products as having a United States Country of Origin only if they are derived exclusively from animals born, raised, and slaughtered in the United States. For products of mixed origin, the regulations require the label to indicate which of these production processes (born, raised, slaughtered) occur in the foreign country and which occur in the United States. For mixed or blended products, the applicable country of origin for each raw material source must be reflected in the labeling of that product by order of prominence by weight. To verify that products are properly labeled, records much be maintained from birth to retail. On the retail side, country of origin notification may be provided to consumers by means of a label, stamp, mark, placard, or other clear and visible sign on the covered commodity or on the package.

IMPLICATIONS FOR CANADA:
Clearly, the Canadian livestock and meat industry is alarmed over the potential negative impact of the COOL regulations. According to trade and industry sources, higher costs are the major threat to exports of meat and livestock. For example, in the case of red meats, Canadian industry sources indicate that costs related to the segregation of cattle in North America under COOL are

estimated at about $30 per head. Segregation requirements, as well as other COOL regulations could cost the Canadian red meat industry $1- $2 billion, according to industry analysts. The Canadian pork industry's estimates of loss are even higher. Canadian exports of pork to the United States totaled almost 400,000 tons in 2001, while exports of live hogs exceeded 5 million head during the same period. The damage in trade brought on by the COOL regulations would be disastrous to Canadian hog producers, creating a surplus of 4-5 million hogs that would not have a market. Many far-sighted Canadian companies are already attempting to adapt by selling more processed meat outside the United States and by developing a larger food service customer base in the United States.

U.S. INDUSTRY WILL ALSO SUFFER:
Naturally, given the very negative consequences of COOL for Canadian livestock and red meat producers, the industry is gearing up to fight the regulations in their current form, or to have them rescinded altogether. One interesting aspect of the Canadian strategy appears to be an initiative to seek support from U.S. livestock groups, such as the National Cattlemen's Beef Association, the American Meat Institute, as well as U.S. processors who oppose labeling. According to Canadian industry sources, many industry groups in the United States would also like to see the COOL regulations rescinded or significantly modified. According to these sources, COOL will create costs for the entire North American meat complex, principally due to record-keeping, auditing, database development and other administrative requirements, whether or not any foreign meat imports take place.

Beyond the higher administrative costs, the U.S. livestock and meat industry could face additional long-term economic and political repercussions as a result of the impending COOL regulations. For example, many packers in the U.S., especially those located in the northwest, are reportedly highly dependent on imports of Canadian beef and cattle. The likely decline in raw material availability that would result from COOL would probably put many of these packers out of business. In addition, as Canadian meat and cattle exporters look to non-U.S. markets to replace lost U.S. sales, meat and cattle exporters in the U.S. may face increasing competition in third country markets such as Mexico and Asia. Because labeling is not required for the food service sector under the proposed COOL regulations, Canadian packers and processors will likely turn increasingly towards the U.S. food service sector as an alternative market for their excess supplies. This will create additional competition for U.S. packers and processors in the profitable food service sector.

With the entry into force of COOL regulations, the recent structural changes that were intended to create efficiencies in certain sectors of the U.S. livestock industry may in fact help exacerbate losses of certain smaller producers. The U.S. pork industry provides an interesting example of this phenomena. After the hog market collapse of 1998, the farrowing infrastructure in the U.S. underwent fundamental change, leading to increased imports of Canadian live feeder pigs into the U.S. Midwest for finishing. Most of these finishers are smaller, independent hog operations that use their own corn or buy locally-produced corn for feed. These independent U.S. Midwest farmers face the greatest risk of increased cost, reduced income or bankruptcy if they lose their ability to source Canadian live hogs due to COOL. At the very least, they could lose an important income source and will be left to depend on more heavily-subsidized cash crop production for their incomes.

The U.S. poultry industry, on the other hand, appears to be a big beneficiary of the COOL regulations. Besides being totally exempt from COOL, poultry producers will likely pick up any reduction in demand for beef and pork in the United States brought about by higher prices associated with the increased costs of COOL.

BILATERAL TRADE RELATIONS STRAINED BY COOL:
From a trade policy perspective, COOL is likely to cast a pall over U.S. initiatives to enhance access to the Canadian market for agriculture and food products, especially those involving U.S. meat and livestock products. The Restricted Feeder Cattle Program (RFCP) is one important example. Under this program, calves that are born in the U.S. are shipped to Canada during a restricted period (October 1 - March 31) for feeding and finishing. Some of these cattle are inevitably shipped back to the U.S. for slaughter and processing, or are processed in Canada and sold back to the U.S. as finished beef. Beyond the costly record-keeping system that would be needed to manage this program, the COOL regulations will likely complicate long-standing U.S. government efforts to expand the RFCP into a year-round program. Failure to expand this program to a year-round basis could mean up to $100 million in lost sales opportunities for U.S. cattlemen. Last but not least, some Canadian industry sources fear that COOL labeling regulations could set a dangerous precedent for more extensive and restrictive labeling programs. These include labeling initiatives for genetically modified foods (GMOs), animal husbandry and welfare practices, or even feed programs.

AMS ESTIMATES COSTS OF COOL RECORD-KEEPING:
Canadian cattle and beef producers are hopeful that recent USDA/AMS estimates of costs related to record-keeping under the COOL guidelines will serve as a wake-up call to supporters of the program, and serve to remind U.S. producers of the financial consequences involved. In its study, AMS concluded that the cost of record-keeping alone will reach $2 billion annually for all commodities covered under the program. Approximately $1 billion of this cost will be borne by U.S. producers, $340 million by food handlers, and $628 million by retailers.

SUMMARY:
The Canadian cattle and beef industry is clearly worried about the potential damage that COOL regulations could wreak upon their most important export market, especially if these regulations become mandatory as expected in 2004. According to most analysts, implementing a mandatory COOL program would mean higher costs, increased administrative burden, and a severe weakening of Canadian cattle prices as U.S. retailers turn away from imported products in an attempt to reduce their own record-keeping and labeling costs. Not surprisingly, the Canadian Cattleman's Association has reportedly indicated it will support COOL -- as long as it remains a voluntary program. Beyond the economic consequences, however, the political ramifications of COOL could be equally serious. This includes potential damage to the U.S. - Canada trading relationship, which has already been severely strained by several other highly contentious trade issues. Unfortunately, sources indicate that the Canadian Cattlemen's Association is already consulting with Canadian government officials about potential trade challenges that may be filed should the COOL program become mandatory. It is appropriate that U.S. officials take these potential risks into account when developing the final regulations for the COOL program.

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