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Mandatory Madness: Country of Origin Labeling of Food

Unwilling simply to voluntarily label their food “Made in the U.S.A.,” some American producers are moving forward with a new federal law that will require a country of origin label (COOL) on seafood by September 30, 2004, and on fresh and frozen fruits and vegetables, beef, lamb, pork and peanuts by September 30, 2006.

Food retailers and wholesalers have long supported voluntary labeling — from Washington Apples to Vidalia Onions. In 2003, California retailers launched a program to promote produce grown in their state. Supermarkets frequently feature the products of farmers in their community, promoting their fresh taste, low cost and contribution to the local economy. These programs work because they are voluntary, flexible and clearly benefit consumers, farmers and food retailers. An increasing number of producers agree, and have now joined with retailers and wholesalers to craft a voluntary COOL program to replace the one mandated by law.

The new law to mandate country of origin labels may sound simple, but it’s really a multibillion-dollar nightmare for the food industry and, ultimately, for consumers.

COOL is a Law That Will . . .

Increase the cost of hundreds of the most basic foods, imposing an invisible tax on consumers. The cost to implement the rule in the first year will be up to \$3.9 billion, according to a cost-benefit analysis that the U.S. Department of Agriculture issued with the proposed regulation on October 27, 2003.¹ The agency estimates the rule will cost producers as much as \$589 million in the first year; manufacturers, packers and other intermediaries \$1.52 billion; and retailers \$1.79 billion.

The law requires the industry to create a paper trail for all the products covered for their entire life cycle, which is years for meat products such as beef, lamb and pork. The typical supermarket carries 500 to 1,500 of the items covered by the law. These records, in effect, will be a travel log for the millions of shipments each week from producer through packer through wholesaler to retailer. The records must certify the country of origin through contracts, bills of lading and other documents. The law requires companies to retain these records for two years.

Furthermore, recordkeeping isn’t even the most costly requirement of the law. Many more billions of dollars will be needed to segregate products, print labels, train employees, perform COOL audits and take other measures to comply with the law. For example:

- Researchers at Iowa State University estimate that country of origin labeling will increase the cost of U.S. pork production by 10 percent.²
- A Midwest retailer/wholesaler estimates that country of origin labeling will increase the company’s cost to distribute, store and display produce by \$7.8 million a year. This figure does not include the increases in supplier and producer costs.³
- An Eastern retail/wholesale cooperative with 206 stores estimates that such labeling will cost the company \$157 million to increase its warehouse space and another \$41 million to reengineer its

stores. Annual operating costs will increase by \$4 million at its warehouses and a total of \$76 million at its stores. Again, these figures do not cover increased supplier and producer costs.⁴

- Mandatory COOL will cost a four-store retailer in New Jersey \$7,000 per week (\$364,000 per year) to segregate and label the products in all his stores. The amount covers “increased labeling costs, training of labor, signage, display allocation (including 14 separate bins for bananas alone), recordkeeping, equipment purchases, increased storage space and liability costs (to cover \$10,000 fines per violation).”⁵

In the end, consumers will be forced to spend more for their food products in order to cover the costs imposed by the law.

Limit the availability of food — especially fresh fruits and vegetables that consumers desire for healthful diets. The industry will have to segregate food shipments by country, increasing distribution and production costs and reducing produce and meat department space — limiting consumer choice. Some of the more significant examples:

- Americans eat approximately 25 billion bananas a year.⁶ Nearly all are imported — primarily from Columbia, Costa Rica, Ecuador, Guatemala, Honduras and Nicaragua and Panama — because there are no commercial banana growers in the continental U.S. This means the industry will have to document the country of origin of all those bananas and separate deliveries, storage and displays into as many as seven countries. In this case, the COOL law, although designed to promote sales of U.S. products, serves only to complicate the distribution system and limit the space for other produce products.
- The law will undermine the North American market for meat and produce, where products are moved freely across borders. For example, the law requires labels to declare each country where a meat product spent time (e.g., born in Mexico, raised in the U.S., finished in Canada, slaughtered in the U.S.). To limit the confusion, retailers will look to source products from as few countries as possible and, where feasible, from a single country — and not necessarily the U.S. — thereby undermining the law’s intent to promote sales of U.S. products.

To control costs and avoid the burden of tracking products from multiple nations, retailers and suppliers will be forced to limit the number of countries from which they obtain products — reducing consumer choice and increasing the cost of food.

Dismantle a system designed to provide consumers with product variety and value year-round. Over the past two decades, the food industry has worked hard to streamline the distribution system by cutting costs that do not deliver consumer value. The results: expanding worldwide product variety that consumers demand at a minimal cost. Food inflation averaged only 2.4 percent per year from 1992 to 2002. Country of origin labeling will counter these gains, requiring the industry to overhaul one of the world’s most efficient distribution systems.

The law will make food shopping more cumbersome, a task that consumers perform two to three times for up to three hours a week — the equivalent of 22 full days a year.⁷ The last thing today’s busy shoppers need is to waste precious time puzzling over whether to buy bananas from Colombia, Costa Rica or Ecuador, or steak from a steer that spent time in three different countries.

In short, while consumers want the food industry to deliver more for less, country of origin labeling would deliver them less for more.

Threaten the survival of small growers and ranchers. Subject to \$10,000 penalties per willful violation, retailers will buy products only from producers large enough to maintain the complete and accurate records required. The law subjects suppliers to fines up to \$10,000 simply for supplying

inaccurate country of origin information. The records must withstand independent audits to ensure compliance with the law. Some retailers will choose to buy products from producers in competing countries where labeling and traceback programs are already in place. A December 2003 Small Business Administration analysis found that “all food retailers stand to suffer economic losses as a result of the costs of complying with the mandatory COOL regulations.”⁸

Damage U.S. relations with valued trading partners. Canada, Mexico, Australia, New Zealand, Chile and other countries have long regarded country of origin labeling as thinly veiled protectionism since the program is designed to promote sales of U.S. products. When the mandatory program takes effect in September 2004, they are likely to petition international trade tribunals such as the World Trade Organization to have the practice declared illegal. These nations may also retaliate by imposing trade barriers against U.S. exports into their markets.

Undermine the ability of U.S. products to compete internationally. Increased U.S. production and distribution costs to satisfy the labeling law will make those products more costly in export markets. As a result, U.S. products will be more costly and less competitive in the global marketplace — a major concern for producers in states such as California whose livelihood depends largely on exports.⁹ California is by far the nation’s largest exporter of agricultural products. In 2002, state producers exported \$7.2 billion in products, most of it produce.¹⁰ As a result, COOL could exacerbate that state’s already weak economy.

COOL Is a Law That Will Not . . .

Improve food safety. The law was not designed to address food safety despite some claims to the contrary. The main proponents — including R-CALF, the U.S. Farmers Union and American Farm Bureau Federation — testified June 26 before the House Agriculture Committee that the law’s sole purpose is to serve as a marketing tool. If safety were the goal, a traceback system to document the *company* of origin would be needed, and the COOL law specifically prohibits USDA from developing such a system. In fact, the law will undermine USDA and industry efforts to implement food safety measures to prevent mad cow disease and other foodborne illnesses.

Provide consumers a service they demand. Surveys may suggest that consumers support country of origin labeling; however, these polls do not gauge how valuable this information is to them. When asked to name the most important features in supermarkets, consumers invariably say fresh food, high-quality meat and produce, variety, value, cleanliness and convenience. When this question is posed in an open-ended manner, consumers seldom mention country of origin labeling.¹¹

Satisfy the consumer’s right to know. If, as some supporters suggest, this were a right-to-know issue, why does the labeling law exempt half the products that consumers eat? Consumers spend nearly half their food dollars at restaurants, which are not covered by the law. Nor are poultry, any nuts other than peanuts or processed foods. Retailers and wholesalers believe that consumers have the right to know that the products they buy in restaurants and supermarkets are safe. If imports cannot meet the safety standards for U.S. products — as required by law — they should not be allowed into America in the first place.

COOL Is a Law That Must Be Repealed Or Replaced With One That Works

¹ U.S. Department of Agriculture, Agricultural Marketing Service, “Mandatory Country of Origin Labeling of Beef, Lamb, Pork, Fish, Perishable Agricultural Commodities, and Peanuts,” p. 117. <http://www.ams.usda.gov/cool/ls03-04prdoc.pdf>.

² Dermot J. Hayes and Steve R. Meyer, pioneer chair in agribusiness at Iowa State University and president of Paragon Economics, Inc., Ames, Iowa, “Impact of Mandatory Country of Origin Labeling of U.S. Pork Exports,” 2003.

³ Spartan Stores, Inc., “Comments on Guidelines for Voluntary Country of Origin Labeling,” submitted to USDA Secretary Ann Veneman on April 9, 2003.

⁴ Wakefern Food Corporation, “Country of Origin Labeling — Proposed Statute Impact Assessment,” May 1, 2003.

⁵ Office of Advocacy, U.S. Small Business Administration (SBA), letter of December 5, 2003, to USDA Agriculture Marketing Service, “Re: Mandatory Country of Origin Labeling of Beef, Lamb, Pork, Fish, Perishable Agriculture Commodities, and Peanuts (68 Fed. Reg. 61944, October 30, 2003),” pp. 7-8. Information furnished by Joseph Colalillo, president, Colalillo ShopRite, Flemington, NJ.

⁶ This figure is based on data from the International Banana Association, which reports that the average American consumes over 28 pounds of bananas each year and that three mid-sized bananas weigh about one pound. Thus, Americans eat an average of 84 bananas yearly (3 x 28), multiplied by the U.S. population of about 300 million equals 25.2 billion.

⁷ Food Marketing Institute, *Trends in the United States — Consumer Attitudes and the Supermarket*, a yearly study based on surveys of 2,000 randomly selected consumers.

⁸ Office of Advocacy, SBA, *op. cit.*, p. 3.

⁹ Colin A. Carter and Alix Peterson Zwane, “Not So Cool? Economic Implications of Mandatory Country of Origin Labeling,” *Agriculture and Resource Economics Update*, May/June 2003, published by the University of California Giannini Foundation. “Some grower organizations have openly characterized COOL as relief from foreign competition. We believe this support from California farm groups is shortsighted because it sends a message to trading partners that U.S. agriculture is protectionist. Foreign markets are extremely important to California agriculture, and so the state’s industry has a huge stake in increased trade liberalization, not more protectionism.”

¹⁰ USDA Economic Research Service, “Agriculture Exports From Grain and Soybean Producing States Rose in Fiscal 2002.”

¹¹ Food Marketing Institute, *op. cit.*