

***AGSIGHT: MARCH, 2009***  
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Last month's AgSight focused country-of-origin labeling; discussion ended with the following observation:

COOL's success...will be dictated by the ability to provide consumers with meaningful information and create value at a reasonable cost while also establishing U.S. producers with a comparative advantage over foreign competitors. But that's the long-term perspective. In the short-run, the industry is burdened with implementing a law that is extremely complex and burdensome from a logistical, notification and record-keeping standpoint. What about the benefits? Domestically, COOL provides no assurance of additional consumer revenue; internationally, it creates animosity and potentially impedes sales to our two largest export partners – markets which can't be taken for granted. Given the adverse cost/benefit considerations, not to mention potential for unintended consequences along the way, COOL represents a steep and tenuous risk/reward proposition. Reopening COOL for comment will likely only serve to worsen that scenario.

Seemingly, Secretary Vilsack's request of the meat industry to voluntarily raise conformance measures was meant to establish a short-term solution to implementation. However, the move has not only put us back to square one but also turned the entire process upside down.

Before delving deeper into the turmoil it's helpful to review some fundamentals. The law's intent stems from belief that U.S. consumers possess different demand curves for U.S. products versus imported items. Additionally, proponents often tie implementation to food safety and advocate U.S. products as being inherently safer products. Thus, passage was contingent on two distinct perspectives: 1) consumer preference - consumers will purchase relatively larger amounts and pay more for domestic items; 2) consumer protection – domestic items possess less risk. Lastly, it's important to note the provision largely originated from within the beef industry.

With that background let's move forward with analysis about potential implications. The first illustration below provides historical comparison regarding meat expenditures. Purchasing decisions for meat don't differ from any other type of product – comparisons are made among competing products. During the 20 years preceding 1999 beef surrendered significant market share. More recently, beef expenditures have slightly outpaced the competition. That turnaround largely results from a hard lesson: beef's cost structure and subsequent price/value relationship was previously bested by pork and poultry.

That lesson applies today: beef demand has suffered during the past 12-to-18 months from a stumbling economy; pork and poultry compete more favorably as consumers scale down spending. Meanwhile, the meat industry is facing increased costs associated with COOL stipulations. Adding insult-to-injury, Secretary Vilsack is now "asking" the industry to step up its respective compliance further yet. However, doing so provides no carrot of promise except to avoid the stick of further mandates. The cost structure will be most burdensome to the beef industry due to its fragmented and segmented value chain. And within that environment which industry has the most to lose? The beef industry...it begins with a relative price disadvantage confounded now by a weakening economy and additional regulatory costs. Ultimately, who will pay that cost? Not the consumer...not the retailer...not the processor...the producer!

What about food safety? The food industry has experienced two huge recalls in the past twelve months: last year's Hallmark/Westland ground beef recall (143-million lb) and the recent recall of products containing paste from Peanut Corp. (2000+ products). In both cases, COOL would provide neither advantage nor solution – after all the products originated from the United States. The National Academy of Sciences National Research Council (NRC, 1998) reported that:

“It is by no means clear that imported food, as a class, poses greater risks than domestically produced food.”

Lastly, the pragmatic aspect of trade is important here. The first illustration below represents trade activity of Canada, Mexico, Japan, and Korea. Collectively these four countries accounted for over \$3.62 billion in beef product exports in 2008; the highest level since 2003’s record of \$3.86 billion. Reestablishing trade normalization across the globe has been grueling and incremental. Amidst that grind the major bright spot has been exchange with NAFTA partners: Canada and Mexico now represent nearly 60% of the U.S. beef export market. Trade with the two countries has grown by over \$900 million since 2003 and now provides over \$2 billion of revenue to the U.S. beef industry - that’s approximately \$75/head in the fed market and roughly \$15-20/head better than 2003 levels. And now the industry is forced to put that at risk with a non-tariff trade barrier.

In the end, broader principles are what really matter. First, Secretary Vilsack’s request: “...provide consumers with sufficient information about the origin of products, processors should voluntarily include information about what production step occurred in each country when multiple countries appear on the label.” Meanwhile, “[USDA] will be closely reviewing industry compliance with the regulation and its performance in relation to these suggestions...” But what’s the threshold of compliance? It’s a dark target. More importantly, the scenario establishes the moral hazard. Company A won’t voluntarily inflate their costs, especially if it puts them at a competitive disadvantage – they’ll wait for company B to do so. No real incentive likely equals unfulfilled expectations.

Also important from a principled perspective are standards and implications surrounding international trade. Razeen Sally (c. 2008) explains: “The theoretical case for free trade is strong and compelling...Free trade means to engage in international transactions without discrimination...free trade is part and parcel of free markets.” Per that principle, the Canadian Cattlemen’s Association is requesting its government to resume the country’s WTO challenge against COOL. Meaningful growth is not likely to occur domestically; international trade represents the greatest possibility of establishing revenue growth and endeavors to expand international markets must be relentless.

Where does that leave us? The Obama Administration has seemingly put COOL on track to be opened back up. The outcome of that process will likely mean even more cumbersome, restrictive and costly regulation. Better hang on!

