

# **A COOL Repeal: Potential Outcomes of U.S. Mandatory Country of Origin Labeling Requirements on Dairy and Beef Sectors**

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## **Abstract**

In December 2015 the US Congress repealed the Mandatory Country of Origin Labeling (COOL) requirement for some agricultural commodities to avoid potential retaliatory tariffs from Canada and Mexico that were authorized by the WTO. In this analysis we simulate and compare the potential welfare effects that such tariffs could have had on two sectors that were likely to be affected by them (dairy and beef) vis-à-vis a scenario where COOL was maintained, using a modified Global Trade Analysis Project (GTAP) model and a sector specific- disaggregated database.

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## **Introduction**

With the recent (December 18, 2015) repeal of the Mandatory Country of Origin Labeling (COOL) requirement for certain agricultural commodities the U.S. Congress aimed to avoid retaliatory import tariffs of up to \$1 billion on US-sourced imports into Canada and Mexico. Even though the dispute was based on the trade-distorting effects of COOL on Canada and Mexico's beef and pork exports to the US, both trade partners announced their intentions to retaliate with tariffs on imports of several US-sourced agricultural commodities, including dairy and beef products.

The majority of US imports are required to indicate the country of origin at the retail level, according to 1930s US tariff law. However, certain goods, including many agricultural commodities such as meat, fish and shellfish, many perishables and peanuts were exempted from mandatory COOL until the 2008 US Farm Bill (effective March, 2009) (Greene 2015). The COOL legislation was introduced in the US as a potential method to increase consumer demand for domestic meat products. Many small operations were early adopters of COOL with the hopes of receiving first-mover advantages within a newly created niche market providing consumers with additional, potentially valuable information. However, implementation costs were high with marginal reported benefits for small scale producers leading to controversy within the US agricultural industry regarding the necessity of the regulation.

Other setbacks for COOL came however, from US trade partners. Early in the COOL discussion, Canada and Mexico challenged the US COOL in the WTO, claiming the legislation to be trade-distorting and to violate US commitments in the World Trade Organization (WTO). The WTO's Dispute Settlement (DS) panel initially determined that COOL did not meet the objective of giving consumers full information on meat products' country of origin, and found instead that US COOL reduced the value and quantity of US live cattle and hog imports from Canada and Mexico, and resulted in domestically produced cattle and hogs more favorably than imported animals. Even

though the initial DS finding was followed by a series of US appeals and amendments to the original COOL legislation, the DS final ruling concluded that while COOL meets its objective to provide full information to consumers, the policy is trade-distorting and violates WTO obligations. As a result, the DS body authorized retaliation by Canada and Mexico against the US and retaliatory tariffs of \$1 billion in December, 2015; both countries identified several agricultural and non-agricultural sectors as their targets, most notably dairy.

The academic literature seems to corroborate the basis of such ruling, as the potential negative effects of COOL on US beef and pork imports have been extensively documented in the literature. For example Pouliot and Sumner (2014) find that COOL has a negative impact on fed cattle imports from Canada, although in relative terms of US cattle. Similarly, De Vila Estenssoro and Anderson (2015) estimate that COOL implementation resulted in a wider spread of calf prices between the US and Mexico. COOL-related analyses have considered other industries as well: Johncheck, Wilde and Caswell (2010) found that the implementation of COOL may potentially reduce the value of Mexican tomato exports to the US by 14% to 32%, and may result in modest US consumer welfare increases compared to the increased (decreased) surplus of domestic (Mexican) tomato producers.

Furthermore, several analyses highlight how the distributional effects of COOL may be unclear, depending upon consumer preferences for the additional information provided by the regulation. Awada and Yiannaka's (2012) theoretical model finds that consumer welfare increases (decreases) for those consumers with strong (weak) preferences for COOL when moving from a scenario where no regulation is in place to one where COOL is mandatory. Taylor and Tonsor (2013) showed that post-2009 (the year when COOL became mandatory), demand for beef remained unchanged, showing that surplus decreased due to the fact that the costs of COOL implementation were transferred to consumers. Similarly, consumer preferences for COOL in

selected beef products has been found to be less marked than USDA food safety inspection labels in choice experiments for US consumers (Loureiro and Umberger 2007).

Thus, in light of the avoidance of retaliatory tariffs from Canada and Mexico, and COOL's unclear effect on both producers, and (particularly) consumers, the repeal of COOL may have avoided large welfare losses by producers without reducing consumer welfare. Our analysis investigates the extent of welfare losses that were avoided by the repeal of COOL, by comparing two scenarios; first, we will simulate changes for both producer and consumer welfare from removing mandatory COOL in US agricultural sectors; then, we will assess the potential economic effects of continued COOL, assuming Canada and Mexico applied the retaliatory tariffs against agricultural imports from the US. It should be noted that, since many of the retaliatory tariffs were to affect other sectors, such as dairy, our analysis which uses a computable general equilibrium modeling framework will assess spillover effects to sectors other than those that were object of the dispute (beef and pork).

To measure in full the the spillover of the retaliatory tariffs due to COOL, we employ a modified Global Trade Analysis Project (GTAP) model (Keeney and Hertel 2005) and database from Burfisher et al. (2014). The GTAP-AGR model includes imperfect factor mobility between agricultural and nonagricultural sectors, a nested Constant Elasticity of Substitution (CES) production function for tradable commodities, and a Constant Difference of Elasticities (CDE) specification for household demand (Keeney and Hertel 2005). The model also includes detailed supply and demand elasticities specific to agricultural production and consumption as well as the Armington import demand specification to allow for product differentiation by region (Hertel et al. 2007). The database employed updates the GTAP v8 from a base year of 2007 to 2014 given macroeconomic projections for growth and productivity, changes in the supply of labor, capital and population as well as tariff reductions given preferential trade agreements since 2007. The database

includes 25 agricultural and 4 non-agricultural sectors that includes 5 disaggregated dairy sectors and disaggregates beef, pork and poultry sectors (Burfisher et al. 2014). Even though other analyses have assessed the effects of COOL on related agricultural industries, including Brester, Marsh and Atwood (2004) and Lusk and Anderson (2004), who adopted equilibrium displacement models that included three commodities (beef, pork and chicken), this economy-wide framework allows for the assessment of the potential direct and indirect effects of retaliatory import tariffs that may have been levied if COOL had not been repealed, as well as the potential economic outcomes of the COOL repeal on agricultural sectors including changes in production, consumption, trade and consumer and producer welfare.

### **Scenario Design**

The WTO arbitration panel final ruling allowed for retaliatory import tariffs on products sourced from the U.S. equal to \$781 million in tariff revenue for Canada and \$228 million for Mexico (Green 2015). Both countries were to request authorization for such tariffs on December 18, 2015, but COOL was repealed by U.S. Congress prior to authorization. Accordingly, the potential retaliatory tariffs identified by both Canada and Mexico as potential target sectors informs the first scenario where we assume that COOL continued in the US and resulted in the identified changes to tariffs in key agricultural sectors. The second scenario simulates changes for both producer and consumer welfare from removing mandatory COOL in US agricultural sectors.

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