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Benefits of COOL to the Swine Industry

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Conclusion

It is not a wise strategy to implement a costly program to inform Americans that 89% of the pork they eat is of U.S. origin when it appears that fewer than 75% of Americans are willing to pay a premium for U.S. pork.

Basics of COOL

The 2002 Farm Bill contained a controversial provision mandating country of origin labeling (COOL) of certain unprocessed foods (beef, pork, lamb, fish, seafood, peanuts, fruits and vegetables) sold through non-small grocery stores (i.e. stores which annually sell more than \$230,000 of fruits and vegetables) beginning on September 30, 2004. The basic concept of COOL appears to be popular with consumers. Much of the controversy about COOL arises from concerns that many in the livestock-red meat industry have that COOL will be a costly regulation with little or no benefit for their sector.

The Cost of COOL

The COOL legislation requires non-small grocers to inform customers “of the country of origin of the covered commodity.” The legislation defines U.S. origin pork as being “exclusively from an animal that is exclusively born, raised, and slaughtered in the United States.” Thus, pork imported from Denmark must be labeled differently than pork imported from Canada, which must be labeled differently than pork from hogs born in Canada but slaughtered in the U.S., which must be labeled differently than pork from hogs born, raised and slaughtered in the U.S.

The cost of implementing COOL depends to a large extent on how accurate and verifiable one wants the labeling to be. In its preliminary statements, USDA has outlined a rigorous procedure designed to make sure that the covered foods are correctly labeled and that the government can conduct audits to verify that the labels are indeed correct. USDA contends that the law allows for nothing less.

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Many in the hog-pork industry believe that USDA's preliminary plans are too costly and burdensome. A number argue for a self-verification program in which hog packers and the government simply accepts the statements of U.S. hog producers as to country of origin with little or no recourse to contest a producer's claim.

It is not the purpose of this paper to enter into the discussion of how accurate and verifiable, and therefore how costly and burdensome, the COOL record keeping requirements should be. For our purposes, it is sufficient to say that the cost to the hog-pork industry of implementing COOL will be greater than zero.

Benefits to U.S. Consumers

The benefits of COOL arise from informing individuals who buy covered food items in non-small U.S. grocery stores as to the country of origin. Surveys show that a majority of Americans are at least mildly curious as to where their food is produced. Some consumers care a great deal about the specific origin of the food they eat.

For consumers, COOL will offer information about the country of production of some of the food they eat at a cost that may be relatively small compared to their total expenditures on food.

Benefits to U.S. Hog Producers

U.S. hog producers can benefit from COOL if the implementation costs are modest and if the process of labeling grocery store pork for country of origin results in a significant increase in the price of U.S. origin pork without a loss in market share. The price of U.S. pork needs to increase enough to offset the cost of COOL to producers, processors and retailers (assuming that processors and retailers will pass-back their COOL related costs in the form of lower bid prices). As will be explained below, the fundamentals of supply and demand for pork in the U.S. make that outcome highly unlikely.

Hog Supply

Although the U.S. imports several million hogs from Canada each year, hogs born and raised in the states dominate U.S. hog slaughter. U.S. commercial hog slaughter in 2002 totaled 100.2626 million head. Total live hog imports in 2002 totaled 5,741,275 head.

2002 U.S. hog imports from Canada totaled 5,740,673 head.

1,982,191 of these hogs weighed 110 pounds or more

3,758,482 of these hogs weighed less than 110 pounds

2002 U.S. hog imports from Norway totaled 602 head

No other live hogs were imported in 2002

Assumptions for this analysis:

Of the Canadian hogs imported weighing 110 pounds or more:

99.8% (1,978,227) were slaughtered more-or-less immediately

00.2% (3,964) died before they were slaughtered
Of the Canadian hogs imported weighing less than 110 pounds:
97.5% (3,664,520) were fed-out and slaughtered in the U.S.
02.5% (93,962) died before they were slaughtered
Of the Norwegian hogs imported:
97.5% (587) were fed-out and slaughtered in the U.S.
02.5% (15) died before they were slaughtered.
Slaughter occurs in the year of import (Although this is certainly not always the case, detailing the multi-year nature of imports and slaughter adds considerable complexity to this analysis without changing the conclusions.)
The slaughter weight of imported hogs is the same as for hogs born in the U.S.

Consequences:

In 2002, U.S. commercial hog slaughter consisted of:
1,978,227 (1.97%) hogs that were born and raised in Canada
3,664,520 (3.66%) hogs that were born in Canada and fed-out in the U.S.
587 (0.00%) hogs that were born in Norway and fed-out in the U.S.
94,619,266 (94.37%) hogs that were born and raised in the U.S.

Pork Supply

In 2002, the U.S. produced 19.664 billion pounds of carcass weight pork of which 1.614069 billion pounds were exported.

In 2002, the U.S. imported 1.070983 billion pounds of pork (carcass weight equivalent) from the following countries:

0.880205 billion pounds from Canada
0.123013 billion pounds from Denmark
0.024420 billion pounds from Poland
0.006730 billion pounds from Netherlands
0.004806 billion pounds from Hungary
0.031809 billion pounds from the rest of the world (ROW)

Assumptions:

Pork imports were of the same mix as U.S. pork production
A factor of 0.7 is used to convert carcass weight to retail weight.
The average U.S. hog carcass weighs 196 pounds
U.S. pork exports are derived proportionately from hogs slaughtered in the U.S.

Consequences:

In 2002 the net supply of pork for U.S. consumption consisted of:
89.09% U.S. born, raised and slaughtered pork
4.60% Canadian born, raised and slaughtered pork

3.45% Canadian born and U.S. raised and slaughtered pork
1.86% Canadian born and raised and U.S. slaughtered pork
0.64% Danish pork
0.13% Polish pork
0.04% Dutch pork
0.03% Hungarian pork
0.16% pork imported from the rest of the world

Demand: Consumer Preference

Over the years, a number of studies have been conducted to try to determine the portion of Americans who prefer to consume food produced in the U.S. and the extent to which they are willing to pay a premium for food certified to be of U.S. origin. In the case of meat, most surveys indicate that somewhere between half and three-quarters of U.S. consumers say they are willing to pay more for certified U.S. meat.

To our knowledge, none of these consumer preference studies have looked specifically at labeling pork. In trying to analyze the impact of COOL on the demand for U.S. pork, we have utilized a recent analysis of Americans' preference for country of origin labeling of beef conducted by Umberger, Feuz, Calkin and Sitz. Their research found that 69% to 73% (depending on analytical technique) of individuals surveyed indicated a willingness to pay a premium for beef labeled "Guaranteed USA: Born and Raised in the US." The remaining 27% to 31% of the survey participants were either unwilling to pay a premium for the U.S. guarantee or were willing to pay more for non-labeled beef.

Efforts to use consumer research to predict the likely impact of COOL need to be aware of five limitations of most of these studies.

First, surveys very often find more people who say they are willing to pay for a product enhancement than actual market tests find to be the case.

Second, these consumer preference surveys typically match certified U.S. meat against generic meat of undisclosed origin. (This was the case with the study by Umberger, et al.) Under COOL there will be no unspecified origin unprocessed pork in non-small grocery stores. If COOL is implemented without amendment, consumers for the most part will choose between U.S. pork (89.09% of the U.S. pork supply in 2002) and Canadian pork (4.60% of the U.S. pork supply) and Canadian born/U.S. slaughtered pork (5.31% of the U.S. pork supply). Given the generally positive image that most Americans have of Canada, it is highly unlikely that the preference for American pork over either Canadian pork or Canadian/U.S. pork is as strong as the preference found in surveys of American meat over generic meat from an unspecified location. Of the remaining 1% of the pork supply, pork imported from Denmark accounts for nearly two-thirds. Danish pork apparently doesn't conjure a negative image in the minds of very many American consumers since it typically is voluntarily labeled and sells at a premium to U.S. pork.

Third, even if these surveys do actually reflect consumers' willingness to pay extra for certified U.S. origin pork and even if consumers find Canadian and Danish pork as unappealing as generic pork from an unspecified location, the preference for U.S. pork is likely not strong enough to raise its price or expand its market share. In 2002, U.S. origin pork had an 89% market share. It is likely very close to that this year and barring an unexpected trade disruption will be again next year. Unless U.S. consumers' preference for U.S. origin pork is stronger than their indicated preference for U.S. beef, the premiums that consumers are willing to pay for certified U.S. pork can only be captured if the supply of U.S. certified pork is constrained to levels well below the current 89% market share for U.S. pork. For example, the study by Umberger, et al implies that one could charge a \$4 per pound premium for guaranteed U.S. beef steaks if you restrict their supply to no more than 9% of the available steaks. One could charge a 40 cent per pound premium for guaranteed U.S. beef steaks if you restrict their supply to no more than 56% of the available steaks. One could charge a one cent per pound premium for guaranteed U.S. beef steaks if you restrict their supply to no more than 69% of the available steaks. But 89% of U.S. steaks are currently of U.S. origin. If U.S. cattlemen wish to maintain this market share, they can't charge any premium for their product, which means they can't expect higher beef prices to offset any of the costs associated with COOL. Similarly, unless U.S. consumers' preference for U.S. origin pork is stronger than their apparent preference for U.S. certified beef, U.S. pork will not be able to sell at a premium to imported pork and still maintain its 89% market share. Rather, there is a serious potential that the over supply of U.S. pork, may cause U.S. origin pork to sell at a discount to foreign pork, in particular to Canadian pork. With a 4.6% market share, Canadian pork is well positioned to develop a niche market for those consumers who are looking for an alternative to U.S. origin pork. Swiss chocolate sells at a higher price than Hershey's chocolate. Americans pay a premium to drink Heineken beer and Italian wines. Danish hams sell at a premium. Once labeled, why shouldn't Canadian pork sell at a premium to U.S. pork?

Fourth, since neither U.S. pork exports nor pork that moves to consumers through the HRI (hotels, restaurants and institutional) trade, small grocery stores, and processed foods is covered by COOL, the pork-food industry has considerable flexibility to adjust the U.S./foreign pork mix in non-small grocery stores to make sure that the amount of U.S. labeled pork is not less than the amount desired by consumers. Unless there is a shortage of U.S. origin pork relative to the demand for U.S. origin pork in non-small grocery stores, there is no reason for pork labeled as to U.S. origin to sell at a premium to other pork. With the current supply composed 89% of U.S. origin pork, it is highly unlikely that shoppers in non-small grocery stores will have to pay one penny more to get all the American pork they desire. The same cannot be said of American shoppers who might prefer Canadian pork or simply prefer variety in the pork they eat. Because of its limited supply, consumers could well find they have to pay a premium to buy a certified Canadian pork chop.

A fifth concern regarding COOL is the stability over time of the preference for U.S. origin meat. In the last 40 years, many manufacturers have found that Americans' preference for goods produced in the U.S. deteriorates once consumers gain experience

purchasing foreign products. U.S. manufactured cars, electronics and clothing all have a much smaller market share today than they did 30 years ago (and a smaller market share than U.S. pork) despite a longstanding country of origin labeling program. There is a very real possibility that one outcome of COOL will be that Americans will conclude that imported pork is, for all practical purposes, indistinguishable from U.S. pork and the portion of the population willing to pay a premium for U.S. origin pork will decline from its current level.

Summary

For the U.S. swine-pork industry, the impending implementation of mandatory country of origin labeling does not come without cost. If these labels are to have any credibility there must be some sort of verification program. Verification means increased record keeping and increased segregation and that will add to the cost of marketing pork. Increased marketing costs will either mean reduced bid prices for hogs or retail pork prices will be less competitive with chicken and turkey, meats that are not covered by COOL.

What is not clear is that COOL offers any benefits to the swine-pork industry. Research indicates the number of Americans willing to pay a premium for U.S. origin meat is not large enough to translate into higher prices for U.S. certified pork. Having 75% of consumers preferring to buy your product is not a good thing when you have an 89% market share.

Mandatory country of origin labeling appears to be a case of unintended consequences. Congress passed COOL in the hope of aiding U.S. farmers and ranchers. COOL has the potential to be very negative for U.S. hog producers.

Further Information

To obtain a copy of the law and USDA regulations and publications relating to COOL, go to: <http://www.ams.usda.gov/cool/>

To obtain data on U.S. hog imports, pork imports and pork exports, go to: <http://www.ers.usda.gov/Briefing/Hogs/> or <http://www.fas.usda.gov/dlp/traderuns/2002/02-12/Dec2002.html#Pork>

To obtain a copy of the Umberger, Feuz, Calkin and Sitz study, go to: <http://www.farmfoundation.org/projects/documents/Umberger.pdf>
<http://agecon.unl.edu/mark/COOL/Fact%20SheetCOOLCSU-UNLstudy.pdf>

To find a comprehensive website on COOL, go to: <http://agecon.unl.edu/mark/COOL/index.htm> or <http://www.oznet.ksu.edu/ansi/cool/>

To obtain a corresponding assessment of the benefits of COOL to the beef industry, go to: <http://agebb.missouri.edu/mkt/cool.htm>

<http://www.oznet.ksu.edu/ansi/cool/>