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Country of Origin Labeling
The Damage Done and the Fight Underway

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Country of Origin Labeling (COOL) has been a major challenge and source of contention in the Canadian livestock and meat industry since its inclusion in the US Farm Bill in 2002. In fact, the concept has been a source of controversy since long before the 2002 Farm Bill. Canada and Mexico are now in the midst of a World Trade Organization (WTO) challenge against the US labeling law. As such, it is a good time to reflect on the damage done to date and the importance of Canada and Mexico prevailing against this disruptive and damaging trade distorting measure.

Industry Developments

US Country of Origin Labeling came into effect in the fourth quarter of 2008. From that point forward, fresh meat sold at retail had to be labeled with its country of origin. If US packers or retailers chose to market fresh meat that had a Canadian origin, they would have to incur higher costs and greater risks than if they decided to market product of US only. The higher costs were due to logistical challenges associated with segregation and sorting. There were higher risks for packers because there were fewer grocers willing to take Canadian-origin product. As such, the market was limited.

The net result was that some packers and retailers adopted a policy to handle US product only. For example, Smithfield decided they would slaughter no Canadian hogs, whether slaughter hogs or even Canadian hogs that had been finished in the US. Most US hog packers would not take Canadian slaughter hogs, but were willing to take hogs that were born in Canada but finished in the US. (The labeling law made these animals less onerous to handle). US beef packers who were willing to take Canadian cattle, arranged to do so on specified days, as opposed to any day of the week.

Furthermore, given the risks and costs associated with COOL, those packers who were willing to take Canadian livestock, chose to do so at discounted prices. That is, given the higher costs and risks, they discounted the price for Canadian livestock relative to US livestock.

As a result of US industry responses to COOL, there have been statistical changes in key market indicators.   During the first year after the introduction of the COOL measure, there was a reduction in the prices for Canadian cattle and hogs relative to the US. For example, during 2009 the George Morris Centre calculated that weaner and feeder prices were about $US3-4/head lower relative to the US in the post-COOL period, compared to pre-COOL period. Canadian market hogs traded into the US were priced more than $10/head less than in the pre-COOL period. Fed cattle were priced lower by approximately $3-4/cwt.

The data also show that there has been a reduction in the flow of Canadian livestock into the United States in the pre- and post-COOL measure periods. Once again, the reduction in volumes being shipped to the US is a logical outcome of the fact that the US industry discriminates against Canadian livestock, due to COOL. Reductions in hog shipments from Canada to the US have been most pronounced, but cattle exports have also been reduced. More specifically for example, during the first quarter that COOL was in effect in late 2008, fed cattle exports declined by about 40% on a year-over-year basis. Slaughter hog exports declined by more than 60%. During the first half of 2009, fed cattle exports were down by more than 20% compared to the year before when COOL was not in effect. Slaughter hog exports were down by nearly 60%. There is no doubt COOL was the cause of both the pricing discounts and the dramatic reductions in trade volumes.

One of the most impacted sectors of Canadian livestock was Manitoba weaner producers. A large industry had been built in southern Manitoba over the past 15-20 years to supply weaners to Iowa finishing barns. The farrow to wean supply chain to Iowa finishing barns is one of many examples of the integrated nature of the North American meat industry. A material number of these farrowing businesses lost their contracts due to the fact that the Iowa finishers no longer had a market for Canadian hogs. Livelihoods in this sector have been lost.

During 2010, the second full year of COOL, there were two major developments in the evolution of COOL. The first is that the US industry became more comfortable and proficient at handling meat from Canadian livestock. That is, as time progressed the industry developed systems and hardware to make the handling of Canadian livestock less cumbersome. This is not surprising, given the importance of Canadian livestock to many US packers and geographic regions. The US industry was certain to find ways to adapt. As such, there was a stabilizing of livestock flows into the US during 2010. Canadian livestock are still discriminated against and must be treated differently, but at least the reduction in flows has eased for now.

Another important development was that supplies of US livestock continued to decline during 2010. As such, Canadian livestock became relatively more important to US buyers. The US industry’s willingness and ability to discount Canadian livestock lessened. Price spreads between Canada and the US returned to more “normal” levels during 2010.

The bottom line for COOL is that it has served no commercial interests and provided no benefits to consumers or industry in either Canada or the US. It was always designed as a non-tariff barrier to trade, and it has achieved that goal beyond anyone's wildest expectations. COOL came into effect at a time of severe losses for both the cattle and hog sectors in Canada. COOL served to exacerbate an already grim period. By impeding flows to the US or reducing price levels, COOL provided that final blow to many Canadian operations. COOL hastened and expanded the contraction and downsizing of the Canadian livestock sector.

There were some who predicted COOL would be a boon to Canadian packers, as more livestock would stay in Canada. There were hopes it would result in increased exports of Canadian meat to the US and elsewhere. This has not materialized. The impact of COOL simply meant increased producer downsizing. The most important component of packing is livestock. If it is a negative measure for livestock, it is a negative measure for packers.

It is acknowledged that COOL's negatives may have been abated for now, given the reduced discounting and stabilized shipments south. Looking ahead, however, when the US industry begins to expand again, US buyers will once again be able to discriminate more aggressively against Canadian livestock. This will once again provide an opportunity for discounting or ignoring Canadian suppliers.

WTO Challenge

In light of these negative trade related developments, the Canadian government began a WTO challenge against the US's COOL measure in the summer of 2009. The basis of Canada's claim is that COOL discriminates against Canadian livestock. The protracted WTO process resulted in a first hearing into the issue in Geneva, Switzerland in September 2010. During the first hearing, the US defense said COOL was constructed only to inform consumers and has no negative impact. The US has thus far made little attempt to contradict Canada's economic arguments to the contrary. A second round of hearings was held in late November 2010. The second oral hearing will be followed by further written submissions through February 2011. A final panel report is scheduled for July 2011, and will most likely be followed by an appeal, taking another year.

While the process is long and frustrating, the industry believes Canada has put forward a strong case against COOL. Furthermore, the industry, particularly the Canadian Cattlemen's Association and the Canadian Pork Council have put forth a great deal of time and expense in helping the federal government with its case. This is money and effort well spent.

Caveat

It is important that Canada and Mexico succeed in this effort. The issue has taken on greater importance because other nations are seeing how successful COOL has become as a non-tariff barrier. Korea has adopted a form of COOL as has the EU, of course. If COOL is not defeated, it could become a barrier to trade that impacts many nations.

Versions of this article first appeared in Canadian Cattle Buyer and Canadian Pork Market Review, publications from the George Morris Centre. If you would like a free, two-month subscription to these reports, please e-mail Kevin Grier at kevin@georgemorris.org.