# The Hot Debate Over COOL

*Mandatory COOL is a reality in 2004. What are the possible outcomes?*

by Troy Marshall

After finally getting a bridle on Mandatory Price Reporting, many in the industry were surprised to find themselves pitched from the saddle by the reality of the law. Now, the industry is climbing aboard a bronc called country-of-origin labeling (COOL).

Cowboy logic holds that you get right back on after getting bucked off. While that may be true out in the pasture, it may not be the best approach when getting a lead rope on industry policy. Why? Because of the Law of Unintended Consequences.

## Unintended Consequences

One of the reasons that mandatory COOL has become so contentious is that the actual legislation creating COOL is dramatically different from what its supporters envisioned. Originally, supporters believed the costs of COOL would be borne largely by imported animals and product. Their logic was that anything that was not labeled as an import would have been, by default, considered to be born, raised and slaughtered in the United States.

However, the final legislation reflected the political realities that international trade standards and trade agreements would not allow this kind of one-sided implementation. Political insiders knew that a program that places all the burden of identification on foreign countries would not withstand challenges brought by other countries through the WTO, NAFTA, and other international trading bodies. So the guidelines for mandatory COOL had to be written to avoid being classified as a non-tariff trade barrier.

The initial supporters of COOL also did not want producers to bear the liability for misidentified product and thus, the legislation was written to place the liability at the retail level. This, too, had unintended consequences.

The retail and packing segments required extremely stringent requirements to verify the labels they were liable for. This created a very costly system that requires the cattle industry to provide a "verifiable record keeping audit trail" that follows each animal through every stage of production until it reaches the retail level. Ironically, the retailers quickly passed the liability on to the packers, who in turn passed the liability back to the feeding and cow/calf segments.

Additionally, supporters of COOL began the program with the idea that 100% of imported product would bear the label as to its country of origin. The reality is once again starkly different.

Historically, the U.S. imports about 10% of its beef supply, but only 20% of that, or 2% of the total beef supply, will be included under the covered commodity provision of the bill, according to the Food Marketing Institute. That's because nearly 80% of all imported product comes in as food service products for restaurants, or is significantly altered by cooking, processing or blending. Both of these are exempt from labeling under the law, as are all poultry products.

This means that roughly 1% of our total supply would be labeled as coming from Canada, and 1% would be labeled from Mexico. Yet 100% of our production would essentially have to be identified. Again, the unintended result is that these other countries were given a decided cost advantage because their responsibility is merely identifying the product or cattle at the border. In essence, the U.S. cattle industry is making the born, raised and processed claim, not the other countries, and it is our responsibility to prove it.

The legislation specifically bars USDA from instituting a mandatory ID program, but the reality is that nobody has made a substantive suggestion on how animals will be tracked from the ranch to the retail outlet without some sort of national identification program. Congress didn't officially mandate individual identification, but they did in practice by mandating a "verifiable record keeping audit trail." The reality is that cattle born in 2003 will need to be identified or cattle producers will have to fight to remove the mandatory provision of the law.

## Differences in Vision

Voluntary country-of-origin labeling is one of those unique topics that begins with nearly everyone in the cattle industry in agreement, but ends with deep divisions based on philosophical and policy differences. The issue of COOL is no longer only about identifying a product by its country of origin—it has become a political football characterized by half truths and strong rhetoric designed to sway opinion not on the basis of logic but rather emotion. It is extremely important to understand the political backdrop from which the debate on COOL operates, and to understand that in the end, COOL isn't as much about labeling our product as it is about winning a battle over competing visions for reshaping our marketing system.

The support for mandatory COOL comes primarily from the belief that it will put foreign product at a disadvantage in the marketplace. Granted, supporters prefer to make the issue more about a consumer's right to know than about thwarting foreign competition.  Of course, there is nothing inherently wrong with positions motivated by self interest.  But, when one considers the pro and con side of mandatory COOL, it makes sense to discuss the issue from both a realistic and internal perspective and not cloud it with arguments that have been created for political cover.

**Arguments Pro and Con**

The first point of contention regarding COOL is whether or not the program should be mandatory or voluntary. A voluntary program would create the guidelines and the protocol for cattlemen and food companies to offer a differentiated product in the marketplace.

Those who believe that a U.S. born, raised and slaughtered label would increase demand and profits would have the protocols in place upon which to build and capitalize upon a COOL program.  The vast majority of cattle organizations favored the voluntary approach when the legislation was being introduced because they believe that a free, open and competitive market is the best way to allocate resources and dictate marketing practices.

If the benefits of a “Made in the USA” label create more value than the cost of implementation, then the entire industry would soon adopt COOL.  A voluntary program also allows the market to find the proper market mix, while giving producers the option of participating in the program or opting out of it.

A voluntary program also does not tie the industry to an expensive program where the results are unknown. Marketing experts tell us that branding is about differentiation and a label carried by the overwhelming majority of the product in the retail case cannot sustain a price advantage because it will essentially remain a commodity.

Conversely, if a smaller subset of the market was labeled as “Born and Raised in the USA,” it would be far more likely to sustain a market advantage.  Consumers assign brand value based on differentiation from the norm, not on re-labeling the standard product.  Assigning a brand name to No. 2 yellow corn will not create value for No. 2 yellow corn.

There are legitimate concerns about whether or not a “Made in the USA” label will create enough value to offset the costs.  Some consumers may prefer to buy a U.S. product if quality and price are consistent, but will they prefer it if it costs more?

Further, will there be a percentage of the population that perceives the Canadian product superior to U.S. product and be willing to pay the same price for it as “Made in the USA?”  A premium?  Hispanics have recently become the largest minority group in America and far and away the fastest growing segment of our population.  Will they prefer a product born in Mexico and grown and processed in the United States to a U.S. product?

The simple fact is that the industry has done no “real” consumer research to answer these questions. Professional marketers tell us that surveys asking if consumers would buy U.S. product over foreign, or if they would pay more for it, do nothing more than prove that real marketing research might be justified.

Advocates of the voluntary approach believe that a competitive marketplace will do a far better job of allocating industry resources and responding to consumer demands and competitive pressures from pork and poultry than government regulation.  In addition, the supporters of the voluntary concept of COOL believe that individual producers and entities in the beef production chain should be able to make their own decisions based on their perceived best interests rather than having the government dictate how their product will be marketed.

The natural or organic market is a good example of this market dynamic.  A small subset of the population may justify a very lucrative niche market, but if the standard was forced on the entire industry, beef demand would likely decrease because of the added cost to the product.

One of the best examples of a successful voluntary program is our current grading system.  Packers and retailers have the option of not having USDA place a quality grade on the product (no roll), but the overwhelming majority of our product is graded because the economic incentives exist to do so.  Voluntary programs quickly become the industry standard if they provide value, or they are implemented up to the optimal levels suggested by economics.

For example, actual buyer behavior or demand might show that 30% of consumers will pay up to 15% more for U.S. product, 50% of consumers might prefer U.S. product if price was equal, and 20% might prefer product from a specific foreign country that they perceive to have higher quality beef, safer beef, or beef that is raised in a more environmentally friendly market.

By its nature, a mandatory program is less flexible, far more costly, and riskier from an industry perspective. Yet, those who argue for a mandatory program feel that the industry must be compelled to adopt labeling.

They point to the voluntary program that has been in place for well over a year without a single participant. Since there has been no substantive cost/benefit analyses done that would validate the value of COOL, they argue that the industry and producers cannot be allowed to maintain a choice in deciding whether they want to participate in the program.  Their logic is that individual entities will not bear the cost of implementing COOL unless it is mandatory.

The reality is that mandatory programs are only needed when consumer demand will not pay for the desired outcome, or if the cost is so great that it must be born by everyone.  Yet, supporters of mandatory COOL argue that it will increase demand and will be far less expensive to implement than what has been projected.

Another problem with mandatory programs is the unintended consequences of coercive regulation and the resulting contribution to a lack of trust. The complexity of the marketing issues the industry is facing dictates that industry segments build trust and collaborate with the other segments. Mandatory programs contribute to the idea of a zero-sum world, and the abandonment of the premise that the success of individual segments and the industry as an aggregate is based on the success of individual producers.

Additionally, there remains disagreement over what COOL will cost to implement and maintain. USDA put together its best estimate and concluded that the cost of COOL for all covered commodities would be $2 billion. The $2 billion estimate is the only scientifically-based assessment available, but admittedly it is nearly impossible to assign a dollar value to the cost of implementation. In part, that's because it is unclear how the program will be implemented.

The relatively simple part of tracking cattle with a "verifiable record keeping audit trail" happens from the rancher to the packing house door. The real complexity begins in tracking the beef through the packing plant, the fabrication floor and then to the myriad of retail outlets that the various products move to.

On a mandatory, industry-wide basis, the costs will be large. The only question is—will consumer demand increase to compensate for those costs? Under a voluntary program, the market will find the answers to these questions without incurring significant losses. Admittedly, mandatory COOL is currently a reality, but the time is at hand for the industry to ask itself if it is unreasonable to know the costs and benefits before we implement the largest increase to our cost structure in our history via government mandate.

There is little doubt that the industry has many marketing issues that need to be addressed, but the solutions should be found in a context that does not narrow business options or limit individuals from taking innovative approaches of their own initiative. By embracing mandatory adoption of marketing practices, we risk the forced implementation of business practices that may not align with the realities of the competition we face globally or from other protein sources.

Cattlemen should have the means to label their product as to its country of origin. The question is – Is a mandatory program preferable to a voluntary program? And, is the current legislation the right way to do it?

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