



BY BURT RUTHERFORD

You could almost hear a collective sigh of relief throughout Cattle Feeding Country on March 16, 2009.

Not because cattle feeders thought that the mandatory country-of-origin labeling (COOL) regulations that became final that fateful day were positive for the industry. Quite the opposite. Rather, the sigh of relief occurred because, for better or worse, at least cattle feeders knew the uncertainty was over.

Not that it's much consolation. It's almost like the jolt you get when you hear the heart-stopping buzz of a rattlesnake. You most certainly know the snake is around, but not knowing exactly where freezes you in mid-stride. Once you locate the

snake, you at least know in which direction it's safe to move.

So it has been with COOL. Cattle feeders, for now at least, know where the snake lies. The only problem is, even if you move in a safe direction, you're still apt to get bit.

The bite will come from the costs that COOL will impose on the industry, particularly beef producers, packers and retailers. Estimates vary, but in the Jan. 15, 2009 final rule published in the *Federal Register*, USDA estimated first-year costs to the cattle marketing chain to be \$305 million for beef producers, \$373 million for packers and \$574 million for retailers, for a total of \$1.3 billion.

Those costs will have to be absorbed somewhere.

Initially, it most likely will be ranchers and cattle feeders who bear most of the burden, according to Erin Daley, economist with the U.S. Meat Export Federation in Denver. Over time, consumers will get the opportunity to share the pain as beef prices rise.

And with an uncertain economy in 2009, consumers aren't in any mood to deal with a price increase. "Not here in the U.S., not in the world, is there room to pass on our costs," Daley says, "especially on beef, the most expensive protein."

Packers Complying

Be that as it may, COOL is the law of the land. Packers and retailers, the two segments directly under COOL regulatory authority, intend to comply.

According to Barry Carpenter, CEO of the National Meat Association, packers were already largely ready for COOL when it became final in March, with systems in place to segregate cattle and beef.

In most cases, that means plants are either harvesting U.S.-only cattle or doing a two-way segregation and harvesting cattle from the U.S. and Mexico or the U.S. and Canada. "There are some plants that are having to segregate three ways, but that's more the exception than the norm," Carpenter says.

"So they're incurring additional segregation costs, with everything from breaks in production lines which is down time for labor, to tied-up rail space which restricts their ability to hold carcasses, to having to get outside storage because they don't have enough storage space in their existing warehouses to maintain separate inventories."

What will happen, he says, is packers will segregate out as much of the U.S.-origin product as possible because it has the widest flexibility in the marketplace. "It can go to any foodservice chain, any export market, any retail outlet."

Given that about 90% of the U.S. fed cattle harvest is of U.S. origin, that's the easier part. "What's unknown is the impact it's ultimately going to have on sales," Carpenter says.

There are opposing opinions, with one camp saying that tight cattle supplies will mean that Category B — product of cattle born elsewhere but fed and harvested in

the U.S. — and Category C — imported directly for harvest — won't see any discount; and the other side arguing that Category B and C product will become the retail stepchild. "It's going to take several months for all that to get sorted out," Carpenter says.

COOL is causing some realignment of the packers' customer base as they deal with marketing the segregated product. "It's probably going to cause different splits on how much product they sell to retail vs. foodservice vs. export. And all that causes cost," Carpenter says.

He hasn't seen any credible evidence, however, that consumers will pay a premium for U.S.-only beef. The costs that packers incur are borne by all the beef they process, Category A, B and C alike. That's because COOL is a core operational cost increase, like the electric bill.

"So basically what you have is an increase in your operational cost at a packing plant with no added value. More than likely, over time, that will get pushed back to producers."

Retailers Complying Too

Deborah White, senior vice president and chief legal officer for the Food Marketing Institute (FMI), agrees with Carpenter that COOL offers little benefit to consumers. But she says the rule definitely will be honored by retailers, the segment of the industry represented by FMI.

"Retailers are working with their suppliers to make sure it goes into effect as smoothly as possible," she says. "But we recognize there will be challenges up and down the supply chain."

She's doubtful the information will be of much use to

either retailers or their customers. "Our research hasn't shown that country-of-origin information is particularly relevant to consumers," she says. Nor, based on COOL for seafood which went into effect in 2005, will retailers see any benefit.

"There's no competitive advantage, there's nothing that speaks to the quality of the product," with COOL, she says. "We didn't see any increase in profit margin for retailers when mandatory country-of-origin labeling went into effect for seafood. The opportunity for profit is when you have a marketing program that can really provide some information to consumers that they want."

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Since every store has to label beef the same way, the information simply becomes generic. It also, she says, may well become nothing more than informational “white noise,” fading into the background like other information on food product labels that’s ignored by consumers.

Standardized Documents Help Producers

The regulatory authority of COOL does not directly apply to producers because live animals are not among the commodities covered by the law. But packers and retailers may rely upon documents from their suppliers to determine the origin of cattle that are harvested and processed. Written statements from producers, animal identification program documentation or import markings on the animals can verify origin.

TCFA joined with more than 30 livestock industry organizations and companies to develop standardized documents for verification and transfer of country-of-origin information through the livestock chain from producers to processors to packers. More information and copies of the documents can be found on the TCFA website at www.tcfa.org.

Effect On Exports

Ever since the 2002 Farm Bill, when COOL was first adopted, it was designed to address only product sold domestically. But under the law of unintended consequences, its effect will be much more far-reaching than that.

On the world market, COOL has the potential to affect U.S. cattlemen several ways. One is that, for a variety of reasons, the Category B and C COOL label doesn’t meet labeling standards for the countries that buy U.S. beef. “So that has created segregation costs and limits packers’ ability to pull from inventory and conduct business as they’ve done in the past,” says USMEF’s Daley.

The other, perhaps more difficult, circumstance is the rift COOL has caused with U.S. cattlemen’s No. 1 and No. 2 export markets — Mexico and Canada.

For 2008, exports to Mexico were up 18% in value to nearly \$1.4 billion. “That’s more than we sent to Japan in 2003,” Daley observes. Exports to Canada were up 19% in value to \$715.6 million. “So, U.S. beef sales to those two countries were well over \$2 billion. And that was roughly 60% of our export value during 2008.”

The beef trade between the U.S., Mexico and Canada has long been tightly integrated, not just in boxed beef but in live cattle. And that’s where the biggest source of irritation has been — the discounts that have been applied to Mexican and Canadian feeder cattle and Canadian fed cattle.

As the various incarnations of COOL wound their way through the process, both Canada and Mexico put together cases to take to the World Trade Organization (WTO). If the WTO eventually rules against the U.S. on COOL, Canada and Mexico will be allowed to charge increased tariffs on various U.S. products.

The greatest risk to U.S. cattlemen is trade retaliation, where Mexico and/or Canada simply stop buying U.S. beef — a nightmare scenario that could potentially cost the U.S. industry up to \$50-60 per head, according to Cattle-Fax. Rupturing the trade relationship with Mexico would be especially harmful for U.S. producers. Data from the USDA Foreign Agricultural Service shows that from 2004 to 2008 shipments of U.S. beef and breeding stock to Mexico totaled \$6.44 billion in value, while imports of Mexican feeder cattle to the U.S. over the same period totaled \$3.23 billion. Those figures come out to a \$3.2 billion surplus for U.S. producers, which happens to be a two-to-one advantage.

Being cut off from Mexico and Canada would also create an oversupply problem that would be difficult to overcome. “Typically, the items we’re trading in North America are not the items we’re trading in Asia,” Daley says. “That’s where it’s really difficult to find alternative markets, especially for the rounds and variety meats that go both north and south. The competition is already intense, but it intensifies even further when you’ve got more product and fewer places that are willing to take it.”

The integrated nature of the North American beef market has been advantageous to all three countries, Daley says. “If we give up that comparative advantage, then that’s going to have implications for our beef production and exports. It really fouls up the whole system.”

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Political Ramifications

Colin Woodall, NCBA’s chief lobbyist in Washington, D.C., agrees that COOL has created international implications. “It’s

not out of the question that (Mexico and Canada) could retaliate by shutting off beef trade. With all the other pressures we’re up against economically, that’s the last thing we need.”

But should that happen, he says it will get the attention of both the White House and Congress very quickly, if for no other reason than cattlemen would be vociferous in their call for action.

That might be the only thing that would cause a change to the COOL law currently on the books. Collin Peterson (D-MN), chairman of the House Ag Committee, has made it clear he wants COOL to be implemented as is, and then evaluated to see what it’s doing.

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While the consensus among many cattlemen is that COOL will largely be negative for the industry, there is some upside. When Ag Secretary Tom Vilsack announced that COOL would go into effect with no changes to the final rule, "That was a big win on behalf of NCBA, TCFA and all our affiliates because that's what we had been pushing for," said Woodall.

The Jan. 15 final rule was carefully crafted and negotiated, and when President Obama announced shortly after he took office that all recent federal regulations would be put on hold for further evaluation, the industry's heartburn shot up on the uncertainty it infused into the market.

"We knew if they had taken the time to reopen it or review it any further, it would have pushed back the implementation date and just continued the uncertainty," Woodall said. "Now that COOL is finally in place, we can measure it and see what kind of value it brings to consumers and most importantly to producers who have to go through the record keeping and affidavit process to comply with COOL."

Given COOL's effect on live cattle trade with Mexico and Canada, it's likely that many of its proponents will claim success. That's a definition of success that leaves Carpenter shaking his head.

"I don't know how proponents of COOL can say this is working in the marketplace," he says. "If 'working' to them means harassing our trading partners, then I guess you can say that. But if 'working' means somehow increasing the value of beef products, I don't see how anybody can say that." 🐾

EDITOR'S NOTE—Burt Rutherford is the senior editor of BEEF magazine.

A Brief History

Mandatory country-of-origin labeling was first dictated in the 2002 Farm Bill. Through a series of legislative maneuvers, the program for most of the covered commodities was set aside. COOL for fish and shellfish was implemented in 2005 and USDA has been enforcing it since.

The 2008 Farm Bill changed things, and COOL, for a number of commodities including beef, became effective Sept. 30, 2008 with final implementation on March 16, 2009. USDA has the authority to assess retailers with fines up to \$1,000 per violation.

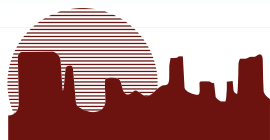
Mandatory COOL for beef dictates four categories — Category A, which is beef born, raised and harvested in the U.S.; Category B, multiple countries-of-origin for beef from cattle raised elsewhere but fed and harvested in the U.S.; Category C, cattle imported to the U.S. for immediate harvest; and Category D, imported meat.

The enforcement will be through retail and supplier audits, Craig Morris, deputy administrator of the USDA-Ag Marketing Service livestock and seed program, has told cattlemen. USDA conducts around 2,000 retail audits on fish and shellfish each fiscal year. With the additional commodities added to the mix, USDA wants to increase those audits to 5,000 per year. "For all the reviews we do, we do tracebacks on approximately 2% of those," Morris told cattlemen, which means USDA will be asking packers to prove the origin of the products sold at retail.

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