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Implementation of Mandatory Country of Origin Labeling (MCOOL) in the Pork Industry

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Mandatory country of origin labeling (MCOOL) of pork and other meat products has now enjoyed a long and controversial life in spite of its only being legally in force since Sept. 30, 2008. The road from the idea's origin to today's reality has taken many twists and turns and the publication of an interim final rule in July, the program's official launch in September and, finally, the January 12 release and January 15 publication of a final rule in no way guarantee an absence of twists and turns in the future. There are still many more acts to this long–running drama.

The purpose of this paper is to discuss the key drivers of MCOOL as it relates to the U.S. pork industry and to investigate the key challenges to implementing MCOOL for pork products.

How Did We Get Here?

The impetus for MCOOL came from northern plains beef producers as far back as the mid–1990s. The stated idea was that U.S. consumers deserve full information about the foods that they purchase and eat—an idea that is difficult to argue with. The underlying concerns, however, were growing imports of beef, pork, cattle and hogs from Canada and their perceived negative impact on U.S. markets.

Pork producers were generally not leaders in the push for MCOOL. There were (and still are) groups that supported it as a consumer information measure that, not coincidentally, would also slow the flow of pigs and pork from Canada. Northern hog producers who actually saw Canadian–tagged trucks on nearby roads or unloading at packing plants were among the strongest proponents of MCOOL for pork. So were more traditional, diversified hog producers in the Cornbelt. Producers from the southern Cornbelt and Southeast states and producers who had followed the high–tech "integrator" model of production were more likely to oppose MCOOL largely because they opposed trade restrictions.

The notable exception among these southern, high–tech producer opponents was Smithfield Foods, the nation's largest pork producer since 1999 (Freese, 1999). Smithfield has followed an aggressive vertical integration strategy that makes them a clear beneficiary of high hog prices. The company's management made no secret of the fact that they felt MCOOL would slow the flow of Canadian pigs and drive up U.S. hog prices. Consequently, they have been strong supporters of MCOOL.

The drive for MCOOL picked up substantial momentum after the hog price crisis of 1998 and 1999. Rapid growth of the U.S. breeding herd in 1996 and 1997 and a concurrent contraction of U.S. packing capacity caused extremely high capacity utilization in the fall of 1998 and hog prices hit all–time lows. While imported Canadian market hogs and U.S. market hogs produced from Canadian–born feeder and weaner pigs did not cause the debacle, they added to its severity. Disease–based restrictions on the movement of U.S. market hogs to Canadian plants which were running below capacity levels added to U.S. producers' frustrations.

Finally, the long growth trend of the Canadian pork industry and Canada's increased output at a time when U.S. producers were making major cutbacks drove some support for MCOOL. Canada's swine breeding herd grew from 1.198 million head on July 1, 1996 to 1.634 million head on Jan. 1, 2005, a gain of 36% (Statistics Canada, various issues). During that same period, the U.S. breeding herd declined from 6.7 to 6.0 million head or 11% (USDA, NAS, Hogs and Pigs, various issues) Canada's breeding herd grew on a year–over–year basis in every quarter from July 1996 though April 2005—nine years

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of constant growth that spanned the two largest financial loss periods on record (1998–99 and 2003–04) for U.S. pork producers.

Through all of this, though, pork producers as a whole did not support MCOOL. Some state organizations did support it but delegates to annual meetings of the National Pork Producers Council, the pork industry's public policy advocacy organization, voted against supporting MCOOL every time the issue was raised. The stated concern was always that MCOOL was trade distorting and that an industry more and more dependent on exports must be consistently supportive of free and open trade.

The 2002 Farm Bill was the vehicle that finally carried MCOOL into law. But even here, MCOOL took a unique path. A key issue pursued by upper–Midwest senators during the 2002 Farm Bill debate was a ban on packer ownership of livestock. The ban was popular with many of the same producers and senators that supported MCOOL but was not part of the House farm bill and was then defeated during Senate debate. Supporters tried to insert it into the conference committee version of the bill. Those efforts failed but packer ban proponents settled for MCOOL and the rest, as they say, is history.

MCOOL's implementation was delayed in 2003 and 2005 but the shift of Congress from Republican to Democrat control in 2006 spelled the end to both delay and the remote chance that MCOOL would ever be repealed.

MCOOL Requirements and the Pork Industry

MCOOL is far less onerous for the pork industry than for the beef industry for several reasons. First, Canada is the only source of imported pigs and market hogs. No hogs are presently imported from Mexico due to animal disease restrictions. Second, all–in all–out production systems keep pigs in defined, closed groups from early in life until slaughter in order to prevent the introduction of disease. There is little or no comingling of animals as there is in the beef industry. This means that the origin of an individual animal is the same as the origin of its group. The exceptions are "tail–end" animals that do not perform as well as the remainder of their group and breeding stock which may be comingled. These animals will be tagged or tattooed and handled as individuals for purposes of origin but they represent a very small minority of animals.

The final reason that MCOOL is less onerous for pork is that it will apply to a much smaller proportion of total output. Through Aug. 2008, year–to–date pork exports accounted for 21.5% of U.S. pork production, leaving 78.5% for domestic consumption (USDA, ERS, Livestock and Meat Trade, various data and USDA, NAS, Livestock Slaughter, various issues). The National Pork Board estimates in 2006 that 38% of pork reached consumers through foodservice operations where a label will not be required (Green, 2008). Assuming that proportion is still accurate, it leaves 62% of 78.5% or 48.7% of product that would be eligible for MCOOL. Roughly 65% of the pork carcass is cured, smoked, marinated or spiced to a degree that it is considered a processed product exempt from MCOOL (Green, 2008). That leaves 35% of 48.7% or a total of only 17.5% of all pork products that will actually have to carry an MCOOL label.

The small proportion, of course, is a two–edged sword. It means that only a small volume of product must carry a label but, since animals will not be identified as "labeled" or "unlabeled" in advance, also means that that small proportion of product will impose tracking and record–keeping costs on all animals.

The requirements of USDA's January 2009 Final Rule for MCOOL are far less onerous than was originally feared when the bill passed in 2002. Significant changes in the amounts and types of records that must be kept by both packers and producers have reduced potential costs. In addition,

Table 1. MCOOL labels, production phase requirements, and the number of barrows and gilts eligible for each label, 2007 and projected for 2008

					Barrows & Gilts, Million Head	
	MCOOL Label	Born	Raised	Slaughtered	2007	2008
A	Product of the United States	United States	United States	United States	94.347	103.033
B	Product of the United States and Canada	Canada	United States	United States	6.721	6.789
C	Product of Canada and the Unites States	Canada	Canada	United States	3.284	1.957
D	Product of Canada	Canada	Canada	Canada	N/A	N/A

Sources: USDA-Agricultural Marketing Service, Mandatory Country of Origin Labeling Final Rule, *Federal Register*, Jan. 15, p. 2657 - 2707. Slaughter data from USDA-NAS, *Livestock Slaughter.* Import data from USDA-ERS, *Livestock and Meat Trade Data.* 2008 year-end projections by Paragon Economics, Inc.

simplified labeling requirements and a substantial degree of flexibility in labeling product from U.S.– born and -raised livestock as well as livestock imported for immediate slaughter will likely reduce segregation and packaging duplication costs, again mitigating the impact of MCOOL.

Table 1 shows the four labels that will be used for pork products. The first three apply to pigs slaughtered within the U.S. and the table includes the numbers of animals to which they would have applied to in 2007. In addition, animal numbers for 2008 are projected based on slaughter and imports through October.

Only product from pigs born and raised in the United States. can be labeled "Product of the United States" but that product is not required to be so labeled. Under the MCOOL final rule, pigs that are born and raised in the United States can be used to fill out slaughter shifts or days when pigs born in Canada and raised in the United States are slaughtered with all product carrying a multi-country label and the countries listed in any order. Referring to Table 1, this means that product from label A pigs can carry label B if they are used to fill out a slaughter run. Congress and USDA have informed packers that this is not meant to allow them to use only label B for all pigs. There are no hard and fast rules to this effect, however.

Similarly, only product from pigs imported for immediate slaughter can carry the label "Product of Canada and the United States" (label C) but it must carry that label only if it is segregated from other product. If it is comingled with product from pigs born in Canada but raised and slaughtered in the United States, it may carry the multi-country label, B, again with the countries listed in any order. If label C pigs and label A pigs are comingled in a day's processing, the product must carry label C according to USDA sources. This final labeling requirement cannot be found in the published final rule, however.

It is obvious that the vast majority of product will be eligible to be labeled Product of the U.S. This large supply confounds one frequent argument supporting MCOOL: That U.S. consumers prefer U.S. product and will pay more for it. The former may be true and the latter may have also been correct when the origin of most retail products was not known but with such a vast supply of U.S.–labeled product now available, how will it ever command a premium?

The flexibility of using Canadian born and raised pigs in label B or in using U.S.– born and raised pigs to fill out a label C slaughter day is a major change from the interim final rule issued in July 2008 and may be a huge factor in the continued import of Canadian market hogs. Without this flexibility, product from pigs imported for immediate slaughter carried a unique label, C, and pigs imported for immediate slaughter were the only possible source of that product. Under those circustances, the number of pigs imported for immediate slaughter would almost certainly continue to fall. That number was down 40% through October and only a few U.S. pork plants were planning to continue slaughtering Canadian–grown market hogs. Other packers may rethink this situation now that product from imported slaughter hogs is not forced into a unique label.

A major question at this point is whether the number of feeder or weaner pigs imported from Canada will decline and, if they do, how large will the decline be. Anecdotal evidence suggests that U.S. pig feeders are trying to find sources of U.S.–born pigs and that Canadian pig producers are finding it difficult to sell pigs. No significant price differentials have yet been observed, however.

At least a portion of this interest in U.S.–born pigs is driven by the uncertainty of packers' ultimate stances on buying Canadian–origin market hogs. In addition, most feeders believe that when USDA actually begins enforcing MCOOL regulations next March, having U.S.–born market hogs will at least make life simpler than having Canadian–born market hogs.

The ultimate answer to this question will come from U.S. consumers. Will they prefer "Product of the U.S." over "Product of the U.S. and Canada" and, if so, how large will the price discount have to be on the latter to leave consumers indifferent? Several retailers have stated that they will carry only "Product of the U.S." Others plan to carry both labels. None of them know the ultimate outcome of heretofore unknown consumer preferences. Feeders' preference for "safe" U.S.–born pigs in the presence of such uncertainty is understandable.

How Will MCOOL Impact The U.S. Pork Industry?

MCOOL will be more difficult and more costly to implement in the beef industry than in the pork industry. It will be more difficult and costly to implement in the pork industry than in the chicken industry which was included in MCOOL at its own request by the 2008 Farm Bill.

Why would an industry ask to be included? Because it fears competition from cooked chicken products from Brazil and China and the cost of complying with MCOOL is minimal. Every bird is hatched, fed and slaughtered in the United States and every bird is owned by the same company from hatching to packaging. The only cost of MCOOL for the broiler industry is the ink on the label. Though not completely vertically integrated, the turkey industry faces much the same cost situation.

As being implemented, it appears that MCOOL will benefit the broiler and turkey industries by imposing higher costs on pork and beef. While

reduced, record–keeping requirements are far from zero and segregation costs will be substantial in both beef and pork plants. The new, more flexible labeling rules mitigated a portion of these costs as well.

Even with lower implementation costs, MCOOL will have its desired effect of reducing imports of hogs and pigs from Canada, at least in the short run while uncertainty exists regarding government enforcement and consumer perceptions. Canadian pig production will fall but Canadian pork production will likely rise as Canadian packers slaughter a higher proportion of domestically born and raised pigs. The additional pork output will not be consumed in Canada, though. It will either compete with U.S. product in the United States. or in export markets common to both countries. U.S. exports will be smaller than they would have been in the absence of MCOOL. Any price increase due to fewer pigs and hogs in the United States will at least be partially offset by lower carcass values due to lower exports.

Whether U.S. pig production increases depends on the ultimate reaction of consumers, primarily to the multicountry labels. U.S. consumers have a very positive view of things Canadian, though, so the negative impact may be small and will almost certainly be smaller than consumers' reactions to the presence of other countries such as Mexico, Brazil and Uruguay on beef labels. If consumer reaction is not negative, Canada will continue to supply weaner and feeder pigs to U.S. feeders depending primarily on the exchange rate between the two countries' currencies.

For More Information

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