Country-Of-Origin-Labeling Creates Winners and Losers among Consumers, Producers, and Retailers

Public Law 107-171, the US Farm Security and Rural Investment Act of 2002, required country-of-origin labeling (COOL) for beef, lamb, pork, fish, perishable agricultural commodities, and peanuts. While the aim is to benefit domestic consumers by allowing them to make informed decisions, the effects of COOL have been the subject of a heated on-going debate. Advocates of COOL argue the existence of an "overwhelming" consumer support for country of origin information and benefits that substantially outweigh the costs of this labeling regime. Opposing groups have expressed concerns about the potential competitive disadvantage that non-integrated producers might face due to higher record-keeping costs.

Public Law 110-246 of 2008 modified provisions regarding recordkeeping, labeling products of multiple origins, and penalties for noncompliance, and increased the number of commodities covered by the policy. This did little to end the debate about the policy, however. Canada and Mexico have challenged the legality of COOL within the WTO in December 2008. A WTO dispute settlement panel found certain aspects of the COOL requirements, as they apply to beef and pork, to breach the WTO commitments of the US. The panel's report has been appealed by the US (March 23, 2012), and by Canada and Mexico (March 28, 2012).

CAFIO-PRG Research

A CAFIO-PRG study examines the market and welfare effects of the implementation of mandatory COOL (MCOOL) in the US, i.e., the ramifications of MCOOL for equilibrium prices, domestic production, trade, and the welfare of consumers, producers and retailers of the regulated products. A distinct feature of this study is the explicit consideration of the empirically relevant (1) heterogeneous consumer preferences for domestic and imported products, (2) differences in producer agronomic characteristics, and (3) retailer market power when buying and selling these products. The study complements the theoretical framework with empirical econometric and simulation analysis for the US market of fresh apples.

CAFIO-PRG Findings

The CAFIO-PRG research shows that:

- The market and welfare effects of MCOOL are case-specific and dependent on: (a) labeling costs at the farm and retail levels, (b) the strength of consumer preference for domestic products, (c) the market power of retailers, and (d) the relative costs of imported and domestic products.
- The introduction of MCOOL creates winners and losers among the domestic consumers and suppliers of the regulated products.
- Once consumer heterogeneity is incorporated into the analysis, previous arguments that all consumers will benefit from the implementation of MCOOL are easily rejected. While consumers with very weak and very strong preference for domestic products gain, consumers with moderate preference for domestic products lose from the introduction of MCOOL.
- Producers benefit from the regulation when the labeling costs at the farm level are offset by a farm price increase after MCOOL introduction, while retailers gain from MCOOL when the benefits from being able to separate the markets for domestic and imported products and take advantage of an existing consumer preference for the domestic products outweigh the labeling and segregation costs.
- Empirical results for the US market of fresh apples indicate that domestic producers are the most likely beneficiaries of MCOOL, followed by domestic consumers. Being unable to exercise market power to consumers or suppliers of fresh apples, retailers will lose if the policy implementation entails fixed costs.
- Imports of fresh apples decline after MCOOL introduction.

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