

Mandatory Country of Origin Labeling: Consumer Demand Impact

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The United States implemented mandatory country of origin labeling (MCOOL) which became effective in March 2009 (USDA AMS, 2009a,b). MCOOL requires grocery retailers to provide country-of-origin labeling information for fresh beef, pork, lamb, chicken, goat, wild and farm-raised fish and shellfish, peanuts, pecans, ginseng, and macadamia nuts (Link, 2009). MCOOL for fresh meat products has been laden with substantial controversy for many years. Proponents argue that consumers demand origin information and have the right to know the provenance of meat products they purchase. Opponents contest the regulation claiming compliance increases costs for producers, processors, and retailers with insufficient benefits. Trading partners, led by Canada and Mexico, have challenged MCOOL and presented their case to the World Trade Organization (WTO). The WTO has ruled mainly in favor of this challenge and the United States is in the process of responding to this ruling (WTO, 2012). Given the controversial nature of the policy, a range of pre-MCOOL economic impact assessments were conducted. This fact sheet provides an overview of a research project which conducted the first known post-implementation assessment of how consumer demand was influenced by MCOOL.

Approach

To accomplish the project's objective, a multi-methods approach was used to robustly examine consumer demand impacts. Collectively, these approaches utilized transaction data of meat purchases at grocery stores, as well as experimental economics methods involving in-store and online surveys and real-money experiments with consumers. More specifically, 1) in-person surveys and experiments were conducted in grocery stores in Texas (Klain et al., 2012), 2) surveys and experiments were conducted online with a nationally representative set of respondents (Tonsor, Schroeder, and Lusk, 2012), and 3) meat demand models were estimated using scanner data of MCOOL covered products (Taylor and Tonsor, 2012).¹

¹ Additional details on the various components of this project, a related video summary of key findings, and research papers are available from the authors and will be posted online (<http://www.agmanager.info/livestock/policy/default.asp>) as they become available.

Key Findings

This project generated a host of important findings pertaining to consumer demand response to MCOOL being implemented. The findings of top economic importance include:

1. Demand for covered meat products has not been impacted by MCOOL implementation.

- Across a series of demand system models estimated using retail grocery scanner data of MCOOL covered products, changes in consumer demand following MCOOL implementation were not detected. That is, no evidence of a demand increase in covered beef, pork, or chicken products, as a result of MCOOL, was identified.

2. Typical U.S. residents are unaware of MCOOL and do not look for meat origin information.

- In an online survey, 23% of respondents were aware of MCOOL, 12% incorrectly believed MCOOL was not law and nearly two-thirds of respondents “don't know” whether MCOOL is a law. Similarly, the majority of in-person experiment participants did not know whether MCOOL was in place, despite the fact that they were standing near a retail meat counter. Furthermore, the majority of in-person participants also stated they never look for origin information when shopping for fresh beef or pork products.

3. Consumers regularly indicate they prefer meat products carrying origin information.

However, consumers reveal similar valuations of alternative origin labels.

- In both online and in-person assessments, research participants regularly select meat products carrying origin information over unlabeled alternatives consistent with previous research. However, in an online assessment, consumers revealed valuations of meat products labeled “Product of North America” to be approximately the same as “Product of United States.”

4. Our conclusions hold across the species and products evaluated.

- In our in-person and online based assessments, we obtain the same conclusions whether evaluating beef steak, pork chop, or chicken breast products – there was no change in demand following implementation of MCOOL. Similarly, in estimated demand systems we regularly found no change in demand for beef, pork, or chicken products.

Implications

There are several important economic implications from these key research findings:

1. Given the costs of compliance introduced by MCOOL and no evidence of increased demand for covered products, our results suggest an aggregate economic loss for the U.S. meat and livestock supply chain spanning from producers to consumers as a result of MCOOL implementation. Since existing studies indicate implementation costs have been lower for the chicken industry, this finding also suggests stakeholders in the beef and pork industries are comparatively worse off.
2. The low level of consumer knowledge about MCOOL may imply that focusing people's attention on an origin attribute could bias their valuations upward. For example, the country-of-origin effect has been larger in studies that only investigated origin alone as compared to studies that investigated origin in combination with other attributes. This is reinforced by our observation of no demand increase following MCOOL implementation in spite of previous research suggesting consumers would pay more for products carrying origin information. This does not necessarily mean that on the same shelf, a product with no origin information would have the same value as one with origin information to the consumer. However, implementation of mandatory labeling at the retail level has had no discernible impact on demand.
3. The finding of consumers not valuing meat products carrying *Product of United States* labels over those with *Product of North America* labels is important for several reasons. If a *Product of North America* label is less expensive to implement in the context of MCOOL and consumers fail to place higher value on products carrying *Product of United States* labels, economic gains would occur by utilizing the less expensive labeling requirement.

Conclusions

The overriding finding of limited awareness of MCOOL, narrow use of origin information in purchasing decisions, and no evidence of a demand impact following MCOOL implementation is consistent with the argument that voluntary labeling by country of origin would have occurred if it were economically beneficial to do so. More broadly, the findings of this project generally support the assertions of MCOOL opponents who have asked “where is the market failure?” While no one project can resolve all the political and economic issues surrounding the MCOOL situation, it is our hope that the findings of these studies will be utilized to improve decision making regarding the policy going forward.

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