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Country-of-origin labeling (COOL): a divisive, controversial issue bouncing around like a pinball that never gets drained. Just passed, the seven-year anniversary of an article I authored outlining some of the foundational concerns subsequent to implementation following the 2002 Farm Bill (COOL Has Implications For The U.S. Beef Industry, *Feedstuffs*, Jan 27, 2003, 75:4). And last February in AgSight I described COOL as “an already long, contentious, arduous process [that] just went into overtime.” The rhetoric and posturing is heating up again; back-and-forth reinitiated through the fall as Canada and Mexico solidified their pursuit of a formal WTO complaint.

This month’s observations are NOT intended to rehash COOL’s various intricacies or address the cost/benefit relationship (or lack thereof). Rather, my intent is to address foundational principles surrounding international trade.

Some context and review is useful. COOL was established on the premise that U.S. consumers desire additional information and possess differential demand curves for U.S. products versus imported items. However, the impetus for COOL primarily derives from, and establishes benefit for, U.S. beef producers providing relative advantage over foreign competitors (Canada and Mexico); lobbying efforts were also fierce and sustained to appease a specific segment of the beef industry. The ruling requires additional record-keeping and makes it more problematic to schedule livestock which originated from Canada or Mexico - COOL has slowed the flow of cattle sourced from our NAFTA partners. As such, the WTO legal action asserts COOL represents an illegal trade barrier and establishes unfair trade discrimination.

The WTO challenge has proponents fighting back. For example, R-CALF USA addressed a letter to the National Cattlemen’s Beef Association (NCBA) in October rebuking NCBA’s policy towards the Canadian WTO complaint. The letter reads that NCBA’s position which highlights the revenue-based benefits of trade with Canada and Mexico, “...fails to disclose the critical fact that trade (i.e., both imports and exports) with these two countries continues to generate a substantial revenue-based deficit for the U.S. – a deficit that has averaged more than \$1.3 billion in each of the past five years and that has resulted in a cumulative five-year loss of more than \$6.6 billion.” R-CALF followed up on that theme several days later with a letter addressed to Secretary Vilsack and USTR Ambassador Kirk.

International trade is prickly. Facts often get quickly twisted to suit one’s perspective. R-CALF touts the “trade deficit” between the U.S. and our NAFTA partners. The broader perspective is important. Detailed below is breakdown of the global trends related to international trade (utilizing the same data sources compiled for R-CALF’s report: 6-digit bovine trade codes – which does NOT include hides):

- Total bovine imports, worldwide, increased \$720 million (17%) over four years from \$4.23 B in 2004 to \$4.95 B in 2008
- Total bovine exports, worldwide, increased from \$648 M to \$3.27 B between 2004 and 2008 (a difference of \$2.62 B and in excess of 5-fold improvement)
- Net “trade deficit”, from a global perspective, declined from \$3.59 B to \$1.69 B between 2004 and 2008 – a difference of nearly \$1.9 B

In other words, over the span of four years, beef exports outpaced imports by a difference of nearly 475-million-to-one. Meanwhile, the pace quickened further yet in 2009. Available data is only available through November; however, 2009 is on pace to post a “trade deficit” of \$1.1 B – a decline of \$800 million versus the previous year.

What's the point? Selective snapshots avoid the larger story and miss the true intent of international trade. Daniel Griswold (*Mad About Trade*, c. 2009) reminds us that trade occurs on the behalf of consumers:

“When we import more of a certain category of good than we export, say shoes or shirts, by definition we are buying and consuming more of that type of good than we produce. More Americans have more money at stake as consumers of the good than as producers. So when a tariff raises the domestic price of an item, we have more to lose collectively as consumers than we have to gain as producers.”

Import competition provides lower prices and more variety. Those attributes create cost savings for all families – and the largest benefactor being low-income households.

Broader principles about economic growth are also overlooked. Marc Chandler (*Making Sense of the Dollar*, c. 2009) points out that sole focus on balance of payments (i.e. trade deficit) fails to reflect value-added activities and derived profits:

Although Apple Computer makes a hefty profit selling iPods, each one sold increases the U.S. trade deficit by \$150. Yet the iPod sells for about twice its cost of goods, which means that \$150 accrues in profit to an American company for each iPod sold. That doesn't get factored into [nor is reflected by] the trade deficit. Who would argue that America would be a more competitive nation if Apple had never developed the iPod?

The same principle applies here; focusing strictly on the deficit overlooks added value and benefits derived for U.S. businesses at all levels of the value chain including producers, processors, purveyors, distributors, retailers and restaurants – that results in economic growth and job creation.

In the end, utilizing negative trade deficits as justification for country-of-origin labeling is wrong-headed. COOL represents a non-tariff trade barrier; a means to protect *some* (certainly not all) American producers from foreign producers. But more importantly, as illustrated above, trade is essential to consumer well-being and overall economic growth. The U.S. can't, on one hand, expect trade partners to abide by the WTO framework while, on the other hand, implement questionable legislation that impedes trade. Any challenge to foreign obstruction (e.g. Taiwan, Russia) must be based on solid footing. Failure to possess a principled approach diminishes ability to grow international markets in the future.