

Statement of
Mr. Jon Caspers
President
National Pork Producers Council
Before
U.S. House of Representatives
Committee on Agriculture
Hearing on
Mandatory Country-of-Origin Labeling

June 26, 2003

Good Morning, Mr. Chairman, Mr. Ranking Member, and Members of the Committee:

I am Jon Caspers, President of the National Pork Producers Council (NPPC) and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation, marketing 18,000 hogs per year.

I would like to thank the Chairman for scheduling this hearing. In recent months it has become clear that the issue of mandatory country-of-origin labeling is indeed far more complicated and far reaching than simply identifying live animals at the U.S border or affixing a label to a package of pork chops in grocers' retail meat cases. The National Pork Producers Council appreciates the opportunity to further examine the long-term consequences of this law for U.S. pork producers.

We believe that the mandatory country-of-origin labeling provision of the 2002 Farm Bill offers little value for either U.S. pork producers or U.S. consumers. It is clear that the law:

- Will not result in long-term higher hog prices for U.S. pork producers;
- Will not provide additional food safety assurances for U.S. consumers;
- Will not provide adequate traceback to handle a foreign animal disease emergency;
- Will reduce U.S. pork exports by creating comparative advantages for our export competitors such as Canada;
- Will place U.S. pork producers at great financial peril due to the need to indemnify their customers for damages that a producer error might cause;

- Will favor vertically integrated pork production systems in both the U.S. and Canada;
- Will impose onerous requirements and additional costs on U.S. pork producers if administered in the credible manner which Congress intended; and
- Will create a permanent cost advantage for chicken and turkey, even if those species were to be covered by the law.

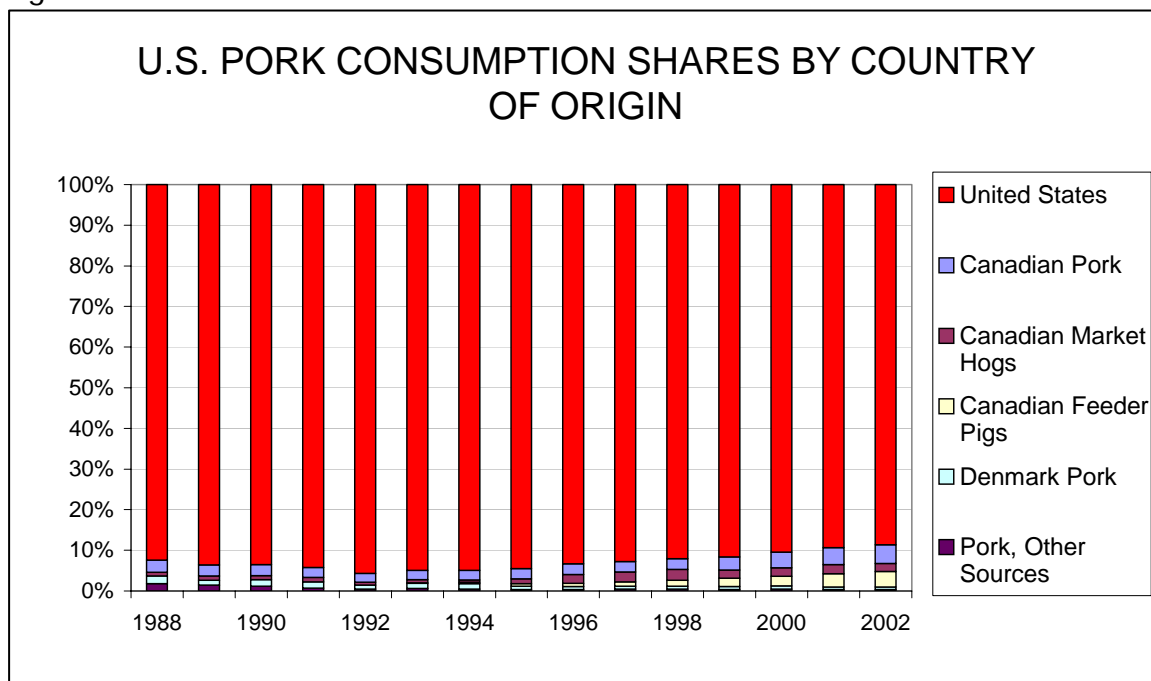
All of these issues will limit the long-term economic health and growth of the U.S. pork industry.

I would like to address these issues as well as several others that have been swirling around the emerging debate on this law and explain why the National Pork Producers Council is urging Congress to repeal the mandatory country-of-origin labeling provision and replace it with a workable voluntary program for hogs and pork.

A “workable voluntary program” should be one that producers, processors, and retailers will choose to participate in, one that will reward entrepreneurial pork producers who choose to differentiate their product in the U.S. meat case. Further, it should include pork destined for retail, restaurant and foodservice outlets. In order to guarantee the integrity of the U.S. labeled product, USDA must ensure, as they currently do with other programs such as their “Organic” and “Certified Angus Beef” programs a legitimate and dependable label. The program should include specified standards for records (such as breeding, farrowing, death loss, livestock purchases, and sales), a method for legal affirmation that information provided to sellers is true, that records exist to support that affirmation, and a requirement for pre-specified product segregation plans complete with records and periodic spot checks. The National Pork Producers Council stands ready to assist in developing such a system.

Country-of-origin labeling is an effort to reduce pig, hog, and pork imports that account for just over ten percent of total U.S. pork consumption (see Figure 1). To accomplish this goal, the law will impose large costs on the remaining ninety percent of the pork consumed in the United States. These will include

Figure 1



costs for records, legal documentation, animal segregation, animal identification product segregation, enlarged inventories and multiple stock-keeping units, signage, and many other items. It is not reasonable for U.S. pork producers to incur these costs over one tenth of the market, especially when the same program will put pork exports (which account for eight percent of total U.S. production) at extreme peril.

"I must stress at the outset that country of origin labeling is a marketing issue, not a food safety issue. USDA's Food Safety and Inspection Service (FSIS) ensures that imported meat is as safe as domestically produced meat. FSIS requires imported meat to be inspected under a system that FSIS has determined – through a rigorous and comprehensive process – to be equivalent to the U.S. system. Perhaps most importantly, all foreign plants exporting meat to the U.S. must meet the requirements of the Hazard Analysis and Critical Control Points (HAACP) inspection system."

*Statement of Secretary of Agriculture Dan Glickman
before the Senate Committee on Agriculture, Nutrition
and Forestry, May 26, 1999*

The mandatory country-of-origin law is NOT a food safety law. It is trade protectionist law designed to restrict access to U.S retail meat cases. The law will not enhance the U.S. Government's ability to

address food safety emergencies or foreign animal disease outbreaks, such as BSE, nor will it provide additional food safety assurances for U.S. consumers. The law enables consumers to determine the country-of-origin for fresh pork sold only through retail meat cases—not for pork that is either sold by food service establishments or further processed. Food service establishments include: restaurants; fast-food outlets; lunchrooms; cafeterias; lounges; bars; and food stands. This excludes over 50 percent of the pork consumed in the U.S. today! The information required by this law is not sufficient to find the state, let alone the county or farm of origin in order to identify and respond to a food safety emergency or a foreign animal disease outbreak. In fact, the law actually prohibits the Secretary of Agriculture from requiring an animal identification system, a key element for any workable food safety traceback system. USDA already has the authority to require animal identification to protect U.S. consumers from the threat of illegal residues and food-borne pathogens. USDA is about to convene a National Animal Identification Task Force on July 1st in Kansas City, Missouri. This Task Force will use the research and work completed by the National Institute for Animal Agriculture to make recommendations to the Secretary of Agriculture on implementing an effective animal identification system. I will represent U.S. pork producers on this task force.

If the mandatory country-of-origin labeling law is intended to ensure the safety of the U.S. meat supply, why prohibit the Secretary of Agriculture from requiring an animal identification system and why exempt over 50 percent of the pork consumed in the U.S. today? Do these products not have the potential to pose an equal food safety or animal health risk? Those who argue that mandatory country-of-origin labeling guarantees a safer meat supply in the U.S. are clearly distorting the facts. The reason so many products are excluded from the purview of this law is that this law is NOT about food safety at all.

This mandatory country-of-origin labeling law has little to do with the “consumers’ right to know” about their food – if it did, it would fail miserably. U.S. consumers have indicated they are concerned about the price, convenience, nutrition, freshness, and flavor of the food they buy. Only after these factors, and then only when prompted, do consumers consistently mention the origin of food. No credible evidence has ever shown that consumers are willing to pay a premium for country-of-origin labeled pork. U.S. pork suppliers who are currently capable of delivering such a labeled pork product to any U.S. buyer report that, to date, NOT ONE BUYER has requested this product. Where is the market for origin-labeled pork? If consumers have a “right to know” where their pork comes from, they have a responsibility to pay for that information and not pass the cost back to the U.S. pork producer. We should heed the advice of former Secretary of Agriculture, Dan Glickman.

"I also think it is important to consider fully the implications of basing a mandatory labeling requirement on the theory of a consumer's right to know. As the Committee is well aware, the European Union believes its consumers have a right to know if food products contain genetically modified organisms. It is possible that imposing country of origin labeling in the U.S. could weaken our ability to object to other labeling requirements sought by our trading partners."

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Now, I would like to turn to the long-term effects that the mandatory country-of-origin labeling provision will have on North American hog and pork production and prices. **In the long-term, this law will raise North American hog and pork production and drive prices down.** Why is this so? Because the Canadian pork industry, responding to Canadian market signals will feed the pigs and process the hogs, previously fed U.S. corn and soybeans and processed in the U.S. While lower prices in Canada will result in some reduction in Canadian pig production, Canadian output will not fall to the levels to compensate for the number of feeder pigs previously sent to the U.S. In addition, Provincial and Federal Canadian whole-farm income support programs will cushion Canadian producers' losses so pig production will not drop as far and as fast as the market would otherwise dictate. The shortage of weaned and feeder pigs in the U.S. will cause finishing buildings to stand empty, drive pig prices upward in the short term and encourage higher production in the U.S. You can easily see what will eventually happen: higher pig and pork supplies in North America. Without increased demand for pork, a circumstance for which there is no supporting consumer demand research, these higher supplies MUST result in lower wholesale pork and hog prices. So, while there are arguably some short term benefits for SOME U.S. pork producers--the long term consequences will lead to lower prices for ALL U.S. pork producers. The economic pain of lower prices will fall hardest on high-cost producers and those without contracts or management systems that limit risk exposure. Generally, these are independent, small to medium sized producers.

Low-or no-cost certification and audit systems for producers will NOT eliminate the mandatory country-of-origin labeling law's negative impact on U.S. pork exports. While certification and audit costs are a certainty, finding a way to minimize them for U.S. producers will not eliminate the segregation costs associated with raising and processing Canadian-origin pigs or reduce the logistical costs of increased stock-keeping units at U.S. packing, processing, and retailing operations. These factors will only drive a price wedge

between U.S. and Canadian pigs and force the Canadian industry to increase domestic feeding and processing capacity. Canada's small population simply will not consume the additional output so Canada, already the world's largest exporter of pork, will export it to the United States, Japan, Mexico or other countries. The result will be lower U.S. export growth or even lower U.S. exports in the future. Research suggests that, at best, U.S. exports will stagnate near their current levels over the next 10 years. At worst, U.S. pork exports may end up 50 percent lower than they would have been in 2012 had the mandatory country-of-origin labeling law not been enacted.

In recent months we have been hearing much about how U.S. retailers, processors, and packers are allegedly unfairly and illegally requiring changes in current business relationships with U.S. pork producers. We are also hearing about how USDA is creating a huge mess and placing an unnecessary burden on producers. This is simply not true.

While we do not like the indemnity requirements that retailers, processors, and packers have sent to producers, we believe they are reasonable given the onerous financial liability that everybody in the pork chain faces when the law takes effect. It is perfectly understandable why retailers, processors, and packers would require indemnification against violations caused by supplier error as a prerequisite for any future business relationship. These are reasonable and sound business practices. A reasonable pork producer would do the same if placed in the same position. Yet the potential costs of a producer's mistake could be immense. Not only would the producer have to reimburse downstream participants for any fines incurred, he/she could also be liable for recall costs and lost value of product that cannot be labeled with certainty. Misabeled product in a retail store is grounds for a Class III product recall. Further, a packer's mislabeling of product would be more than just a violation of the mandatory country-of-origin labeling law, it would also be a violation of the Meat Inspection Act; this violation is a felony! By creating a new labeling scheme, and requiring a legally binding disclosure about where an animal is born and raised, Congress created the need for downstream firms to protect themselves against the possibility of a pork producers' unintentional mistake. This protection places America's pork producers in great financial peril. An unintentional act will likely put a pork producer out of business.

The relatively short time period until the law becomes mandatory poses even more problems for producers. USDA has yet to propose the mandatory program's regulations. After publication of a proposed mandatory program rules will come comment periods, reviews, and revisions. Sows bred in early December 2003, will produce pigs that will be processed on or near September

30, 2004. How will producers know what records they need if the regulations are not finalized by December 1, 2003?

The requirements of a credible mandatory country-of-origin labeling system will greatly favor vertically integrated pork producers. A completely vertically integrated system can deliver product to a retailer (and anyone else, for that matter) with a 100 percent origin guarantee. This is true of systems in both the U.S. and Canada! These organizations have records in place today capable of meeting the laws' requirements and the individual requirements of USDA and/or any retail customer. In every way they have an advantage over the traditional hog-pork production system that uses the spot market. Even systems with a high percentage of contracted hog supplies will have some disadvantage relative to a vertically integrated system. The mandatory country-of-origin labeling law's proponents never mention this FACT because they know this trade protectionist law favors vertically integrated producers who they loathe and abhor. However, the law they have put in place will hurt the very constituency -- independent producers--they purport to represent.

USDA'S guidelines are NOT the problem; this law is. Proponents of the mandatory country-of-origin labeling law argue that this law was never intended to affect pork producers. Proponents claim that the only reason that producers are impacted is because USDA does not like or agree with the law and is determined to make the regulations as onerous as possible. How they can make this argument with a straight face while knowing what is required to accurately label a retail product is beyond us.

Let us be perfectly clear: The National Pork Producers Council opposes this mandatory country-of-origin labeling law. However, we believe that USDA has accurately interpreted the law as it is written. It is very clear that Congress intended for the country-of-origin label to be a credible source of information for U.S. consumers. If not, why would Congress have allowed this provision to become law? The legislative language is unequivocal in that it provides for a "verifiable audit trail" and specifies that, for a pork product to be labeled "Product of the U.S.", the animal must have been "born, raised, and slaughtered in the U.S." This can only mean that Congress intended for U.S. producers (the only parties with knowledge about where a pig was born and raised) to provide "auditable" information to downstream processors and handlers. Proponents of the law appear to want a meat labeling program that costs nothing because it requires nothing. We believe that such a system would result in a label that MEANS nothing and is merely a consumer sham. Such a view defies logic and trivializes the profound impact this law will have on the U.S. pork industry and U.S. consumer confidence.

The law hands a permanent cost advantage to the U.S. poultry industry. This advantage CANNOT be overcome by including chicken and turkey. The mandatory country-of-origin labeling law places records, auditing, segregation, and logistical costs on the U.S. pork, beef, and lamb producers, packers and processors while excluding chicken and turkey. Simply including chicken and turkey, will not level the playing field because virtually all U.S. chicken and turkey comes from vertically integrated production systems. Just as mandatory country-of-origin labeling favors vertically integrated pork production systems, so it favors the entire U.S. poultry industry! The origin of all chicken and turkey is known and can be easily traced. Complying with mandatory country-of-origin labeling regulations will require practically no new practices on the part of any poultry firm. The cost of poultry compliance would be little more than the ink to print the label on packages. In the U.S. retail meat case, poultry and pork are highly price competitive products. Handing the integrated U.S. poultry industry a new cost advantage at the expense of 80,000 U.S. pork producers is simply bad economics and bad public policy!

In conclusion, Mr. Chairman and Members of the Committee, I have outlined the many reasons why the National Pork Producers Council opposes the mandatory country-of-origin labeling provisions in the 2002 Farm Bill. The law as currently structured will not provide additional food safety assurances for U.S. consumers; will deliver advantages to our export competitors such as Canada; and will impose additional costs on the U.S. pork producers. All of these issues as well as many others I mentioned will limit the long-term health and growth of the U.S. pork industry.

Thank you Mr. Chairman and Members of the Committee for your time and attention. I would be pleased to answer questions at the appropriate time.