

“if the item is an ingredient in a processed food item.” The legislation does not, however, define a processed food item, nor what constitutes an ingredient in a processed food item. Therefore, alternative definitions of a processed food item are possible. The scope of commodities, or number of items, covered by the proposed rule changes under alternative definitions of a processed food item.

Analysis of Benefits and Costs

The baseline for this analysis is the present state of the affected industries absent mandatory COOL. USDA recognizes that some directly affected firms have already begun to implement changes in their operations to accommodate the law and the expected requirements of this proposed rule. The benefits and costs examined in the analysis represent incremental impacts relative to their state prior to any changes resulting from the mandatory COOL statute or this proposed rule. If consumers would pay extra for the certainty that their food was produced in a particular country, and if labeling is relatively inexpensive, there is an economic incentive to make consumers aware of this product characteristic. Retailers, food manufacturers, and producers would share the increased net revenues and have an incentive to voluntarily label. Given that retailers and food manufacturers have the greatest incentive to be informed about what consumers desire, the fact that they do not currently provide country of origin information to consumers on a widespread basis suggests that they believe that the costs of labeling outweigh the returns.

Some analysts argue that country of origin information does not matter to U.S. consumers (See, for example, Ref. 4). Freshness, quality, price, and other factors may be more important to consumers than country of origin. If country of origin does not influence demand, there is no incentive to provide country of origin labels. Retailers or food manufacturers providing country of origin labels would incur labeling costs (including the cost of segregating domestic and imported products) but receive no corresponding benefits. Even if consumers do favor labeled products over unlabeled products, labeling costs may outweigh the increase in market returns from increased demand and prices.

In any event, economic efficiency of mandatory COOL will be maximized by implementing the program so that it reduces the cost of providing this information as much as possible.

Benefits: The expected benefits from implementation of this rule are difficult to quantify. However, we believe that the benefits will be small and will accrue mainly to those consumers who desire country of origin information. We find little evidence to support the notion that consumers' stated preferences for country of origin labeling will lead to increased demands for covered commodities bearing the U.S.-origin label.

There is considerable research indicating that a majority of consumers have at least some interest in their food's origin, and a smaller but significant proportion of consumers that have a strong desire to know where their food was produced. However, this research indicates that consumer desire for country of origin labeling stems primarily from their concerns about the safety of the food they eat. To a lesser extent, this research indicates that consumer desire for country of origin labeling stems from concerns about the quality and freshness of products and a preference to support U.S. producers.

There is less research on how much consumers would pay to know the origin of the food they eat. Some recently conducted surveys, however, report that 71 percent to 73 percent of consumers are willing to pay more to know the origin of their food (Refs. 1 and 2). Measures of willingness to pay, however, do not necessarily translate directly into measures of what consumers would actually pay when faced with marketplace decisions.

One frequently cited study, Umberger, *et al.* (Ref. 2) assessed consumers' willingness to pay for labeled beef of U.S. origin. They found that 73 percent of survey participants in Denver, Colorado, and Chicago, Illinois, were willing to pay premiums of 11 percent or more for steak and 24 percent or more for ground beef when labeled as beef of U.S.-origin. These findings have been cited by others as an indicator of the potential benefits that would accrue from country of origin labeling.

For example, using the average amounts that consumers were willing to pay for U.S.-labeled beef from the Umberger, *et al.* study, VanSickle, *et al.* (Ref. 5) estimated that benefits to consumers for country of origin labeling of fresh beef muscle cuts and ground beef would equal \$5.8 billion per year based on recent per-capita consumption figures and price data for January and February 2003. We believe, however, that this estimate is based on an inappropriate use of the results from the Umberger, *et al.* study.

There are several limitations with the willingness-to-pay studies that call into

question the appropriateness of using this approach to make determinations about the benefits of this proposed rule. First, consumers in such studies often overstate their willingness to pay for a product. This typically happens because survey participants are not constrained by their normal household budgets when they are deciding which product or product feature they most value. In the case of the Umberger, *et al.* study, consumers ranked the importance of country of origin information 8th out of 17 factors, with food safety and freshness receiving the highest rankings. This suggests that, when faced with a real budget constraint, consumers might actually be willing to pay considerably less for the country of origin information than they indicate when surveyed.

Second, in most of these willingness-to-pay studies, consumers are not faced with the actual choices they would face at retail outlets. For example, consumers in the Umberger, *et al.* study were only faced with making a hypothetical choice between U.S. beef and generic beef. Under the proposed rule, however, they may be faced with choosing between U.S. beef, beef from several other specific countries, and beef from a mixture of countries including the United States. In addition, the labels they see in the store will contain information about price and quality that may also affect the value they place on country of origin information. Visual characteristics and presentation of products in the store would also influence choice in addition to label information.

Third, consumers' willingness-to-pay as elicited from a survey is a function of the questions asked. Different questionnaires will yield different results. For example, if consumers were told that nearly all of the beef they currently consume came from the United States before they were asked about their willingness to pay for U.S.-labeled beef, the strength of their preference for origin information would probably be less than if consumers were not told about the correct origin of the beef they consume.

Finally, the results reported from these studies do not take into account changes in consumers' preferences for a particular product or product attribute over time. While consumers may be willing to pay more for a given attribute initially, as time goes on and they gain more experience with the product attribute, they may be less willing to pay for products with this attribute.

The authors of the Umberger, *et al.* study acknowledge many of these limitations (Ref. 6). They state that the