

results obtained from these types of surveys do not always predict consumer behavior. They also state that because of the limitations inherent in willingness-to-pay studies, the results of their study should not be used to determine the economic impact of COOL.

This is not to say that willingness-to-pay studies, such as the study conducted by Umberger, *et al.*, are not useful. They are valuable for improving our understanding of consumer preferences for product characteristics. The results of these studies support the notion that at least some consumers desire this information and are willing to pay some amount for it.

With respect to agricultural producer benefits, even if consumers are willing to pay more for U.S.-labeled products, this does not necessarily mean that U.S. producers would benefit from an increase in the demand for their products. U.S. producers will only benefit if the country of origin labeling increases demand and ultimately the farm price enough to cover producers' costs of labeling itself. Current evidence on country of origin labeling, however, does not suggest that U.S. producers will receive sufficiently higher farm prices for U.S.-labeled products to cover the costs of labeling. Moreover, it is even possible that producers could face lower farm prices as a result of labeling costs being passed back from retailers and processors.

For the past 3 years, FSIS and AMS have offered a voluntary program by which suppliers can place U.S.-origin declarations (certified to be accurate by USDA) on many of the meat products covered by this rule. However, no suppliers of these covered commodities have participated in this program.

The lack of participation in government-provided programs for labeling products of U.S. origin provides evidence that consumers do not have a strong preference for country of origin labeling. At the very least it indicates that retailers and food manufacturers do not believe consumer preferences for country of origin information are strong enough to cause demand and prices for labeled products to increase sufficiently to pay for the costs of implementing a labeling program.

We can see what happens when consumers do have a strong desire for labeling by contrasting the lack of participation in the U.S.-origin labeling programs to the high level of participation in the organic labeling program. Labeling provided under the organic program provides compelling evidence that processors and retailers will provide consumers with the information they desire when they

believe that consumers have a strong preference for this information and are willing to pay for it.

Some may point to the fact that many of the commodities covered by this rule are already labeled as to country of origin as proof that consumers do desire this information. The existence of country of origin information by itself, however, does not indicate that consumers place any value on this information. For many covered commodities, the cost of identifying country of origin is minimal, and producers and processors face little added expense in differentiating their product from others by country of origin.

The primary indication of the strength of consumer preference for country of origin information would be whether processors and retailers were able to extract a price premium for promoting this information. While many products sold by retailers have country of origin labels, there appear to be far fewer of these products that retailers attempt to sell based on this information. Even when they do, there is little evidence that they are able to extract a premium for country of origin information.

The results from consumer surveys provide additional evidence that country of origin labeling may not lead to higher demand and prices for U.S.-labeled products. The results from these surveys indicate that the number of consumers with strong preferences for U.S.-origin labeled products is not sufficient for U.S. producers to benefit from labeling. This occurs because the supply of U.S.-origin products is likely to exceed the total quantity demanded by those who would pay a higher price for U.S. origin products (*see*, for example, Ref. 7).

While consumers often state a preference for country of origin information, they also indicate that they desire this information because they believe it provides them with important information about the safety of their food. This suggests that consumers may use country of origin labeling as a proxy for food safety information.

Country of origin labeling, as formulated under the proposed rule, does not provide valid information regarding food safety. This is because the proposed rule does not provide the traceability required to permit the government to rapidly respond to a contamination or disease outbreak.

Furthermore, the country of origin information provided under this rule could cause some consumers to incorrectly attribute greater risks to products from a specific country than is justified. If this sentiment causes

enough consumers to avoid this product and consequently pay a higher price for a competing country's product, the result would lead to a decline in consumer welfare.

Costs: To estimate the costs of this proposed rule, USDA employed a two-pronged approach. First, USDA estimated implementation costs for firms in the industries directly affected by the proposed rule. The implementation costs on directly affected firms represent increases in capital, labor, and other input costs that firms will incur to comply with the requirements of the proposed rule. These costs are expenses that these particular firms must incur, but are not necessarily costs to the U.S. economy as measured by the value of goods and services that are produced. USDA then applied the implementation cost estimates to a general equilibrium model to estimate overall impacts on the U.S. economy after a 10-year period of economic adjustment. The model provides a means to estimate the change in overall consumer purchasing power after the economy has adjusted to the requirements of the proposed rule.

To develop its estimates of implementation costs, USDA drew upon available studies, comments and testimony received on the voluntary COOL guidelines and this rulemaking, and its knowledge of the affected industries. USDA developed a range of estimated implementation costs to reflect the likely range of first-year costs for directly affected firms. At a minimum, all directly affected firms will need to comply with the recordkeeping requirements of the proposed rule. Thus, the lower range of incremental cost estimates reflect the costs to modify and maintain current recordkeeping systems. USDA believes, however, that firms will incur other capital and operational costs to comply with the proposed rule. For example, firms may need to modify their production, storage, distribution, and handling systems to enable country of origin information to be tracked and maintained from start to finish. Thus, the upper range of incremental cost estimates reflect not only additional recordkeeping costs, but also additional payments by the directly affected firms for capital, labor, and other expenses that will be incurred as a result of operational changes to comply with the proposed rule.

Estimated first-year incremental costs for directly affected firms range from \$582 million to \$3.9 billion. Estimated costs per firm range from \$180 to \$443 for producers, \$4,048 to \$50,086 for intermediaries (such as handlers,