

comprehensive coverage of all economic benefits and costs associated with mandatory COOL for all of the covered commodities. We applied our knowledge about the operation of the supply chains for the covered commodities to synthesize the available information about the proposed rule's potential costs.

Cost drivers: This proposed rule is a retail labeling requirement. Retail stores subject to this proposed rule will be required to inform consumers as to the country of origin of the covered commodities that they sell. To accomplish this task, individual package labels or other point-of-sale materials will be required. If products are not already labeled by suppliers, the retailer will be responsible for labeling the items or providing the country of origin information through other point-of-sale materials. This may require additional retail labor and personnel training. A recordkeeping system will be required to ensure that products are labeled accurately and to permit compliance and enforcement reviews. For most retail firms of the size defined by the statute (*i.e.*, those retailing fresh and frozen fruits and vegetables with an invoice value of at least \$230,000), we assume that recordkeeping will be accomplished primarily by electronic means. Modifications to recordkeeping systems will require software programming and likely will entail additional computer hardware. We expect that retail stores will also undertake efforts to ensure that their operations are in compliance with the proposed rule.

Prior to reaching retailers, most covered commodities move through distribution centers or warehouses. Direct store deliveries (such as when a local truck farmer delivers fresh produce directly to a retail store) are an exception. Distribution centers will be required to provide retailers with country of origin information. This will require additional recordkeeping processes to ensure that the information passed from suppliers to retail stores permits accurate product labeling and permits compliance and enforcement reviews. Additional labor and training may be required to accommodate new processes and procedures needed to maintain the flow of country of origin information through the distribution system. There may be a need to further segregate products within the warehouse, add storage slots, and alter

product stocking, sorting, and picking procedures.

Packers and processors of covered commodities will also need to inform retailers and wholesalers as to the country of origin of the products that they sell. To do so, their suppliers will need to provide documentation regarding the country of origin of the products that they sell. Maintaining country of origin identity through the packing or processing phase is more complex if products from more than one country are involved. For example, the identity of fresh kiwi fruit from California and New Zealand entering the same packing house would need to be maintained throughout the packing operation. The efficiency of operations may be affected as products are segregated in receiving, storage, processing, and shipping operations. For packers and processors handling products from multiple origins, there may also be a need to separate shifts for processing products from different origins, or to split processing within shifts. In either case, costs are likely to increase. Records will need to be maintained to ensure that accurate country of origin information is retained throughout the process and to permit compliance and enforcement reviews.

Processors handling only domestic origin products or products from a single country of origin may have lower implementation costs compared with processors handling products from multiple origins. A processor that already sources products from a single country of origin would not face additional costs associated with product segregation and tracking. Procurement costs also may be unaffected in this case, if the processor is able to continue sourcing products from the same suppliers. Alternatively, a processor that currently sources products from multiple countries of origin may choose to limit its source to a single country of origin to avoid costs associated with product segregation and tracking. In this case, such cost avoidance would be partially offset by additional procurement costs to source supplies from a single country of origin. Additional procurement costs may include higher transportation costs due to longer shipping distances and higher acquisition costs due to supply and demand conditions for products from a particular country of origin, whether domestic or foreign.

At the production level, agricultural producers and fish harvesters will need to create and maintain records to

establish country of origin information for the products they sell. This information will need to be transferred and maintained as the products move through the supply chains. In general, additional producer costs include the cost of establishing and maintaining a recordkeeping system for country of origin information, animal or product identification, and labor and training.

Recordkeeping burden: On November 21, 2002, USDA published in the **Federal Register** a Notice of Request for Emergency Approval of a New Information Collection (67 FR 70205) for the interim guidelines for Voluntary Country of Origin Labeling for Beef, Lamb, Pork, Fish, Perishable Agricultural Commodities, and Peanuts that were published on October 11, 2002 (67 FR 63367). The Notice provided USDA's estimate of the recordkeeping burden imposed by voluntary COOL, under the requirements of PRA. That PRA cost estimate related solely to the recordkeeping burden and did not consider other costs imposed by COOL. Also, PRA requirements do not address the benefits of a program. Thus, PRA recordkeeping burden published by USDA did not reflect the full costs and benefits of voluntary COOL.

Cost analyses: Despite the numerous comments that USDA has received on the voluntary guidelines and on this rulemaking, there is surprisingly little quantitative evidence on the likely costs of mandatory COOL. The proposed rule does not specify the systems that affected entities must put in place to implement mandatory COOL. Instead, market participants will be given flexibility to develop their own systems to comply with the proposed rule. There are many ways in which the proposed rule's requirements may be met, and this contributes to the difficulty in arriving at a quantitative assessment of cost impacts. Nonetheless, a number of studies and submitted comments shed light on the potential costs of mandatory COOL. Generally, comments addressed costs for a particular firm or a segment of a particular supply chain for a given covered commodity. Of the studies on potential economic impacts of mandatory COOL, only a handful developed estimated incremental implementation costs for market participants. We use the results of these studies, comments received, and knowledge of the affected industries to develop a range of the estimated incremental cost impacts of this proposed rule.