

HB 17-1234

Current law requires vegetables and fruit to be labeled with the country of origin. HB 17-1234 would expand country of origin labeling to beef. Specifically, this bill will require retailers to create a placard, which must be apparent that indicates where the cow was born, raised and slaughtered. If the beef was processed in multiple countries, this bill specifies that all of these countries must be listed by the retailer, as retailers already know the country of origin. This bill would allow consumers to receive the same information as retailers do, addressing the market inefficiency of asymmetric information.

Retailers currently provide consumers with limited information. Typically, a cow is born to a rancher who then takes their cows and sells them to a feedlot. A feedlot is where a cow will spend most of its life, here the cow is fattened up and then slaughtered. This is the most important step in the process since it is when the specific taste characteristics are formed. The consumer should know the location of the feedlot because it is an indicator of quality. While all feedlots are subject to general safety standards, there is a difference in the quality of treatment of the animals in a feedlot. Per Josh Sonnenberg; US feedlots tend to put more care into their cows, which produces higher quality beef. This means the consumer could make an inference about quality just from the feedlot location. After the feedlot, the meat goes to a processing plant. There are only three beef packers in the US: Cargill, JBS, and National Beef. These three processing plants send their beef all over the country to retail stores.

The three processing plants do provide retailers with information about where the cow was born, raised and slaughtered. However, the retailer is not passing this information on. The retailer is withholding information from the consumer to sell lower quality beef at higher prices, thereby dipping into consumer surplus. Since there are only a few major national retail stores,

HB 17-1234

these stores can collude in setting price point for beef with the processing plants. The processing plant will dramatically compromise on quality to meet those price points. This means that the consumer is paying more than they would for the lowest quality meat and is only getting slightly better quality meat. This cuts into consumer surplus by not informing the consumer of the quality of the beef they are purchasing. If a consumer knew about the location of the feedlot, then they can infer as to the quality of the meat they are buying. Retailers have the power to withhold this information from the consumer through their concentrated market power and are also incentivized to withhold that information because they want to extract the consumer surplus.

The government should intervene when the private market provides incentives to restrict information about products. Country of origin labeling should be provided since it will allow the consumer to know the source of the product they are buying, allowing for inference about taste and quality.

HB 17-1234 aims to correct the market inefficiencies of not providing germane information to consumers about the beef they are purchasing, which distorts the market. For example; Kroger, which is a national grocery store, sells ground beef that has been sourced from different countries. A representative from Kroger explained that the mixture of the ground beef and selection of beef cuts vary each day. If a consumer prefers grass fed beef, then they would only be able to purchase that beef on select days. A change in demand here would be attributed to consumers being able to self-select the beef that best suits their tastes. Allowing the market to accurately shift demand based on consumer preferences is an efficient operation of the free market. If consumers are not allowed to shift their demand because of a lack of information in the market, then the market is not functioning to maximize efficiency.

HB 17-1234

Information must be valuable to the consumer in order to impact their choices. For instance, beef would appear to be a homogeneous product, however it varies in quality. Beef from a dairy cow will have more marbling but will be tougher than beef from a cow that was raised for the sole purpose of producing beef. Similarly, grass fed cows will produce meat that will taste different than a cow that was fed with grain supplement. While the cow meat on a biological level may be the same, the inputs like diet, exercise and treatment vary the taste characteristics and quality of the beef. Ground beef could come from multiple cows of the same quality while a singular cut like a steak would only come from one cow. This means that consumers would be exposed to beef from multiple countries when purchasing ground beef, meaning they are missing more product information than if they were buying a single cut.

Through sampling studies, it is understood that country of origin labeling is valuable to the consumer. A study found that 73% of consumers in Denver and Chicago were willing to pay for country-of-origin labeling(Umberger). This indicates that country-of-origin labeling is of value to a consumer.

HB 17-1234 might be giving consumers just enough information to allow them bias against an entire country's beef producers. In 2003 a confirmed case of bovine spongiform encephalopathy, also known as "mad cow disease" was traced to a cow that was imported from Canada(Washington). This case of mad cow disease was the consequence of sanitation failures by a small number of farms. Outbreaks of disease can cause consumers to be unduly fearful of beef from a specific country. In a system where consumers had country-of-origin labeling they could choose, in this case, to avoid any beef that was produced in Canada.

HB 17-1234

This would punish all Canadian beef producers for a mistake that they had no control over. However, this would be a short-term shock to the market. The United States Department of Agriculture used its recall procedures to thoroughly check beef from Canada and inform American consumers when the outbreak of mad cow was resolved.

However, there is a private market solution to this issue. Producers can distinguish themselves through marketing. A Mexican beef producer might be afraid of being lumped in with all Sukarne beef, which accounts for 74% of Mexico's total beef exports. This independent producer could distinguish themselves through their own marketing campaign or even their own labeling (Peel). A smaller Mexican beef producer could label their packages with signs that say *grass fed beef*, or *organic* and even *hormone free*. Labeling of specific taste characteristics provide an incentive to the beef processor and retailer to maintain this labeling since they could charge a higher price for this beef, and make a greater profit.

This private market solution is already used in the beef industry where producers can distinguish their products by using packaging that highlights quality and taste characteristics. This marketing is regulated by the USDA representative in each country and at processing plants. This would also increase the information in the market for beef. There is a private solution to fixing unfair tarring of an entire country's beef producers, and a country of origin labeling system would be information that is not too dangerous for consumers to have.

There are financial reasons for opposition to this bill. Having retail stores create labels to signify the country of origin will mean that stores will be required to pay for additional signage or labeling for their beef. However, this would be a minimal cost for the individual retailers, since most already have signage equipment for their other products. Retailers also already have

HB 17-1234

access to the country of origin of the beef that they are selling, so this would not require processors to provide any additional information to retailers. Also, according to the fiscal note there would be minimal work load increases in order to enforce the rules of the bill for the Colorado Department of Health and Environment. This bill is a low-cost way to increase information available to consumers.

HB 17-1234 is a step in the right direction for improving consumer information about the beef market. However, this bill would not provide the consumer with complete information about the beef market. Therefore; asymmetrical information would still exist between consumers and producers causing market inefficiencies because producers will still have more information about the beef being sold than consumers.

The most efficient market would provide consumers with more information to correct the inefficiencies. The government could create legislation that would require retailers to provide information about all taste-altering characteristics of the beef they are purchasing. This could include: diet, region where the cow was raised, meat cow or dairy cow, species, hormone usage, etc. Giving the consumer access to this information would allow for consumer access to complete information, creating a more efficient market.

My analysis demonstrates that HB 17-1234 would help fix the market inefficiency of the asymmetric sharing of information between producers and consumers. This bill would be a relatively low-cost solution that would create increased benefits for consumers. This bill would not provide information that would unfairly group all producers of beef since individual producers can still distinguish themselves through marketing. I support HB 17-1234, and encourage the passing of this bill.

HB 17-1234

Works Cited

Ostlind March 21, 2011 From the Print Edition Print Share Subscribe Donate Now, Emilene.

"The Big Four Meatpackers." Thebigfourmeatpackers.com. The Big Four Meatpackers,
21 Mar. 2011. Web. 21 Mar. 2017.

Peel, Darrell S. "Mexican Beef Exports Continue to Grow." *CattleNetwork.com*. Oklahoma State
University Extension, 04 Apr. 2016. Web. 19 Mar. 2017.

Umberger, Wendy J., Dillon M. Feuz, Chris R. Calkins, and Bethany M. Sitz. "Country-of-
Origin Labeling of Beef Products: U.S. Consumers' Perceptions." *Journal of Food
Distribution Research* (November 2003): n. pag. Print.

"Washington 2003." *Centers for Disease Control and Prevention*. Centers for Disease Control
and Prevention, 10 Feb. 2015. Web. 19 Mar. 2010