



Country of origin labelling: Are consumers willing to pay more for Australian products?

Draft food labelling rules were released by Food Standards Australia New Zealand (FSANZ) on 12 August 2005 amid calls for mandatory country of origin labelling (CoOL).¹

The role of labels in marketing origin-based agricultural products is becoming increasingly important as the major food retailers and food outlets look to foreign suppliers. This Research Note examines the evidence for consumers buying Australian products, the proposed changes to food labelling, and mandatory CoOL in the United States (US).

Food retailing sector

Food retailing is worth \$80 billion annually and accounts for 40 per cent of retail trade in Australia.

Food Retailing Turnover, 2004–05

Category	Annual Turnover (\$b)	Per cent of Total
Supermarkets & grocery stores	57.28	71.3
Takeaway food	8.89	11.0
Other food retailing	14.20	17.7
Total food	80.37	100

Source: ABS, [Retail Trade](#) Cat. No. 8501.0, 2 August 2005.

Supermarkets and grocery stores account for the largest share of food retailing, with the two largest food retailers having a combined market share of 70–74 per cent.²

While the major food retailers have continued to expand their products and services into new areas, such as banking facilities, magazines, petrol retailing and pharmacies, the proportion of the average household's spending on food has declined. In 1980–81, 13.9 per cent of total household final consumption expenditure was spent on food, but by 2003–04 its share had fallen to 10.3 per cent.³ Various factors have contributed to this fall, including changes in population demographics, household sizes and lifestyle.

Supermarkets

Supermarkets are a major channel of distribution through which primary producers sell their products. Fresh food is purchased directly from producers (around 40–50 per cent) and from agents in established distribution centres, mainly produce markets and saleyards.⁴ In the case of independent supermarkets, grocery stores and the smaller food retailers, fresh food is purchased from independent wholesalers.

Food imports

The overwhelming share of fresh food and grocery shelf merchandise sold in supermarkets is Australian grown or

Australian made. Moreover, fresh food accounts for 20–25 per cent of total supermarket sales⁵ and the volume of imported fresh food sold in supermarkets is low, less than 5 per cent of fresh food sales for the largest food retailer.⁶

Australian imports of food in 2003–04 were \$5.88 billion and \$4.62 billion in 1999–00.⁷ As a share of retail demand, food imports are relatively small, averaging 7.5 per cent of total food demand over the five years to 2003–04.

Processed seafood and processed fruit and vegetables are the two largest categories of food imports (16 per cent and 15 per cent respectively). Fresh food imports make up only 5.3 cent of total food imports.⁸

New Zealand is by far the largest supplier of Australia's food imports and has increased its share of total imports from 15.2 per cent in 1999–00 to 18.4 per cent in 2003–04. Almost half of the food imports comprise dairy products (18 per cent), processed fruit and vegetables (13 per cent), and processed seafood (12 per cent). Fresh food imports totalled \$101 million in 2003–04, or 10 per cent of total food imports from New Zealand.⁹

Does labelling matter?

Unlike in the US, very little empirical research has been done in Australia on the consumer response to CoOL and food labelling generally. The *Australian Made* Campaign occasionally commissions surveys on consumer attitudes to country of origin issues and the *Australian Made* logo. Its most recent consumer survey was completed in 2003. The survey, based on consumers' response to a set of four questions, showed that 45 per cent of surveyed consumers buy Australian made products whenever possible and that 1 in 3 of those surveyed specifically look for the 'Made in Australia' label.¹⁰ The survey also found that 'Product of Australia' labelling has greater recognition and acceptance by consumers than 'Made in Australia':

The Campaign's research findings are that almost 8 in 10 (79%) respondents correctly believed that the terms 'Made in Australia' and 'Product of Australia' have different meanings. Consumers generally understand 'Product of Australia' to be the higher claim, though this understanding is significantly lower amongst younger people than older people.

Made in Australia/Product of Australia

Country of origin labelling of food is governed by the Australia New Zealand Food Standards Code (the Code) and the *Trade Practices Amendment (Country of Origin Representations) Act 1998* (TPA).

The Code and TPA are not prescriptive but give producers a clear basis for making CoOL claims. For a food product to be labelled 'Made in Australia', it must be substantially transformed in Australia and have at least 50 per cent local content. For a product to carry the 'Product of Australia' label, a producer must be able to show that Australia was the country of origin of each significant ingredient and all, or virtually all, processing occurred in Australia. 'Product of Australia' labelling alone guarantees that the product is wholly or substantially Australian and more often would apply to fresh food and food products processed locally.

Proposed food labelling changes to the Code

The draft food standard announced recently by FSANZ will bring greater consistency between the Code and the TPA as regards CoOL. Specifically, the new standard will require country of origin labelling on all packaged foods, as well as the labelling of unpackaged fruits, vegetables, seafood and nuts. If the standard is approved, Australian and New Zealand producers will have 6 months to make the CoOL changes. For all other packaged food, a two-year phase-in period will apply.

US country of origin labelling

In the US, the 2002 Farm Act made CoOL mandatory for seafood from September 2004 and for beef, lamb, pork, fresh and frozen fruits and vegetables, and peanuts from September 2006, although currently there are moves to make CoOL voluntary.¹¹

The introduction of CoOL is meant to provide US-origin products with a competitive advantage over imported food by offering consumers a clear choice between home-grown and foreign products. It is estimated that purchases of food covered by CoOL would have to increase by between 1–5 per cent for benefits to cover CoOL costs, but this increase in purchases is not anticipated.¹²

While the net benefits of mandatory CoOL have proved difficult to quantify and are probably minimal, several studies have looked at consumers' willingness-to-pay for CoOL. The table following is a summary of these studies and the premium consumers will pay for US products.¹³

The only firm conclusion one can draw from the studies is that US consumers will pay a range of premiums if they perceive that a product's origin is integral to its quality.

Consumer Willingness-to-Pay

Food	Location	Premium	Summary
Steak	Colorado	38% (\$1.53/lb)	Consumers were willing to pay \$184 per year for CoOL and a premium for US Certified Steak and US Certified Hamburger. (Loureiro and Umberger)
Hamburger		58% (\$0.70/lb)	
Steak	Chicago/ Denver	11% (\$0.42/lb)	Consumers cited food safety concerns, CoOL information and a desire to support producers as reasons for buying US beef. (Umberger et al)
Hamburger		24% (\$0.36/lb)	

Implications for Australia of US CoOL

Australia's principal export to the US is beef (worth \$1.5 billion annually). Manufacturing grade beef or lean beef accounts for approximately 75 per cent of beef exports to the US and is used for hamburger patty

manufacturing. Although the food service industry is exempt from CoOL, mandatory labelling or voluntary labelling by exporters may discourage manufacturers and retailers from using imported product for ground beef at the food retail level.

The US is Australia's largest market for lamb. Exports to the US are worth around \$320 million annually. Chilled lamb makes up the majority of exports (70 per cent) and is distributed through the retail sector. But as most exporters already individually label their lamb cuts with the country of origin, mandatory CoOL will have little impact.

1. 'FSANZ seeks community views on strengthened Country of Origin Labelling Rules', [Media Release](#), Food Standards Australia New Zealand, 12 August 2005.
2. IBIS World Industry Report, *Supermarkets and Other Grocery Stores in Australia*, 6 April 2005, p. 29.
3. *ibid.*, p. 26.
4. See Submission by [Woolworths Ltd](#), Trade Practices Act Review, August 2002.
5. IBIS World Industry Report, *Supermarkets and Other Grocery Stores in Australia*, 6 April 2005, p. 35.
6. Submission by [Woolworths Ltd](#), Trade Practices Act Review, August 2002, p. 8.
7. [Australian Food Statistics 2004](#), Table 6.1.
8. *ibid.* The value of fresh food imports in 2003–04 was \$315 million.
9. [Value of Food Imports from New Zealand](#) Department of Agriculture, Fisheries and Forestry.
10. [Australian Made Campaign Ltd](#), Submission to the Productivity Commission, October 2003.
11. The [Food Promotion Act 2005](#) which is currently before Congress will replace the mandatory law with a voluntary labelling program.
12. For an economic analysis of CoOL, see *Mandatory Country of Origin Labelling of Beef, Lamb, Pork, Perishable Agricultural Commodities, and Peanuts; Proposed Rule*, USDA, October 2003.
13. See Umberger, W.J., Feuz, D.M., Calkins, C.R. and Sitz, B.M., 'Country-of-Origin Labeling of Beef Products: U.S. Consumers' Perceptions', *Journal of Food Distribution Research* 34(3): 77–82, November 2003. The article outlines the studies by Loureiro and Umberger in 2003, and Umberger et al.

Michael Priestley Economics, Commerce and Industrial Relations Section Information and Research Service

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