

CRS Report for Congress

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Mad Cow Disease and U.S. Beef Trade

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Summary

Confirmation by the Secretary of Agriculture of a second case of bovine spongiform encephalopathy (BSE, or mad cow disease) in the United States on June 24, 2005, could complicate efforts to normalize U.S. beef and cattle trade, which has been disrupted by previous discoveries of BSE in four Canadian-born cattle. After one of them tested positive for BSE in December 2003 in Washington state, most countries banned U.S. beef and cattle products. Of the major markets, Canada and Mexico are now importing some U.S. beef, but efforts to reopen Asian markets, notably Japan and Korea, have progressed slowly. USDA's efforts to reopen the border to Canadian live cattle have been impeded by several legal challenges. In Congress, committees have held oversight hearings, and the Senate on March 3, 2005, passed a resolution (opposed by the President) that would disapprove a USDA rule to permit younger Canadian cattle imports. This report will be updated.¹

U.S. Beef Trade

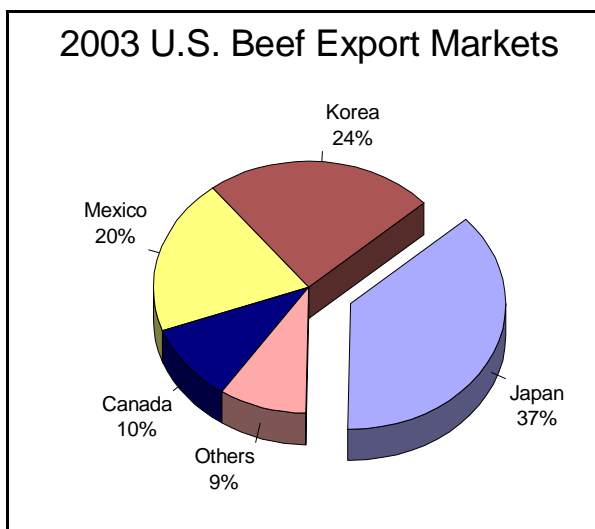
The \$3.1 billion value of 2003 U.S. beef and veal exports was equivalent to approximately 10% of the farm value of U.S. cattle and calves. Beef exports grew rapidly during the decade beginning in 1992, increasing by 85%, while domestic beef consumption grew by just 14%. Before the 2003 discovery of BSE in a Washington state dairy cow, the United States, the world's third largest beef and veal exporter, shipped about 1.1 million metric tons (MMT) or 18% of the world beef/veal market. Australia and Brazil were the first and second largest exporters, with market shares of 20% and 19% respectively.² After the December 23, 2003, BSE announcement, most countries banned some or all imports of U.S. beef and cattle products. These included Japan, South Korea, Mexico, and Canada, which together accounted for approximately 90% of U.S. beef exports. In 2004, Brazil became the top beef/veal exporter, followed by Australia and

¹ See also CRS Issue Brief IB10127, *Mad Cow Disease: Agricultural Issues for Congress*.

² Data on export market shares are from USDA, Foreign Agricultural Service, *World Markets and Trade: Dairy, Poultry and Livestock*, various issues. Unless noted, other data are from the USDA Economic Research Service (ERS) website at [<http://www.ers.usda.gov/features/bse/index.html>].

Argentina, while U.S. market share fell to 3%. Canada and Mexico resumed some U.S. imports in 2004 (also see “Related Price and Trade Impacts, below”).³

Imports have represented about 13% of total beef consumption in the United States, the largest world beef importer. Much of it is leaner, from grass-fed animals in Australia and New Zealand; it is blended, for example, with higher-fat U.S. meat for hamburger. Imports from Canada (and Mexico) reflected an integrated North American market. Until May 2003, Canada was the United States’ major source of beef and cattle imports. In 2002 Canada sent more than 1.5 million cattle to the United States, where large feeding and slaughter capacity readily absorbed them.⁴



Trade Implications of the Second BSE Case

An immediate reaction to the confirmation of a second case of BSE in the United States was Taiwan’s announcement that it was reinstating its ban on all U.S. beef, lifted for boneless beef from cattle aged less than 30 months in April 2005.⁵ South Korea suspended beef trade talks prior to the Secretary’s confirmation announcement, but they are expected to resume.⁶ The effects of the second BSE case on efforts to reopen the Japanese market to U.S. beef exports are less certain. The *Financial Times* reported that a delegation of Japanese lawmakers investigating U.S. safety measures implied that the discovery could delay a planned resumption of imports scheduled for August.⁷ Another Japanese view is that the case would not affect U.S.-Japanese negotiations because “the likelihood of a second infection had not been unexpected.”⁸ The Japanese press also reported, however, that a confederation of Japanese consumer groups suggested that more information was needed about the extent of BSE infection in the United States before beef imports could be declared safe. USDA officials maintained that the discovery of a second

³ For the latest list and specifics on country bans, see the APHIS trade ban status website at [http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html].

⁴ Center for Agricultural and Rural Development, *Iowa Ag Review*, summer 2003, at [http://www.card.iastate.edu/iowa_ag_review/summer_03/article4.aspx].

⁵ CNA News at [<http://english.www.gov.tw/index.jsp?action=cna&cnaids=10990>].

⁶ See “Pac Rim Trade Fragile,” in *Western Livestock Journal*, June 20, 2005 at [http://www.wlj.net/editorial/062005pac_rim_trade_fragile.asp].

⁷ “Japan import fears grow after new U.S. mad cow case,” *Financial Times*, Monday June 27, 2005, p. 5.

⁸ “2nd BSE Case May Mean Import Delay,” *Asahi Shimbun*, June 27, 2005, available at [<http://www.asahi.com/english/Herald-asahi/TKY200506270115.htm>].

case of BSE should not affect Japan's movement toward reopening its market to U.S. beef.⁹ USDA officials suggested that the case would not affect the USDA's determination to reopen the U.S. border to Canadian cattle. Canadian producers suggested that the case would spur efforts by both countries to reopen markets closed to North American beef.¹⁰ Cattlemen and ranchers who won a preliminary injunction against USDA's final rule that would have allowed younger cattle to enter the United States directly for slaughter or feeding said their litigation would continue.¹¹ (Testing issues raised by the latest BSE case are discussed in other CRS reports).¹²

Canada Situation

After the announcement of Canada's first BSE-infected cow in Alberta, in May 2003, USDA published an interim final rule banning all Canadian ruminant and product imports. In August 2003, USDA partially lifted the ban by permitting (without publishing a rule) imports of boneless beef from animals 30 months or younger, among other products. On November 4, 2003, USDA published a proposed rule to permit other Canadian ruminant imports, including younger live cattle. However, USDA already was expanding the types of Canadian beef permitted (also without formal rulemaking). In April 2004, in response to a lawsuit by Ranchers-Cattlemen Action Legal Fund USA (R-CALF), a federal judge blocked this expansion, citing concerns about food safety and improper rulemaking procedures. Further expansion in Canadian imports (beyond products announced August 2003) was halted until the October 2003 rule was finalized.¹³

The final rule, in the January 4, 2005, *Federal Register*, was to permit, among other things, imports of live cattle under 30 months old. Specifically, the rule would create a new category of "minimal risk" BSE regions — including those in which BSE-infected animals have been diagnosed but where sufficient regulatory measures have been in place to ensure that the introduction of BSE into the United States is unlikely. The rule, which was to take effect March 7, 2005, further classifies Canada in this category, the first such region to qualify, based on what USDA declared was "a thorough risk analysis."

However, a Montana federal judge on March 2, 2005, ordered a delay in the final rule until he can hold a trial on the merits of another R-CALF lawsuit, which charges that USDA made several procedural and substantive mistakes in the rulemaking. Observers believe the rule is now several weeks if not months away from implementation.

⁹ *Washington Trade Daily*, Vol. 14, no. 125, June 27, 2005.

¹⁰ *CBC News*: "BSE case should prompt border reopening, producers say," June 25, 2005, at [<http://www.cbc.ca/story/world/national/2005/06/25/canadaonmadcow-050625.html>]

¹¹ "Cattle Alert: R-Calf CEO Says BSE Case Won't Affect Litigation," at [<http://www.cattlenetwork.com/content.asp?contentid=5493>].

¹² CRS Report RL32414, *The Private Testing of Mad Cow Disease: Legal Issues*. Testing and other new U.S. BSE safeguards are described in CRS Issue Brief IB10127, *Mad Cow Disease: Agricultural Issues for Congress*.

¹³ See CRS Report RL32627, *Bovine Spongiform Encephalopathy ("Mad Cow Disease") and Canadian Beef Imports*.

USDA had unveiled the final rule as Canada (in early January 2005) confirmed the third and fourth North America BSE cases, in an Alberta dairy cow born before a 1997 ban on feeding most ruminant materials back to ruminants was published, and in an Alberta beef cow born in March 1998 after the feed ban. Canadian officials said use of contaminated feed was the most likely cause in both cases. Canadian and U.S. government teams each launched a review of the Canadian feed ban, and by early March both reported that the ban was effective.

A number of producers and others oppose the entry of Canadian beef and particularly live cattle. Many say they worry about the impact on U.S. farm prices if large numbers of Canadian cattle begin to cross the border. (USDA estimated in March 2005 that if the border is reopened to younger cattle, about 1.3 million Canadian animals may be imported throughout 2005, lower than previous estimates of 1.5 million-2 million head.) Some also argue that opening the border to what they believe are potentially risky Canadian animals could undermine efforts to regain the Japanese and other skittish foreign markets.

Others believe that impeding the rule will cause more, not less, incertitude in Japan. They believe moving forward is necessary for the United States to convince other countries that U.S. beef also is safe. Supporters argue that the USDA rule is sound, because (among other reasons) Canada has safeguards that are at least equivalent to those of the United States. They contend that the department's risk assessment has been scientific and thorough.

Canada historically exports around 60% of its beef production, and the United States has taken 80%-90% of such exports. Canada fed steer prices had declined substantially from the high US\$70s per cwt. before the May 2003 BSE announcement to the mid-US\$30s shortly afterward. Prices climbed through fall 2003, but generally were in the US\$50-\$60 per cwt. range during much of 2004. Canadian producers were losing between \$100 and \$200, and in some cases, \$300 per head, according to Cattle-Fax, a marketing information service associated with the industry.

Canadian cattle numbers increased after May 2003, because producers have not been permitted to export live animals to the United States and lacked adequate capacity to slaughter them, Cattle-Fax and USDA observed. However, Canada has since added 30,000 head per week to its total slaughter capacity, a 22% increase in 2004 alone, two meat industry officials told the House Agriculture Committee at a March 1, 2005, hearing. This increase is likely to be permanent and place U.S.-based packers at a competitive disadvantage, because they will not have access to the cattle that Canada will kill rather than export to their plants, meat industry and USDA officials have argued.

In Congress. On March 3, 2005, after a morning of floor debate, the Senate approved a resolution (S.J.Res. 4) to disapprove the rule, by a vote of 52-46. A related resolution (H.J.Res. 23) was pending in the House, where passage was considered less likely. A final measure would have to be signed by the President, who opposes it.

Other bills addressing the Canada rule include H.R. 187, to prohibit the rule "unless United States access to major markets for United States exports of cattle and beef products is equivalent or better than the access status accorded such exports as of January 1, 2003"; and H.R. 384/S. 108, to prohibit the Canada rule unless mandatory retail country-of-origin labeling (COOL) is implemented. The current statutorily set deadline

for COOL for fresh meats is September 30, 2006 (see CRS Report 97-508, *Country-of-Origin Labeling for Foods*). S. 294 would prohibit imports (from a minimal risk region like Canada) of meat, meat byproducts, and meat food products from bovines over 30 months old unless the Secretary reports to Congress that the region “is in full compliance with a ruminant feed ban and other [BSE] safeguards.”

U.S.-Japan Negotiations

Japan, until 2003 the number-one foreign buyer of U.S. beef, was insisting that all cattle be tested for BSE, but is considering an exemption for animals under 21 months old at slaughter. As outlined in an October 23, 2004, joint announcement, the United States said it had agreed to establish, with Japanese concurrence, an interim marketing program — a modified version of its Beef Export Verification (BEV) Program — that would enable a resumption of some U.S. exports to Japan. BEV is to certify that only beef products from cattle of 20 months or younger are shipped. In addition, the United States agreed to an expanded definition of cattle parts that have a higher risk of harboring the BSE agent. These “specified risk materials” (SRMs) are to include — for cattle of *all ages* — the entire head except tongues and cheek meat; tonsils; spinal cords; distal ileum; and part of the vertebral column. This is broader than the current U.S. SRM definition, which applies mainly to cattle over 30 months old. The two countries are to evaluate this interim system by July 2005, based in part on a scientific evaluation by international health experts, and modify it if appropriate. The United States is to permit Japanese specialty beef into its market following relevant domestic rule-making.

According to some industry analysts, U.S. packers may have difficulty satisfying the new Japanese criteria, even though approximately 70% of the 35 million U.S. cattle killed yearly are believed by USDA to be 20 months of age or younger. Verifiable age records may only be available for anywhere from 10% to at most 25% of U.S. cattle, according to estimates. Age verification and the expanded SRM definition would create new costs (i.e., paperwork; plant modifications) for packers and their suppliers, analysts said.

Most observers do not expect that U.S. beef will be eligible for the Japanese market until later in 2005 at the earliest — notwithstanding the fact that high-level Bush Administration officials, including the President, periodically have raised the issue with their Japanese counterparts. Several high-ranking Japanese officials have warned that any rule changes will not be finalized until their government can explain them to consumers; until government agencies, with concurrence of their Food Safety Commission, complete rulemaking; and until U.S. and Japanese negotiators can agree on a number of trading details.

In Congress. The seemingly sluggish pace of the market-opening efforts has frustrated the beef industry and many Members of Congress, who believe that opening the Japanese market will convince other Asian nations, including Korea, to follow suit. Pending is H.Res. 137, which calls for economic sanctions against Japan if it does not permit U.S. beef.

Related U.S. Price and Trade Impacts¹⁴

Industry analysts believe that the BSE experience has been much less devastating economically in the United States than it has been in other countries. One reason is that the United States, learning from Europe, was able to put BSE safeguards into place prior to its own first case. Also, the U.S. beef industry is much less dependent on export demand than the Canadians, cushioning the price effects.

In 2003, the U.S. ban on Canadian beef and cattle, coupled with already tight U.S. supplies and strong demand, had driven up U.S. beef and cattle prices substantially. After the December 2003 BSE case was announced, cattle prices fell. However, they had stabilized by early January 2004. Industry analysts reported that U.S. domestic demand (both retail and restaurant, including fast-food hamburger sales) appeared to be holding steady. That, combined with lower U.S. cattle inventories due in part to widespread drought in cattle country, kept cattle and beef prices high during 2004, helping to offset the effects of the BSE-related foreign bans. USDA reported that average U.S. fed steer (i.e., slaughter-ready cattle) prices were nearly \$85 per cwt. for all of 2004, compared with average fed steer prices of \$85 in 2003 and \$67 in 2002.

Nonetheless, foreign import bans mean the domestic market has had to absorb some 23 million more pounds of beef weekly or 1.2 billion pounds for the year due to lost exports, according to Cattle-Fax. Exports of by-products like collagen, sausage casings, brains, other organs, tongue, tails, and tendons (all adding value to each animal) also have been affected by the bans on U.S. beef products. In Japan, other countries, notably Australia, have filled U.S. lost market share.

A recent study by researchers at Kansas State University of the impact that BSE has had on the U.S. beef industry found that average U.S. wholesale boxed beef prices during 2004 were 12 to 17 cents per pound lower than they would have been if all the export markets had been open. The loss of beef export markets also meant that by-product prices were lower than they would have been. The total estimated U.S. beef industry losses attributable to the loss of beef and by-product exports in 2004 ranged from \$3.2 to \$4.7 billion, according to the study.¹⁵

Cattle sales represent approximately 20% of U.S. gross farm income. Four states — Texas, Nebraska, Kansas, and Colorado — annually account for more than half of U.S. beef cattle revenues and more than two-thirds of all cattle slaughter. Depressed export markets — combined with smaller live cattle supplies due to the ban on Canadian animals (which bid up cattle prices) have negatively impacted meat plants in such states. A number of meat companies have announced production cutbacks and layoffs.

¹⁴ Sources for this section include USDA/ERS, *Livestock, Dairy, and Poultry Outlook*, various issues, the ERS website (see footnote 2), and ERS, *U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions* (LDPM-120-01), July 2004.

¹⁵ The Kansas State study can be found at [<http://www.agmanager.info/livestock/marketing/bulletins%5F2/industry/demand/EconomicImpactofBSEonUSBeefIndustry.pdf>].