

CRS Report for Congress

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Mad Cow Disease and U.S. Beef Trade

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Summary

The United States has been trying to regain foreign markets that banned U.S. beef when a cow in Washington state tested positive for bovine spongiform encephalopathy (BSE, or mad cow disease) in December 2003. Rebuilding foreign confidence in the safety of U.S. beef and cattle has been impeded by two other confirmed U.S. cases of BSE, announced June 2005 and March 2006. Among the four major foreign markets, Canada and Mexico are again accepting U.S. beef, but Japan and Korea were not as of late March 2006. North American beef trade also has been disrupted by Canada's own BSE findings, with four indigenous cases reported there. This report will be updated.¹

U.S. Beef Trade

Before the December 2003 discovery of BSE in a Washington state dairy cow, the United States exported about 1.1 million metric tons (MMT) of beef, veal and beef variety meats, valued at \$3.9 billion in 2003. This was equivalent to approximately 10% of the farm value of U.S. cattle and calves. U.S. beef exports had grown rapidly during the decade beginning in 1992, increasing by 85%, while domestic beef consumption grew by just 14%.²

After USDA's 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 had purchased approximately 90% of U.S. beef exports.

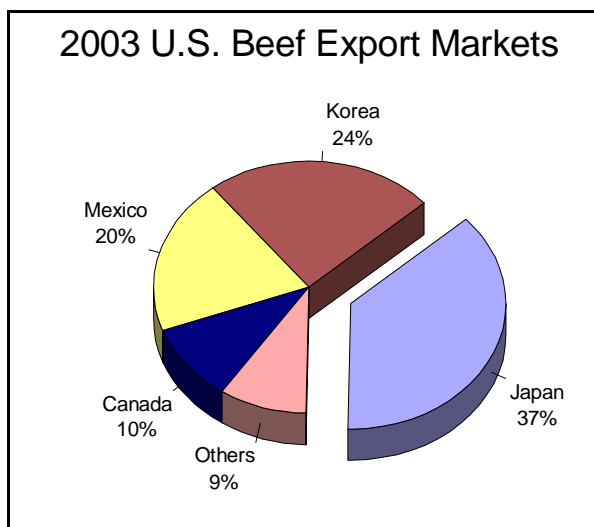
¹ For additional details and background see CRS Report RS22345, *BSE ("Mad Cow Disease"): A Brief Overview*, and CRS Report RL32199, *Bovine Spongiform Encephalopathy (BSE, or "Mad Cow Disease"): Current and Proposed Safeguards*.

² Trade data sources are primarily USDA, Foreign Agricultural Service (FAS), *World Markets and Trade: Dairy, Poultry and Livestock*, various issues; and FASonline's U.S. Trade Internet System at [<http://www.fas.usda.gov/ustrade/>]. Unless noted, other data are from the USDA Economic Research Service (ERS) website at [<http://www.ers.usda.gov/features/bse/index.html>].

Although Canada and Mexico resumed some U.S. imports starting in 2004, Japan and Korea were still closed as of late March 2006.³

In 2003, the United States was the third largest beef/veal exporter, claiming 18% of the world beef/veal market. Australia and Brazil ranked one and two, with 1.3 MMT and 1.2 MMT in exports, respectively. U.S. market share plummeted to 3% in 2004 (209,000 MT) and has climbed only modestly since then (see below). Meanwhile, Brazil became the top beef/veal exporter in 2004 and now holds about 27% of the world market share, followed by Australia with 20%.

Imports have represented about 13% of total beef consumption in the United States, the largest world beef importer. 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



U.S.-Japan Negotiations

Japan, until 2003 the top foreign buyer of U.S. beef, had been insisting that all cattle be tested for BSE, as it claimed to do. After months of negotiations, the two countries issued a joint announcement October 23, 2004, whereby the United States agreed to establish, with Japanese concurrence, an interim marketing program — a modified version of its Beef Export Verification (BEV) Program — enabling a resumption of some U.S. exports to Japan. BEV would certify that only beef products from cattle of 20 months or younger are shipped. Also, 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) 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 U.S. SRM definition, which applies mainly to cattle over 30 months old. The two countries were 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 also agreed to permit Japanese beef into its market following relevant domestic rule-making. USDA’s Animal and Plant Health Inspection Service

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

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]. Canadian cattle imports resumed in 2005; see “Canada Situation.”

(APHIS) published a final rule on December 14, 2005, permitting such imports (whole boneless beef cuts under specified conditions).⁵ Prior to imposition of a U.S. ban on Japanese beef imports due to animal disease (including BSE) outbreaks there, that country exported an annual average of less than 9 tons of primarily specialty beef (Kobe and other Wagyu), according to Department data.

The Japanese agreed to ease their national policy of universal BSE testing (although all local authorities reportedly continue it). Japan did not finalize its decision to permit U.S. beef imports until December 2005, following a final report from their independent Food Safety Commission (FSC) certifying the adequacy of U.S. safeguards.

In mid-December 2005 the first U.S. beef shipments were made. However, the Japanese abruptly halted imports from all U.S. importers again on January 20, 2006, after they found vertebral column bones in several boxes of veal from one U.S. processor. As of late March 2006, USDA officials were still negotiating to reinstate U.S. eligibility, while their counterparts in Japan continued to review the U.S. situation (including the March 2006 BSE case). Many Japanese consumers remain opposed to U.S. beef imports regardless of whether their government again clears the way for them. These consumers have been substituting other sources (i.e., Australia and New Zealand) for U.S. beef, which once accounted for 25-30% of Japanese beef consumption.

In Congress. Many Members of Congress have expressed deep frustration with the Japanese situation. Introduced in March 2005 were H.Res. 137 and S.Res. 87, calling for economic sanctions against Japan if it does not permit U.S. beef. Also, S. 1922/H.R. 4179, introduced in October 2005, would have imposed \$3.14 billion in retaliatory tariffs on Japanese imports if Japan did not lift the beef ban by December 15, 2005. Elsewhere, a Senate floor amendment to the FY2006 USDA appropriation (H.R. 2744), which would have blocked a new U.S. rule to permit some Japanese beef imports unless Japan lifted its own ban, was deleted from the final conference agreement (H.Rept. 109-255, P.L. 109-97). Interest in these types of proposals could be renewed if the Japanese do not soon reopen their market.

Korea

U.S. officials announced in January 2006 that Korea, previously the U.S.' second most important export destination, had agreed to a protocol that would permit imports of boneless beef from cattle under 30 months old, starting in April 2006. Following news of the third U.S. case of BSE, there was speculation that the opening date might be delayed by several weeks or longer, although media reports indicate that the Koreans are still moving toward lifting their ban.

Canada Situation

After Canada's first BSE-infected cow (from Alberta) was announced 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

⁵ 70 *Federal Register* pp. 48494-484500 and pp. 73905 — 73919.

products. On November 4, 2003, USDA published a proposed rule to permit other Canadian ruminant imports, including younger live cattle. However, USDA already had been 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.⁶

APHIS's final rule in the January 4, 2005 *Federal Register* permits, among other things, imports of live cattle under 30 months old. Specifically, the rule creates 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 further classifies Canada in this category, the first such region to qualify, based on what USDA declared was "a thorough risk analysis."

Five days before the March 7, 2005, effective date for the rule, a Montana federal judge ordered a delay until he could hold a trial on the merits of a new R-CALF lawsuit, charging that USDA had made several procedural and substantive mistakes in this rulemaking. A federal appeals court overruled the Montana judge's decision in July 2005, and cattle imports from Canada soon resumed (see below).

USDA had unveiled the final rule as Canada (in early January 2005) confirmed it had two more 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. Another case was reported by Canada in January 2006, in an Alberta crossbreed cow born in 2000, also after the feed ban. Canadian officials said use of contaminated feed was the most likely cause in all cases. Canadian and U.S. government teams had each conducted a review of the Canadian feed ban, and in March 2005 both reported that the ban was effective. Still, critics have questioned those assessments, given that the two most recent cases were born and contracted the disease after the feed ban.

A number of producers and others continue to oppose the entry of Canadian beef and particularly live cattle. Many say they remain worried about the impact on U.S. farm prices as large numbers of Canadian cattle again cross the border. Some also argue that opening the border to what they believe are potentially risky Canadian animals undermines efforts to regain the Japanese and Korean markets. Others counter that moving forward with the Canada rule was necessary for the United States to convince other countries that North American beef is safe, that U.S. and Canadian safeguards are sound, and that all countries should, like the United States, base their import policies on thorough, scientific risk assessments.

Canada historically has exported around 60% of its beef production, and the United States has taken 80%-90% of such exports. Canadian fed steer (slaughter-ready steer) prices had declined substantially from the high US\$70s per cwt. before the May 2003

⁶ See also CRS Report RL32932, *Bovine Spongiform Encephalopathy (BSE, or "Mad Cow Disease") in North America: A Chronology of Selected Events*.

BSE announcement to the mid-US\$30s shortly afterward. 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. Cattle prices climbed through fall 2003, but generally were in the US\$50-\$60 per cwt. range during much of 2004. They reached US\$70s per cwt. during 2005.

Canadian cattle inventory numbers had increased after May 2003, because producers were not permitted to export live animals to the United States and lacked adequate capacity to slaughter them, Cattle-Fax and USDA had observed. Canada then 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 argued.

After the ban on younger Canadian cattle was lifted, the United States imported 558,000 head in 2005 (that is, July-December). Imports could reach 2.175 million head in 2006, according to USDA. On the other hand, a recent report (February 2006) by the FAS agricultural attache in Canada has estimated that the 2006 number might be closer to 1 million head due to increased slaughter capacity in Canada, a rise in the Canadian dollar relative to the U.S. dollar, an inability to export older cattle, and other factors.

In Congress. On March 3, 2005, after a morning of floor debate, the Senate approved a resolution (S.J.Res. 4) to disapprove the Canada import rule, by a vote of 52-46. A related resolution (H.J.Res. 23) did not reach the House floor for a vote in 2005. At any rate, a final measure would have to be signed by the President, who opposes it.

Other bills addressing the Canada rule have included 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, 2008 (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.”

Related U.S. Price and Trade Impacts⁷

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.

⁷ 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.

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 had to absorb some 23 million more pounds of beef weekly or 1.2 billion pounds annually 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 were affected by the bans on U.S. beef products. In Japan, as noted, other countries, particularly Australia, have filled U.S. lost market share. Even Canada is poised to reenter the Japanese market.

A 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.⁸

USDA's March 2006 outlook and situation reports estimate that U.S. beef and veal exports climbed from 209,000 MT and 3% of world market share in 2004, to 313,000 MT and 4% of world market share in 2005. The 2006 projection is 411,000 MT, or 6% of world market share. Cattle prices averaged more than \$87 per cwt. in 2005, and were predicted to be \$83-88 per cwt. in 2006 (March 2006 estimate).

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) reportedly negatively impacted meat plants in such states.

⁸ The Kansas State study can be found at [<http://www.agmanager.info/livestock/marketing/bulletins%5F2/industry/demand/EconomicImpactofBSEonUSBeefIndustry.pdf>].