

Beef Trade Issues

Hikaru Hanawa Peterson
&
Kim Cerny

Department of Agricultural Economics,
Kansas State University

Risk & Profit Conference, August 11-12, 2005
Manhattan, KS

1

BSE, BSE, BSE...

- 5/03 BSE in Canada
→ No imports from Canada
- 12/03 BSE in WA
→ No exports to all major markets
- 6/05 2nd BSE in TX
- 8/05 3rd BSE?
→ Canadian imports have resumed
but still no exports to Japan & S.Korea

2

Outline

- BSE 101
- Trade situation
- Estimated cost of closed borders
- Estimated impact on cattle prices from Canadian border reopening
- Negotiation process with Japan
- Likely response when Japan reopens

3

BSE 101

- Bovine Spongiform Encephalopathy (Mad Cow Disease) is a degenerative neurological disease in cattle
- Agent unknown
 - Resistant to heat and normal sterilization processes
 - Found in nervous tissues

4

BSE 101 (cont'd)

- People may get variant Creutzfeldt-Jakob Disease from eating BSE-infected beef
 - About 165 cases
- Need to remove specified risk material (SRM) from human food chain

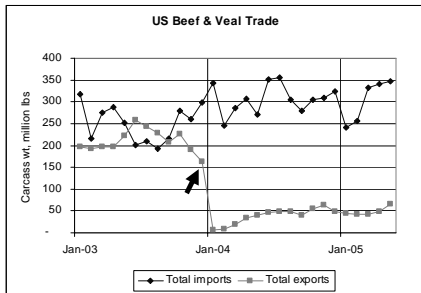
5

BSE 101 (cont'd)

- Test using brain tissues post-mortem
 - Rapid test
 - If inconclusive,
 - Immunohistochemistry (IHC)—USDA protocol
 - Western Blot—Internationally recognized
- More prevalent/detectable in older cattle

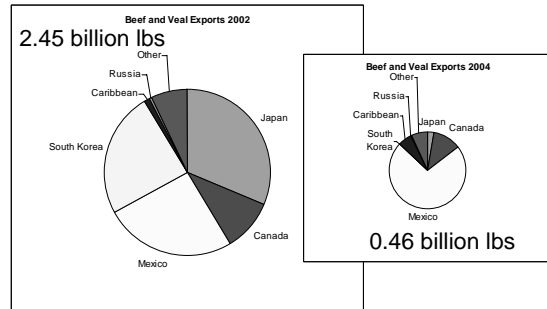
6

Beef Trade



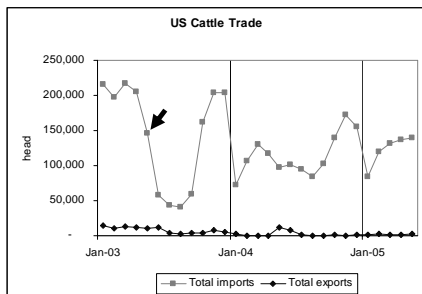
7

US Beef Export Market



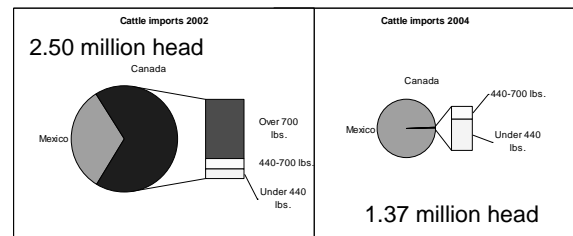
8

Cattle Trade



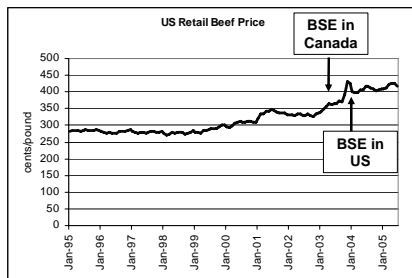
9

US Cattle Import Market



10

US Retail Beef Price



11

Cost of Closed Borders

- Procedure/assumption
 - Figure out the price that would have prevailed if 2004 world demand was the same as 2003 world demand
 - Loss = the differences in the estimated & actual prices × 2004 US beef production
 - Compute for beef & beef offal

Coffey, B., J. Mintert, J. Fox., T. Schroeder, and L. Valentin. *The Economic Impact of BSE on the US Beef Industry: Product Value Losses, Regulatory Costs, and Consumer Reactions*, Kansas State University, April 2005.

12

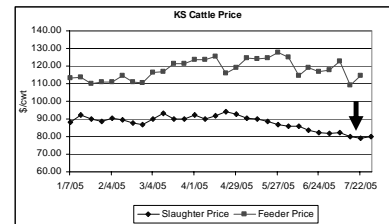
Cost of Closed Borders (cont'd)

- Estimated price differences attributable to closed borders
 - beef \$0.12-0.17/lb
 - beef offal \$0.30-0.43/lb
- Estimated US beef industry loss in 2004 attributable to closed borders
 - \$3.2-4.7 billion

13

Impact on Cattle Prices from Canadian Border Reopening

- July 18 The ban on cattle under 30 months lifted



14

Impact on Cattle Prices (cont'd)

- Assumptions
 - Canadian cattle imports = 408,989 head
 - Average of 2nd, 3rd, & 4th quarters of 2002 & 1st quarter of 2003
 - U.S. cattle slaughter = 8.16 million head
 - 2005 2nd quarter
 - Price of U.S. slaughter cattle = \$84.37/cwt
 - June 2005 KS price

15

Impact on Cattle Prices (cont'd)

- If quarterly imports were resumed to prior BSE levels
- US slaughter cattle price will drop by \$5.90/cwt
 - US feeder cattle price will drop by \$2.54/cwt

16

Starting Point

- Japan
 - Uses BSE-testing to guarantee food safety
 - Tests all animals at slaughter
 - Expects the same standard on imports
- US
 - Uses BSE-testing for animal health surveillance
 - Food safety is secured by SRM removal

17

Starting Point (cont'd)

- US beef exports to Japan consist of specific cuts
 - Only 5% of total production in volume but comes from a large share of cattle
- AU beef supply
 - Wheat vs corn
 - Japan needs to import full sets
 - Risk in producing grain-fed beef

18

Starting Point (cont'd)

- Age of animal to be exempt from testing
 - US requested 30 months
 - 2 cases in Japan were 21 & 23 months
 - Method of determining age
- US ban of beef and cattle imports from other low BSE-incident countries

19

Stakeholders

- Japan
 - Beef producers—concern over decline in beef demand
 - Food services—some depend heavily on US beef; creatively using AU beef
 - Consumers—craving for dishes using US beef; demand 100% safety

20

Stakeholders

- US
 - Beef market is strong
 - Some businesses specialize in exports of cuts that have little demand in US
 - Consumer groups beginning to demand more BSE-testing

21

Key Institution

- Japan's Food Safety Commission (FSC)
 - Established 2003 under cabinet
 - 7 members plus expert committees
 - Prion Committee charged to:
 - Assess health risk of domestic BSE policy
 - Assess health risk of US & Canadian beef product imports under proposed Export Verification (EV) programs

22

Developments

- Sept 04 FSC—minimal risk of not testing animals under 20 months
- Oct 04 US-Japan preliminary agreement on terms of resuming trade
 - All US beef items from animals under 20 months, untested
 - Method of determining age TBD
 - BEV program to be reviewed
- New Ag ministers

23

Developments (cont'd)

- Feb 05 Japan accepted US proposed use of A40 to determine age requirement
 - Less than 20% of US slaughter
- May 05 Japan announced animals under 20 months do not require testing, 8/1~
 - Technically equalizing standards of domestic & imports
 - In practice, status quo for next 3 years, thus "double standards"

24

Developments (cont'd)

- June 05 US 2nd case confirmed
 - US born
 - Been dead since fall 04
- July 05 Canadian cattle imports resumed
US 3rd case?

25

Timeline

- Waiting for FSC report
 - FSC waiting for data from USDA
- September might be tight but close after

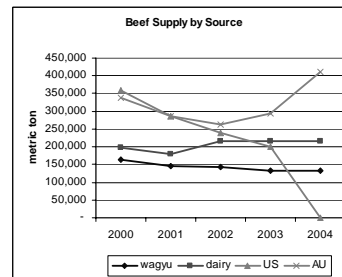
26

Japanese Beef Market

- Domestic beef:
 - Wagyu → Japanese native breed cattle with heavier marbling
 - Dairy → byproduct
- Imported beef:
 - 70% of Japanese beef supply during the late 1990s.
 - U.S. → comparable quality to dairy beef
 - Australia → hamburger

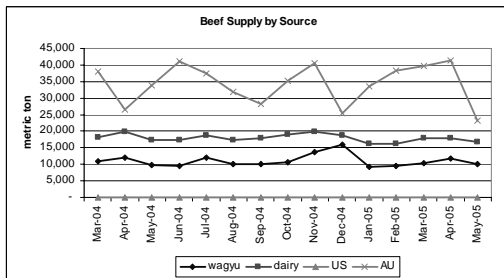
27

Production & Imports



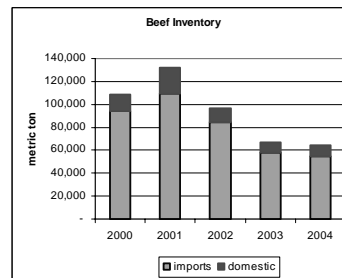
28

Production & Imports



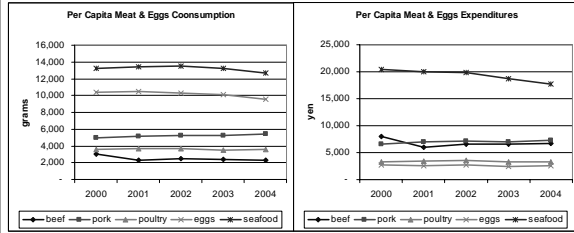
29

Inventory



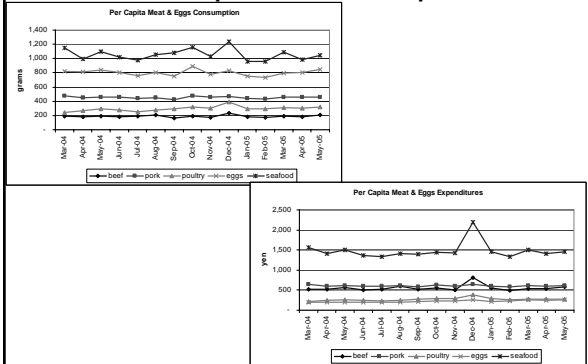
30

Per Capita Consumption

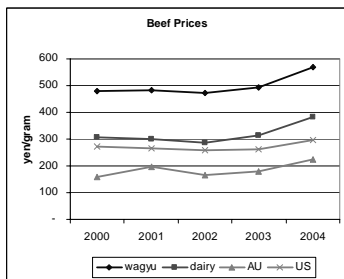


31

Per Capita Consumption

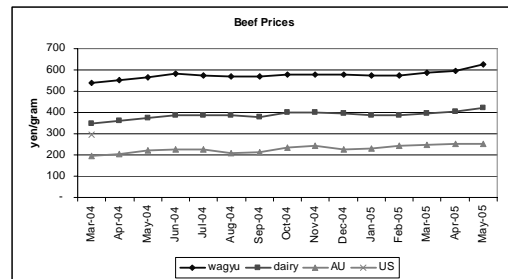


Prices



33

Prices



34

Expected Consumer Response

- Survey Oct 04 after US-Japan agreement regarding no testing under 20 months
 - "If imports resume, would you eat US beef?"

	Yes	No
28%	63%	
(Male 41%)	(48%)	
(Female 16%)	(76%)	

35

Expected Consumer Response

- Newspaper: Restaurants "screamed" as beef prices went up at the news of US 2nd case



Lines formed at a beef bowl restaurant serving the last beef bowls, as their US beef inventory was exhausted, 02/04.

36

Watch Out For

- Safeguard provision
 - According to WTO agreements, if quarterly total imports are over 117% from the same quarter in the previous year, tax rate increases from 38.5% to 50% until the following March.
 - Was pretty close for 2nd quarter of 2005

37

Questions / comments?