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CRS Report for Congress

Mad Cow Disease and U.S. Beef Trade

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Summary

The 110th Congress is expected to monitor closely U.S. efforts 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.[1] 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. The four major U.S. beef export markets, Canada, Mexico, Japan, and Korea, are again accepting U.S. product. Resumption of beef trade with Japan and Korea has not gone smoothly. Japan is permitting imports of beef from animals 20 months old or younger. U.S. beef imports are currently prohibited by Korea pending negotiation of a new animal health protocol. U.S. officials are using a World Animal Health Organization classification of the United States as a "controlled risk" country for BSE as an argument for beef importing countries to reopen their export markets to U.S. beef. Legislation has been introduced in both chambers to disapprove a rule to permit imports of live cattle and products from Canada. In the 110th Congress, Korea's suspension of quarantine inspections of U.S. beef has become a key issue in congressional consideration of the Korea-U.S. Free Trade Agreement.

U.S. and World Beef Trade

In 2003, the United States exported about 1.1 million metric tons (MMT) of beef, veal and beef variety meats, valued at $3.9 billion. 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]

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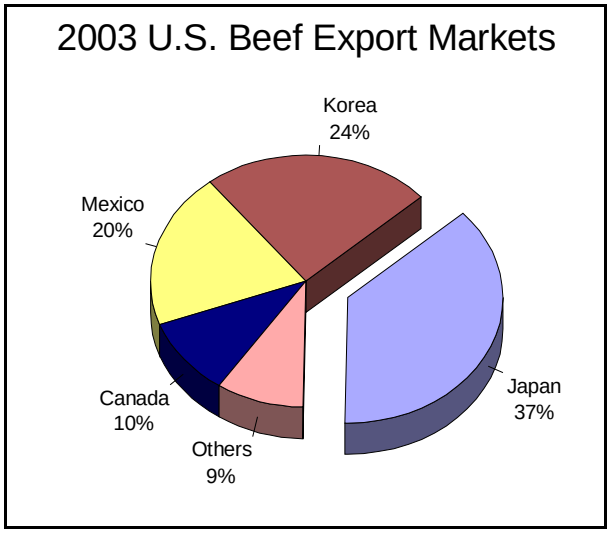
[1] For additional details and background see CRS Report RS22345, *BSE ("Mad Cow Disease:): A Brief Overview*, and CRS Report RL32199, *Bovine Spongiform Encephalopathy (BSE, or "Mad Cow Disease"): Current and Proposed Safeguards*.

[2] Unless noted, trade data sources are USDA, Foreign Agricultural Service (FAS), *World Markets and Trade: Dairy, Poultry and Livestock*, various issues available at [http://www.fas.usda.gov/
(continued...)

After USDA's 2003 BSE announcement, most countries banned or restricted 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. Canada and Mexico resumed importing some U.S. beef in 2004. Japan and Korea reopened their markets in July and November 2006, respectively.

In 2003, the United States was the world's 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 to almost 9% (650,000 MT) in 2007. Meanwhile, Brazil has become the top beef/veal exporter in 2007 with 32% of the world market share, followed by Australia with 19%.



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. Prior to its own May 2003 BSE event, Canada was the United States' major source of beef and cattle imports. In 2002 Canada sent about 1.7 million cattle to the United States, where large feeding and slaughter capacity readily absorbed them.[3] U.S. imports of Canadian cattle fell to 508,000 head in 2003, but recovered to 1.1 million head in 2006.

The World Animal Health Organization (known by its historical acronym, OIE) has formally classified the United States as a controlled risk country for BSE.[4] The OIE is the internationally recognized standard-setting agency for animal health. The OIE's International Committee unanimously adopted a resolution on May 22, 2007 recommending that the United States, along with Canada, Switzerland, Taipei-China, Chile and Brazil, be recognized as having "controlled risk" status for BSE. Controlled risk status recognizes that regulatory controls for BSE are in place and effective. The OIE classification is reviewed annually. The Administration is arguing that beef importing countries should acknowledge this OIE determination and reopen their markets to U.S. beef exports.

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[2] (...continued)
currwmt.asp]; and FASonline's U.S. Trade Internet System at [http://www.fas.usda.gov/ustrade/].

[3] 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."

[4] The OIE website is at [http://www.oie.int/eng/en_index.htm].

U.S. Beef Exports to Japan

After months of negotiations, the United States and Japan announced on October 23, 2004, that the United States would 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 United States also agreed to permit Japanese beef, previously banned because of the prevalence of animal disease including BSE, into the U.S. market following relevant domestic rule-making. USDA's Animal and Plant Health Inspection Service (APHIS) published a final rule on December 14, 2005, permitting such imports (whole boneless beef cuts under specified conditions).[5]

Japan finalized its decision to permit U.S. beef imports in December 2005, following a final report from its independent Food Safety Commission (FSC) certifying the adequacy of U.S. safeguards, at which point shipments resumed. 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. Following Japan's review of the eligibility of U.S. slaughter facilities to export beef to Japan, the market reopened for U.S. beef on July 27, 2006.

Reestablishing U.S. beef in the Japanese market will not be easy. U.S. beef exports to Japan confront several constraints: consumer beef safety concerns, strict port scrutiny of U.S. shipments, uncertainty about U.S. supplies of age-qualified animals, a shift in consumer choice of protein from beef to pork, and competition for the Japanese market from Australia, a BSE-free exporter.[6] Australia currently provides about 88% of Japanese imports of chilled and frozen beef. Another potential constraint to expanding U.S. beef exports to Japan is that country's possible imposition of a beef import safeguard (a 50% tariff) should imports in 2008 exceed trigger levels.[7] The current beef import safeguard is set at a level that would not trigger imposition of the safeguard, but it is possible that the safeguard, established annually, could be set at a level in 2008 that would seriously affect U.S. beef exports.

In Congress. Legislative initiatives in the 110th Congress will depend in large part on the pace of resumption of U.S. beef imports by Japan. During the 109th Congress, many Members 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

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[5] 70 *Federal Register*, pp. 48494-484500 and pp. 73905-73919.

[6] See U.S. Dept. of Agriculture, Foreign Agricultural Service, *Japan: Livestock and Products Annual Report 2007*, at [http://www.fas.usda.gov/gainfiles/200710/146292723.pdf].

[7] Ibid., p. 6.

not lift the beef ban by December 15, 2005. Elsewhere, a Senate floor amendment to the FY2006 USDA appropriation (H.R. 2744) that would have blocked the rule permitting some Japanese beef imports was deleted in conference (H.Rept. 109-255, P.L. 109-97).

U.S. Beef Exports to Korea

Korea's prohibition on U.S. beef, which had been in place since December 2003, was lifted on September 11, 2006. Resumption of U.S. beef exports to Korea, the United States second largest export destination for beef in 2003, is expected to proceed slowly for the same reasons that will slow Japan's resumption of beef imports. Strict quarantine inspection requirements in Korean ports have resulted in refusal of a few shipments of U.S. beef because of the presence of bone fragments.

In October 2007, Korea suspended quarantine inspections of U.S. beef because of discovery of vertebral column in a U.S. shipment. Although vertebral column from cattle under thirty months of age is not considered a specified risk material by the OIE, it is included as such in the current Korea-U.S. health protocol, which was negotiated in January 2006. U.S. beef will not be able to enter the Korean market until the United States and Korea negotiate a new animal health protocol. In the near term, U.S. exporters are unlikely to share in expected increases in the demand for beef in Korea, where exchange rates and rapid economic growth favor increased beef imports. As in Japan, Australia has emerged as the main U.S. competitor for the Korean beef market, and now enjoys a 72% share of current beef exports to Korea. The United States is a long way from attaining its historic annual share of Korean beef imports, which amounted to around 50% of the export market for beef prior to the 2003 BSE event.

In Congress. In the 110th Congress, U.S. access to Korea's beef market has become a key issue in the debate over implementation of the U.S.-Korea free trade agreement (FTA). The FTA phases out Korean tariffs on beef over 15 years, but does not address animal health related barriers. A number of Members of Congress have signaled that their support for legislation to implement the FTA is contingent on Korea fully opening its market for U.S. beef.[8]

Canada Situation

On July 18, 2005, the U.S. border reopened to imports from Canada of live cattle under 30 months old, under USDA's Initial Minimal Risk Rule.[9] The reopening was the first time in more than two years, since Canada's BSE incident in May 2003, that live cattle from Canada were eligible to enter the United States. On September 14, 2007, USDA announced its Minimal Risk Rule 2 (MRR2), a final rule that allows for the importation of live cattle and other bovine species (e.g., bison) for any use (including breeding animals born on or after March 1, 1999, a date APHIS had determined to be the effective enforcement of Canada's ruminant-to-ruminant feed ban). The final rule became

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[8] See CRS Report RL34134, *Agriculture in U.S. Free Trade Agreements: Trade with Current and Prospective Partners, Impact, and Issues*.

[9] Information on the Canada situation is based on *Canada: Livestock and Products Annual 2007*, USDA, Foreign Agricultural Service, GAIN Report CA7050, October 3, 2007, at [http://www.fas.usda.gov/gainfiles/200710/146292635.pdf].

effective November 19, 2007. Also in effect as of November 19, 2007, is a measure allowing imports of meat from Canadian cattle older than 30 months; this was a suspended part of a USDA rule issued in January 2005.

The Ranchers-Cattlemen Action Legal Fund United Stockworkers of America (R-CALF USA) did not succeed in court action to block the border opening, although the court has yet to rule on R-CALF's request for a temporary restraining order that could result in putting on hold the MRR2 cattle rule until the court rules on its legality.[10] R-CALF's legal efforts to block issuance of earlier rules also did not meet with success.[11]

One major concern of some cattlemen is that MRR2 would result in a flood of Canadian cull cattle exports to the United States. Analysis by USDA's Foreign Agricultural Service (FAS), however, suggests that, for a variety of reasons, this is unlikely to occur.[12] FAS lists, among factors that will impede the flow of cull cattle from Canada to the United States, an increase in Canadian slaughter capacity for cull cattle that reduces the supply of culled animals available for export; a large number of Canadian cull cattle that are currently older than eight years and thus disqualified from export eligibility by the age requirements in MRR2; and a strengthening of Canadian cattle prices as the MRR2 rule goes into effect.

In addition to concerns about competition from increased Canadian live cattle imports, there are worries that opening the border to what they believe are potentially risky Canadian animals will undermine efforts to regain the Japanese and Korean markets. Others counter that moving forward with the Canada rules 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.

In Congress. In the 110th Congress, resolutions of disapproval of MRR2 have been introduced in both chambers (H.J.Res. 55 and S.J.Res. 20). If passed by both chambers and signed by the President, MRR2 would have no force or effect. During the 109th Congress, the Senate passed its resolution (S.J.Res. 4) to disapprove the 2005 Canada import rule, by a vote of 52-46. A related resolution (H.J.Res. 23), however, did not reach the House floor for a vote. Another bill introduced in the 110th Congress, S. 1308, would prohibit imports of Canadian cattle over 30 months of age or of beef derived from such cattle, until 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*). Bills introduced in both chambers (H.R. 357 and S. 404) proposed accelerating the date of implementation of COOL to September 30, 2007.

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[10] See "U.S. Accepts All Canadian Cattle, Meat from Cows Over 30 Months," *Inside U.S. Trade*, online version, November 19, 2007, at [http://www.insidetrade.com/secure/dsply_docnum_txt.asp?f=wto2002.ask&dn=11192007_cattle].

[11] See *An Economic Chronology of Bovine Spongiform Encephalopathy in North America*, USDA, Economic Research Service, June 2006, at [http://www.ers.usda.gov/Publications/LDP/2006/06Jun/LDPM14301/].

[12] USDA, FAS, Canada and Products Annual 2007, p. 6.

Related U.S. Price and Trade Impacts[13]

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. Before the BSE events, Canada exported 37% of its beef production, whereas the United States exported 9%.

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.

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.[14]

USDA estimates that U.S. beef and veal exports will climb from 519,000 MT in 2006 to 776,000 MT in 2007.[15] Had Korea not suspended U.S. beef imports in October 2007, total U.S. beef exports were on track to reach 850,000 MT. Cattle prices averaged more than $86 per cwt. in 2006, and are predicted to be around $92 per cwt. in 2007.

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[13] Sources for this section include USDA/ERS, *Livestock, Dairy, and Poultry Outlook*, various issues, the ERS website (see footnote 11), and ERS, *U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions* (LDPM-120-01), July 2004.

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

[15] Data on projected beef exports and cattle prices are from USDA, World Agricultural Supply and Demand Estimates, November 9, 2007, at [http://www.usda.gov/oce/commodity/wasde/latest.pdf].