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Analysis in brief

Mad cow disease and beef trade

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Mad cow disease and beef trade

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Summary

On May 20, 2003, Canada's beef industry was rocked when the announcement was made that a single breeder cow in northern Alberta had tested positive for bovine spongiform encephalopathy (BSE), more commonly known as mad cow disease.

Prior to the worldwide ban on Canadian beef products, Canada was the third largest exporter of beef in the world. In 2002, this export market was worth about \$4.1 billion. After the ban, the value of these Canadian exports in June, July and August dropped to virtually zero.

Export markets have traditionally been important to Canadian beef farmers. Prior to the ban, almost half of the cattle sold in Canada were exported as either live animals or meat.

Canada exports the vast majority of its beef products to the United States, the world's largest beef-importing country. About 90% of Canadian beef exports went to the United States in 2002.

Canadian beef imports increased above historical levels in June 2003 before dropping in July and August. These imports have not been trivial (about \$900 million in 2002) and represent a substantial proportion of the Canadian meat supply (almost 30% over the past three years).

Before the worldwide ban, Canada exported far more beef products than it imported. This surplus in beef trade amounted to about \$3.2 billion in 2002.

In contrast to Canada, the U.S. beef supply was tight pushing retail prices to record levels.

This paper traces Canada's beef exports and imports throughout the early days of the beef export ban, with a particular focus on the U.S. market.

Canada: World's third largest exporter of beef products

In 2001, Canada held about 15% of the world beef market, ranking in third place¹. The United States was second with a share of 16% and Australia was first with 23%.

Scope

Beef products in this paper refer to live cattle, fresh or chilled beef products and frozen beef products—which represent respectively about 45%, 45% and 5% of total exports of these products in 2002—and other products such as processed meats and offal (representing only 5%). Veal and bison are included in beef products.

Data sources

The sources of data used in this analysis are primarily Canadian and U.S. import and export trade data, taken from the International Trade Division of Statistics Canada and the Foreign Trade Division of the U.S. Census Bureau. Data on farm cash receipts are from Agriculture Division, Statistics Canada. Unless otherwise stated, all values are in Canadian dollars. Conversions are based on the average of the Bank of Canada's monthly or annual exchange rates. Likewise, all data sources, unless otherwise stated, are derived from customs-based values. No seasonal adjustment was made to the data.

Cattle farmers depend on export markets

Prior to May 20, 2003, almost half of the cattle sold in Canada were exported as either live animals or meat.

In 2002, the farm value of the animals sold for slaughter and exported as meat amounted to \$1.8 billion. The corresponding exports—worth about \$2.2 billion—include all the other costs such as processing and transportation.

In addition, the farm value of the live animals exported also amounted to \$1.8 billion. This total of \$3.6 billion in farm cash receipts accounted for nearly one-half (48%) of the \$7.5 billion total farm cash receipts for cattle in 2002.

It required approximately 1.7 million cattle to produce the 612 thousand tonnes of meat exported in 2002, or approximately the same number of animals that Canada exported live.

Canada: The biggest exporter of beef to the United States

As far as the U.S. market is concerned, geography and free trade play important roles in the success of Canada's exports. After all, the United States is Canada's largest trading partner and the world's largest economy.

Canada's proximity and integration within the U.S. beef market partly explain the success of Canadian exporters of beef products. Canadian beef exports to the United States totalled \$3.7 billion in 2002.

1. According to the Canadian Beef Export Federation, taken from the CANFAX Research Services website (www.canfax.ca/StatisticalBriefer), published in February 2003 (accessed on July 14, 2003). The most recent data available are for 2001.

About 90% of Canadian beef exports went to the United States in 2002. Virtually all (99.6%) of Canada's exports of live cattle in 2002 were shipped to the United States. The relatively low values exported to other countries illustrate the importance of the U.S. market for Canadian cattle producers.

Canadian exports of beef products as defined by this article accounted for 55% of U.S. beef imports in 2002. Canadian exports of live bovine animals (dairy cattle, meat cattle and bison) represented about 80% of U.S. bovine imports in 2002 while Canada supplied 85% of U.S. imports of fresh or chilled beef products. In contrast, Canada supplied a very low proportion of U.S. imports of frozen beef products (3.5%).

The fact that Americans are the largest importers of beef in the world² (32% of world imports, followed by Japan at 14%) also contributes to the success Canadian beef exporters have enjoyed.

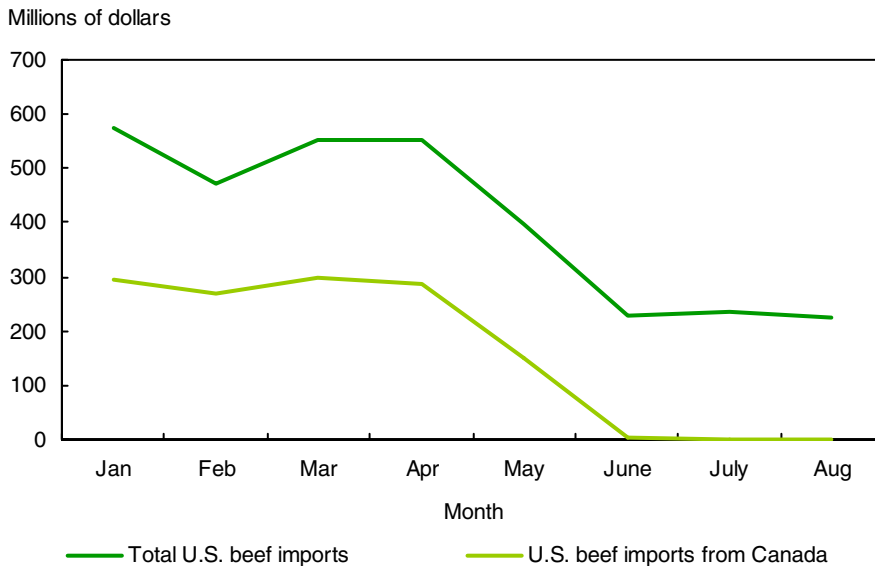
Americans are also among the largest consumers of meat per capita at 44.6 kilograms for beef and veal compared to 31.9 kilograms for Canadians³. The combination of all these factors creates favourable conditions and a very important market for Canadian cattle and beef exporters.

No increase in U.S. imports from other countries

The ban has clearly had an impact on U.S. beef imports from Canada, which fell to virtually zero in June, July and August from the \$288 million level in April—the last unaffected month.

U.S. importers did not import more from other countries to fill the gap created by the banned Canadian beef. In fact, total U.S. beef imports in August were slightly lower than those recorded in June.

U.S. beef imports in 2003 stayed low following the ban



Source: USA Trade Online.

2. Taken from the Statistics section of the CANFAX Research Services website at www.canfax.ca (accessed on July 14, 2003).

3.. Ibid.

Strained U.S. market

Retail prices for beef in the United States were at record levels in February 2003, before the case of BSE in Canada was confirmed. Record retail beef prices continued through August, reaching US\$3.74 a pound, the highest since June 2001, when prices reached US\$3.48 a pound⁴.

The reasons for the United States supply shortage, beside the drop in supply from Canada, are strong consumer demand and a falling U.S. dollar, which supports meat exports. In addition, seven years of herd liquidation in the U.S. is catching up to the beef business. Prices are so high for both fed and breeding cattle that ranchers are starting to rebuild their herds. The initial part of the herd rebuilding process means that more heifers are held back for breeding and less go into the feedlots.

U.S. beef exports to the world jumped by 17% after the ban on Canadian beef exports. This increase more than filled the gap on the world markets resulting from this ban. Most of this increase went to countries where Canadian and U.S. beef exporters traditionally compete: Mexico, Japan and South Korea.

The average monthly U.S. beef exports went from \$460 million in the first four months of 2003, to \$540 million in June, July and August. This \$80 million increase was much more important than the \$34 million (monthly average for 2002) drop in Canadian beef exports to countries other than the United States.

Alberta: The most affected province

The ban by the United States and other countries on Canadian beef has directly impacted the beef, dairy and stock-breeding industries. In addition, the ban is affecting employment in several related sectors, including meat packing, food processing and the transportation industry.

Of all Canadian provinces, Alberta is clearly losing the most. Its average beef exports from January to April 2003 was about \$160 million per month. Alberta is followed by Ontario where exports were averaging \$62 million per month and by Saskatchewan (\$23 million) and Quebec (\$11 million).

Imported beef is important to Canadian domestic supply

Beef imports represent a substantial proportion of the Canadian domestic meat supply. Over the past three years, bovine meat imports represented almost 30% of the beef consumed in Canada. Imports are largely prime cuts of boneless beef and veal or portion-packed products for the hotel and restaurant industry.

Notwithstanding the export ban, Canada was obliged under international regulations to continue to allow red meat and livestock imports into the country. This meant that Canada was unable to introduce an import ban policy on these products to help address the domestic oversupply.

Under the North American Free Trade Agreement (NAFTA), there is no restriction on the import of red meat and livestock from the United States, Mexico and Chile. As a member of the World Trade Organization (WTO), Canada is also obliged to accept negotiated quantities of beef from WTO countries.

4.. U.S. Department of Agriculture (USDA), Economic Research Service, *Livestock, Dairy and Poultry Outlook*/LDP-M-108, June 17, 2003, p.1.

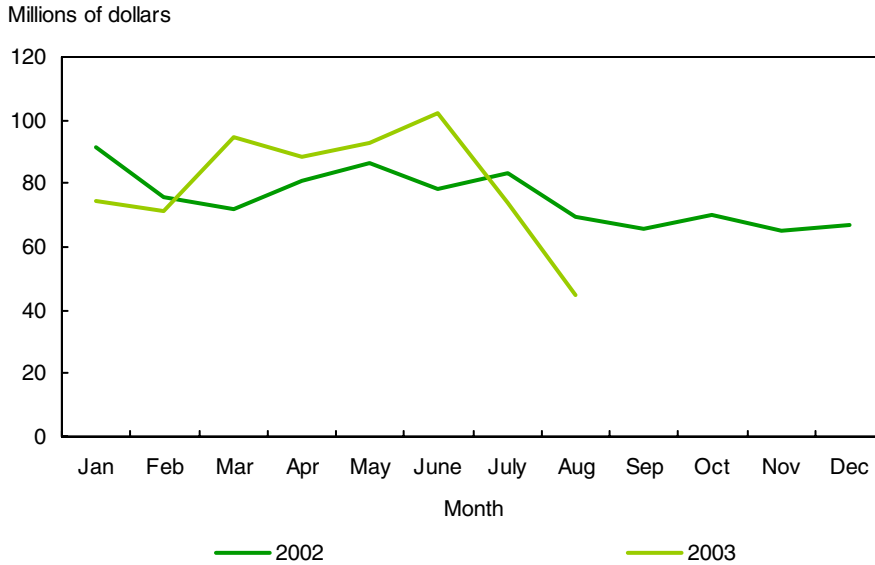
Under the WTO obligations, Canada has a tariff rate quota (TRQ) of 76,409 tonnes for non-NAFTA fresh, chilled and frozen beef per annum. Imports entering Canada within this TRQ quantity are duty-free, while imports above this quota are subject to duty. The tariffs are punitive and very little beef enters Canada unless it is duty-free. The Minister of Foreign Affairs and International Trade, however, may authorize supplemental duty-free imports of non-NAFTA beef over the TRQ level.

By the end of July 2003, duty-free imports for non-NAFTA beef had already exceeded the annual quota by almost 30%. The primary sources of these high imports were beef products from the European Union, Uruguay, Argentina and Brazil—countries all subject to the TRQ. At the end of July 2003, the Canadian government announced that it would not authorize any further supplemental duty-free imports of non-NAFTA beef.

Beef imports: Up in June, down in July and August

Canadian beef imports in June increased above historical levels before dropping in July and August.

Canadian beef imports increased in June before dropping in July and August



Source: International Trade Division, Statistics Canada.

The 10% jump in June relative to May might reflect the fact that beef products do not arrive in Canada without advance negotiations and preparations. Importers sign contracts and arrange import shipments some time prior to the date that they require the goods. It is, therefore, very likely that the imports recorded in June were in large part contracted for in advance of the beef export ban imposed on Canada.

The June increase might also reflect importers' efforts to anticipate a consumer preference to substitute imported beef for domestic meat, similar to the consumer reaction in Japan and the United Kingdom following the identification of BSE in those countries. If that was the case, it was an unnecessary precaution, as Canadian consumer demand for domestic beef never faltered.

The general oversupply of beef and low cattle prices probably explain the drop in beef imports in July and August.

The United States continues to be the major source of Canada's imports of beef products. In 2002, beef imports from the United States accounted for about half of total beef imports, followed by Australia (32%) and New Zealand (18%). Beef imports from other countries were very small.

Road to recovery

The United States and Mexico have reopened their borders to selected cuts of Canadian beef. Canada is the first country in the world with a case of BSE to get its products back into the United States.

As of mid-September, Canadian boneless beef from animals younger than 30 months has been allowed into the United States under a permit process. On October 16 the Minister of Agriculture reported that Canadian companies had shipped 28,000 tonnes of fresh, chilled and frozen beef to the United States up to October 15. These exports represent about half of a typical September in previous years.

Progress has also been made in a number of Canada's smaller export markets. Recently, Antigua and Barbuda, Barbados, Jamaica, Philippines, Russia and Trinidad and Tobago have partially lifted their bans on Canadian products.