



Catalogue no. 11-621-MIE — No. 010

ISSN: 1707-0503

ISBN: 0-662-36127-X

Analytical Paper

Analysis in brief

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by Attah Boame, William Parsons and Michael Trant

Agriculture Division
12th Floor, Jean Talon Building, Ottawa, K1A 0T6

Telephone: 1 800 263-1136

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Review Committee: Denis Chartrand, Mark Elward, John Flanders, Ross Vani, (Statistics Canada) and Patti Negrave, (Agriculture and Agri-Food Canada)

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Managing Editor: Yvan Gervais

Production: Debi Soucy

February 2004

Catalogue No: 11-621-MIE2004010

ISBN: 0-662-36127-X

ISSN: 1707-0503

Frequency: Irregular

How to obtain more information:

National inquiries line: 1 800 263-1136

E-Mail inquiries: analysisinbrief-analyseebref@statcan.ca

Published by the authority of the Minister responsible for Statistics Canada

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Mad cow disease and beef trade: An update

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Agriculture Division

Summary: BSE—body blow for the beef industry

The discovery of a single reported case of bovine spongiform encephalopathy (BSE), or mad cow disease, on May 20, 2003, dealt a body blow to Canada's beef industry.

The discovery led to an immediate worldwide ban on all Canadian beef exports. In September 2003, the United States, followed by a number of other countries, agreed to allow imports of Canadian boneless beef from animals younger than 30 months under a permit process.

Canadian farmers were just getting their hopes up that the border would be opened to the export of live cattle and calves. Those hopes were crushed when the United States announced on December 23, 2003 that a dairy cow in Washington State had tested positive for BSE. The origin of this dairy cow was traced to northern Alberta.

Nine months after BSE was discovered in Alberta, the beef industry is still struggling. For example:

- The value of exports of beef meat plunged to almost zero in the three months following the ban in May. Since August, exporters have adjusted to pre-ban levels. November's exports of fresh and chilled boneless beef were comparable to all bovine meat exports in the same month in 2002. However, overall beef meat exports for the year will be far below those of 2002.
- Imports of beef peaked in June, then dropped sharply through July and August. Since then, the value of imports has been only about half of what they were a year earlier.
- Levels of domestic cattle slaughter also plunged in the weeks following the May 20 ban. However, under the impact of payments from short-term government support programs, slaughter levels started to recover in July.
- Down on the farm, the impact of the cutback in exports and lower slaughter levels has been too readily apparent. As of January 1, 2004, beef producers had a record 14.7 million head of cattle on their farms. This was 1.2 million more than they had at the same time a year earlier. It is costing farmers hundreds of thousands of dollars extra to feed those animals.

As a consequence, business is still far from normal in the Canadian cattle industry. For the moment, Canada and the United States continue to allow trade in boneless beef from animals younger than 30 months under a permit process. However, cow-calf producers face a depressed market for calves; the market for cattle over 30 months in age has collapsed; the meat rendering industry has suffered cutbacks; and there is still no export market for Canadian live cattle and calves.

Between January and September, farm cash receipts fell to their lowest nine-month level in three years, as the fallout from mad cow disease slashed revenues for cattle farmers. Revenue from livestock tumbled 12.6% to \$11.8 billion, the biggest percentage decline over nine months in more than a decade. Data for cash receipts for 2003 as a whole will be released February 24, 2004.

The situation did not hit just cattlemen. Meat processing is Canada's largest food processing industry. In 2002, it exported \$2.1 billion worth of beef and employed 28% of all workers in the food processing industry. Prior to the embargo on Canadian beef, about half of the cattle sold in Canada were exported as either live animals or meat.

This article provides an update on the industry, as well as a brief analysis of the impact on consumers.

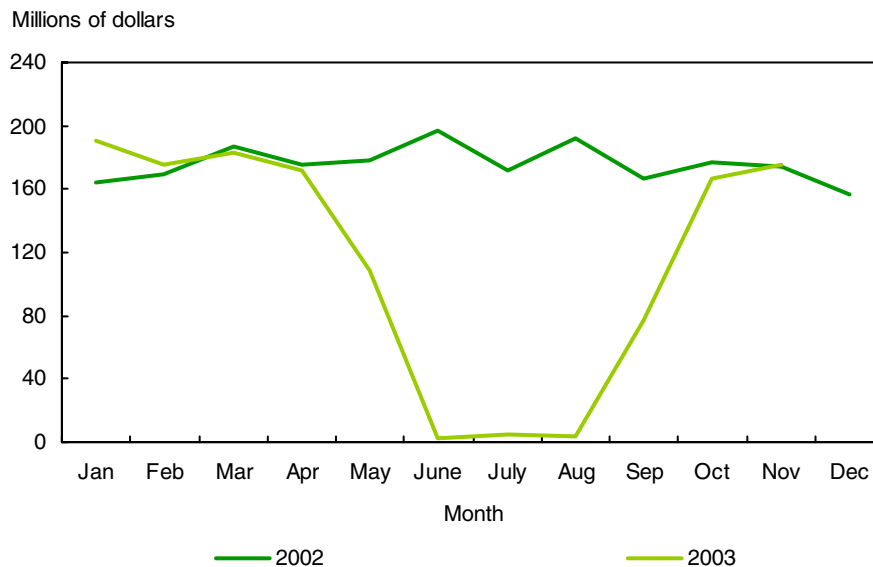
Exports: Exporters adjusting to new marketing conditions

Canadian beef meat exports prior to May 20 represented a wide variety of largely fresh and chilled meat products. Frozen beef products have always accounted for a small proportion of Canadian exports. Exports are now limited to boneless beef, a high value processed meat product.

Following the ban in May 2003, exports of beef meat crashed to virtually zero during the summer months of June, July and August. However, exporters quickly adjusted to the new world market conditions.

Beef meat exports rebound as embargo lifted on meat

Canadian beef meat exports, 2002 and 2003



Source: International Trade Division, Statistics Canada.

Exports of meat began to recover in September, and by November, they had slightly surpassed year-earlier levels. In November 2003, companies exported \$175.0 million worth of boneless beef, marginally higher than the \$173.8 million in November 2002 for all bovine meat products.

Still, exports of beef meat during 2003 as a whole will be well below levels in 2002. On a year-to-date basis, between January and November last year, Canadian companies exported \$1.3 billion worth of beef meat. This is 36% below the value of \$2.0 billion worth during the same 11 months of 2002.

Volumes on a year-to-date basis were also far below 2002 levels. During the first 11 months of 2003, Canadian companies exported just over 272,000 tonnes of beef. This represented a 39% plunge from 447,000 tonnes in the same period the year before.

Canada is the world's third biggest beef exporter. Canada accounted for about 15% of the world market, surpassed by only Australia (23%), and the United States (16%)¹.

Historically, the United States has been Canada's major trading partner for cattle and beef. The vast majority (84%) 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.

In 2002, the farm value of the live animals Canada exported amounted to \$1.8 billion or half of the total beef industry exports. There is still no export market for Canadian live cattle and calves.

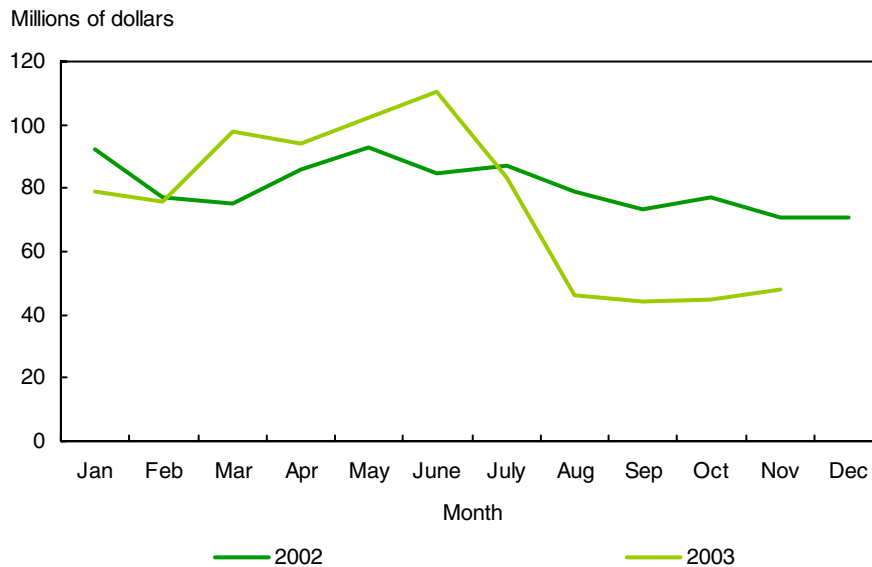
Imports: Only half of pre-ban levels

Canada could not just slam the door on imported beef products to help offset the domestic oversupply that built up after the world slammed the door on our exports. Notwithstanding the export ban, Canada was obliged under international regulations to continue to allow red meat and livestock imports into the country.

Under the North American Free Trade Agreement, 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.

Beef product imports, first up then down

Canadian beef imports, 2002 and 2003



Source: International Trade Division, Statistics Canada.

1. According to the Canadian Beef Export Federation, taken from the CANFAX Research Services website (www.canfax.ca/Statistical Briefer) published in February 2003. The most recent data available is for 2001.

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 boneless beef and veal or portion-packed products for the hotel and restaurant industry.

On a year-to-date basis, Canada imported \$825.8 million worth of beef between January and November last year. This was a decline of only 7.7% from \$894.6 million during the same 11 months of 2002.

Monthly imports of beef peaked in June 2003, then fell sharply throughout July and August. In June alone, companies imported \$110.8 million worth of beef, up 8% from May.

The 8% jump in June relative to May was most likely the result of delivery contracts. Importers arrange import shipments some time in advance of the date that they require the goods. It is, therefore, likely that the contracts for the imports recorded in June were concluded long before the export ban was imposed on Canada.

The June increase might also reflect importers' efforts to anticipate a consumer preference to substitute imported beef for domestic meat. This would have mirrored 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 does not appear to have faltered.

Since July, beef imports continued to decline to about 40% of what they were in June, and roughly two-thirds of what they were in late fall 2002. For example, in November 2003, Canada imported \$48.3 million worth of beef, compared with \$70.7 million in November 2002.

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%).

Canadian importers are hard pressed to find a foreign beef exporter able to compete with the quality and prices offered by Canadian meat processors. The general oversupply of beef and low cattle prices in Canada, the record retail beef prices in the United States and the strong global demand for beef have all dampened the level of Canadian beef imports.

Slaughter: Levels down about a tenth from 2002

In the four months prior to May 2003, domestic slaughter of cattle was slightly ahead of levels during the same period of 2002.

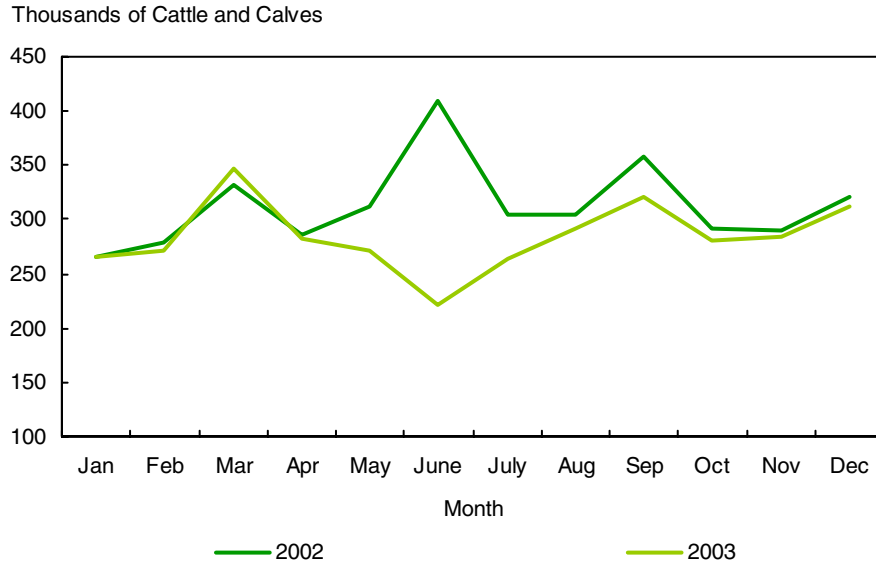
The impact of the export embargo on Canadian beef and live cattle was immediate and dramatic. Canadian slaughter fell 22% in June. Monthly slaughter levels for the rest of 2003 were below those of the previous year.

However, under the influence of government support programs for the cattle and beef industry, slaughter levels in some weeks exceeded levels before the ban. Slaughter began to recover, increasing each week until the first week in September.

The 72,600 head slaughtered in the last week of August 2003 represented the highest level of weekly slaughter in over a year. The large number of animals slaughtered the week before the support prices ended is likely a consequence of efforts by beef producers and meat processors to maximize the benefits of the government support programs.

Slaughter levels down

Cattle and calf slaughter, 2002 and 2003



Source: Agriculture Division, Statistics Canada.

The short term federal-provincial program ending August 31, 2003, supported the price of cattle sent for slaughter. This allowed feedlots to sell the animals they had purchased prior to May 20, 2003, and avoided layoffs in the meat processing industry.

Overall, cattle slaughter in 2003 as a whole amounted to almost 3.4 million head, down 9% from the nearly 3.7 million head the year before.

As might be expected, the embargo on beef exports initially caused a backlog in the slaughter of feeder animals and an increase in the average weight of the animals going for slaughter. Animals were being kept in feedlots longer than normal as cattle producers looked for meat processors willing to buy them.

Average slaughter cattle weights remained high throughout most of the summer and into the fall of 2003. This indicated that producers might still have had some difficulty in marketing their cattle when they were ready for slaughter, and were having to keep and feed them longer than usual.

Consumers: Retail prices didn't match price declines for cattle

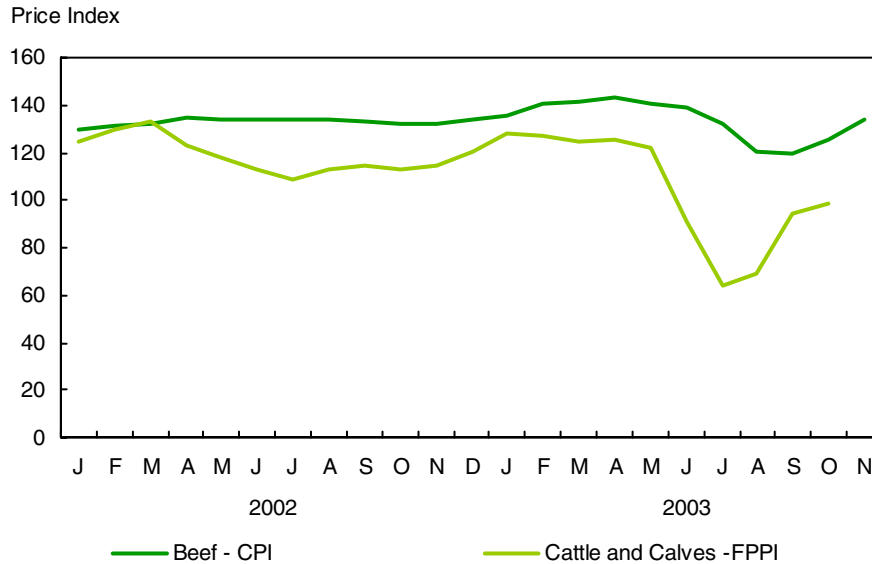
Consumers did see a drop in the price of beef at the retail level. However, the decline amounted to less than half of the drop in cattle prices.

The price of cattle and calves dropped almost 50% between May and July 2003, as measured by Statistics Canada's Farm Product Price Index (FPPI). Following August, there was some recovery in the prices for cattle sold for slaughter, particularly for animals under 30 months of age. Prices for older animals, mainly culled cows, collapsed.

According to the Consumer Price Index, retail beef prices did decline 14% between May and September 2003, reaching their lowest levels since January 2001. But this decline was far short of the 50% drop in cattle prices.

Retail prices didn't match price declines for cattle

Farm prices of cattle and calves compared to retail beef prices



Source: Agriculture Division and Prices Division, Statistics Canada.

Retail beef prices began to rebound in September. Retail beef prices in December were about 6% lower than prices prior to the May 2003 export embargo. During the same period, pork prices remained fairly stable, and fell slightly between August and September when there was a dip in beef prices.

Poultry prices rose marginally after May 2003, dipping in September when retail beef prices bottomed out.

The embargo on the export of live cattle and calves and the restrictions on the exports of beef products had an impact on the prices of other livestock. Canadian prices for pigs began to fall in July 2003. According to the FPPI, they are still in decline, however farm prices for poultry, largely produced under supply management, remained stable

Food processors and retailers are normally reluctant to reduce the price of a particular meat product, such as beef, in relation to pork or chicken, as shoppers are quick to substitute one meat product for another.

Furthermore, there is a limit as to how much meat Canadians can consume. Large retail price discounts on beef, with no change in pork or poultry prices results in consumers buying more beef and less pork and poultry. This is not normally to the benefit of processors and retailers or to the farmers that produce pigs or chickens.

Beef producers mounted a national campaign to encourage food retailers to reduce prices for beef and veal and increase meat consumption. It will be some time, however, before the success of that

effort can be measured, and it can be determined whether Canadians ate more than the average of 31.1 kilograms of beef per person in 2002 (disappearance basis).

Government support programs

The dramatic drop in weekly slaughter following the export embargo in May 2003 placed the industry in crisis until the federal and provincial governments announced programs to support the cattle and beef industry. Here is a short timetable:

June 4: The federal government announces changes to the requirements for the issuing of supplementary imports on non-NAFTA beef. "In effect, supplementary imports were not allowed into Canada unless a Canadian supplier was unable to meet the needs of the applicant at prices that were competitive with prices of similar products imported into the United States".

June 12: The federal government announces a multi-million dollar support program for the meat processing industry. Specifically, a Work Sharing Agreement was signed with the meat processors, with the purpose of avoiding layoffs of the plant workers and keeping the plants open.

June 18: The federal and provincial governments announce a compensation program to help producers through the economic difficulties posed by the border closing. The program would be a "short term national program designed to compensate producers for the detrimental impact the border closures had on slaughter cattle prices. Under the program, producers selling their cattle for slaughter were entitled to compensation on a sliding scale equal to the difference between a base price and an average weekly U.S. market price."