



**CATTLE AND BEEF TRADE, BSE,  
AND THE U.S. CATTLE INDUSTRY:  
A Plan for Action**

*July 2006*

The U.S. live cattle industry is the single largest segment of American Agriculture. Consisting of hundreds of thousands of independent cattle producers, the industry supports communities all across the nation. The industry generated cash receipts in excess of \$49 billion in 2005.<sup>1</sup> Today this vital industry is confronted by a set of policies that reduce its profitability and undercut its competitiveness. In the five months from December 2005 to May 2006, fed cattle prices plummeted 18 percent, costing cattle producers an estimated \$1 billion or more. The U.S. cattle industry is in dire need of a different policy approach that will restore the sector's competitiveness and lay the foundation for continued prosperity in the future.

This paper reviews the current state of the U.S. cattle industry and identifies the policy failures that continue to hamper the industry's ability to compete. U.S. cattle producers and feeders have suffered losses in recent years due to an array of policies that put the industry at a competitive disadvantage. Current U.S. policies taking a financial toll on the U.S. live cattle industry include policies to:

- 1) Maintain lower U.S. standards for imports of beef and cattle than the U.S. must meet for its cattle and beef exports;
- 2) Grant expanded access to the U.S. market for imports before access to lost export markets has been restored; and
- 3) Allow the commingling of imported beef with domestic beef without any product differentiation.

In addition, USDA recently announced its intention to even further liberalize U.S. import standards by accepting cattle, and beef from cattle, of over 30 months (OTM) of age from Canada. This policy change would both undermine U.S. standards and accelerate the decline in profitability for independent U.S. cattle producers.

Reform of these policies is urgently needed. U.S. cattle producers can compete and prosper if they are ensured a level playing field where import standards are upwardly harmonized

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<sup>1</sup> *Meat Animals Production, Disposition, and Income*, 2005 Summary, U.S. Department of Agriculture, National Agricultural Statistics Service, Mt An 1-1(06), April, 2006, available at <http://usda.mannlib.cornell.edu/reports/nassr/livestock/zma-bb/meat0406.pdf> .

and high-quality U.S. product can be differentiated by consumers at home and abroad. This paper proposes a blueprint of four policy reforms to revitalize the U.S. cattle industry:

- 1) The USDA should publicly announce that it is postponing indefinitely its proposal to issue rules to allow imports of cattle, and beef from cattle, over 30 months of age from Canada.
- 2) The USDA should reverse its policy of granting access to the U.S. cattle and beef market before the U.S. gains access in foreign countries.
- 3) The USDA should adopt and enforce the more stringent BSE import standards that are applied and practiced by nearly all BSE-affected countries and which continue to apply to U.S. cattle and beef exports.
- 4) The USDA must immediately begin differentiating beef produced from imported cattle and beef produced exclusively from U.S. cattle.

Together, these steps can help restore the U.S. cattle industry and ensure it remains a strong and vital pillar of America's rural economy.

## **I. USDA Policy on Cattle and Beef Trade and BSE**

Cattle producers today are confronted by a set of policies that hamstring the global competitiveness of the U.S. live cattle industry and has resulted in substantial financial losses during the past several months. R-CALF USA is deeply concerned that USDA is now poised to further liberalize import regulations on Canadian cattle and beef, further impeding the ability of U.S. producers to regain access to overseas markets and to restore the cattle industry's competitiveness.

There are three policy approaches that have hampered the ability of U.S. cattle producers to compete, and they require urgent reform:

- 1) U.S. import standards for cattle and beef are already lower than the standards that U.S. exports must meet in many other countries – lowering U.S. standards even further, as proposed by USDA, will exacerbate this imbalance;
- 2) The U.S. grants expanded access to our market for imports of cattle and beef before our access to lost export markets is fully restored, enabling important export customers to drag their feet on market access as imports gain a growing share of the U.S. market; and
- 3) Imported meat, and meat from imported animals, is commingled with U.S. beef, and thus consumers both at home and abroad are unable to differentiate U.S. product.

### ***A. Mismatched Import Standards***

U.S. beef was shut out of over 50 export markets due to the discovery of a Canadian-born cow with bovine spongiform encephalopathy (BSE) in the state of Washington in 2003. More than two-and-a-half years later, the volume of U.S. beef exports is still only a fraction of what it was before the loss of key export markets.<sup>2</sup> While the U.S. has engaged in country-by-country negotiations to define standards for the resumption of U.S. exports, and still waits for full implementation of these market opening commitments by top export markets such as Japan and

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<sup>2</sup> U.S. beef and bovine product exports totaled \$767 million in the first four months of 2006, which is 41% less than U.S. beef exports during the same period in 2003. U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics.

South Korea, U.S. import standards for cattle and beef have allowed the continuation of large volumes of imports. As a result, the U.S. ran trade deficits in cattle and beef of \$3.3 billion in 2004 and 2005.<sup>3</sup>

In many of those export markets that have reopened, U.S. beef exports must meet standards that are stricter than those the U.S. imposes on its own imports of beef. Theoretically, consistent import standards based on the exporting country's BSE risk profile should result in import standards for U.S. product that are no more restrictive than import standards for Canadian beef, given the risk profile of the two countries. A comparison of U.S. standards for imports from Canada to other countries' standards for imports from the U.S. is instructive.

The World Organization for Animal Health (OIE) Terrestrial Animal Health Code reserves the most favorable BSE risk category only for countries that have not detected BSE cases in cattle born during the previous 11 years. Under this standard, Canada, with four cases of BSE detected in animals born after 1997, has a higher risk profile than the United States, which, under its more extensive testing program, has not detected any BSE-positive cases in animals born within the previous 10 years. Canada has detected multiple cases of BSE in cattle born well after the implementation of its feed ban, whereas the U.S. has only detected cases in cattle born before implementation of its feed ban.

The international guidelines for the trade in beef from BSE-affected countries established by the OIE are progressively more stringent as the risk profile of an affected country increases. The exception to this progressive approach is product deemed safe regardless of the risk profile of the BSE-affected country, such as deboned skeletal muscle meat from cattle 30 months of age or less, which the OIE recommends is suitable for trade.<sup>4</sup> Most all other edible beef products and cattle are subject to the progressive approach. For these products, the OIE recommends mitigation measures based on the country's risk profile.

- For countries recently affected with BSE, but with the lowest risk profile, the OIE recommends removal of the full range of specified risk materials (SRMs) from beef from cattle over the age of 30 months.<sup>5</sup>
- For countries recently affected with BSE, but with a higher risk profile, the OIE recommends the removal of the full range of SRMs from beef from cattle over the age of 12 months.<sup>6</sup>

Despite these differences, the U.S. persists in treating Canadian imports as if the two countries' risk profiles were identical. As discussed below, this practice is severely impeding the ability of U.S. producers to restore their lost export markets. USDA's latest proposal, to allow the importation of cattle, and beef from cattle, over thirty months of age from Canada, would represent an even more dramatic departure from the import standards imposed by most of our trading partners.

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<sup>3</sup> *Id.*

<sup>4</sup> See 2006 OIE Terrestrial Animal Health Code, Article 2.3.13.1. 1(g), World Organization for Animal Health (OIE). Available on-line at [http://www.oie.int/eng/normes/mcode/en\\_sommaire.htm](http://www.oie.int/eng/normes/mcode/en_sommaire.htm).

<sup>5</sup> *Id.* at Article 2.3.13.13.(2).

<sup>6</sup> *Id.* at Article 2.3.13.13.(3).

Many major beef importers currently impose import standards on beef that exceed the standards applied by the U.S. to its imports of beef. For example, of the top ten global import markets for beef (after the U.S.):<sup>7</sup>

- All countries that have reopened their markets to U.S. beef have done so under the condition that the beef be derived from cattle less than thirty months of age (Japan's requirement is twenty months of age or younger). By contrast, the U.S. allows the import of boneless beef from animals of any age from Japan, and USDA is now intending to propose allowing the import of meat from animals of any age from Canada.
- Five countries only allow imports from the U.S. of boneless beef, and three countries allow imports of bone-in beef from the U.S. from animals below a certain age. The other two top global importers – Russia and South Korea – are still closed to U.S. beef, though Korea has pledged to re-open its market to boneless beef from animals under thirty months of age. By contrast, the U.S. already allows imports of bone-in beef from Canada from animals under thirty months of age, and is now contemplating expanding that eligibility to include bone-in beef from animals of any age.
- Only Canada and Europe allow imports of ground beef from the U.S. Six of the top ten importers do not allow imports of ground beef from the U.S., and two continue to bar all beef imports from the U.S. By contrast, the U.S. does permit imports of ground beef from Canada.
- Of the world's top ten beef importing countries (after the U.S.), only Canada follows the U.S. standard allowing the importation of beef products from countries that do not remove the full range of specified risk materials (SRMs) until cattle are over 30 months of age. All but one country require the removal of the full range of SRMs in cattle of any age. The outlier, the European Union, requires the removal of SRMs in Canadian cattle over 12 months of age and in U.S. cattle over 24 months of age.

As these examples show, U.S. import standards for cattle and beef from Canada differ from the standards imposed on U.S. exports by many top trading partners. This mismatch in standards has contributed to the large U.S. trade deficit in cattle and beef. As export markets remain fully or partially closed, imports have risen and the trade deficit has widened.

## ***B. Imbalanced Market Access***

While the U.S. continues to face barriers to its beef exports abroad, it has opened its market to an array of cattle and beef imports from Canada. While the substance of these standards is cause for concern, as reviewed above, the sequencing of market opening has also put U.S. cattle producers at a disadvantage. This policy was first implemented in August 2003 when the U.S. became the first country to accept beef imports from a country where BSE had been detected in a native animal and where the affected country did not implement the more stringent BSE mitigation measures practiced in other BSE-affected countries. After December of 2003, when over 50 export markets closed their borders to U.S. beef and cattle following the detection of a Canadian-born cow infected with BSE in the United States, the USDA continued to pursue this relatively open import policy towards Canada.

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<sup>7</sup> For details and sources, please see the attached appendix.

During the two-and-a-half years that this policy has been in effect, the U.S. has imported approximately 3.2 billion pounds of beef and its cattle equivalent from Canada.<sup>8</sup> Meanwhile, total U.S. exports to *all* countries during this same two-and-a-half year period were approximately 1.5 billion pounds of beef and its cattle equivalent.<sup>9</sup> Thus, since the discovery of a Canadian animal with BSE in the U.S. in December 2003, for every pound of beef or its cattle equivalent the U.S. has exported to the world, the U.S. has imported two pounds of beef or its cattle equivalent just from Canada.

The U.S. International Trade Commission (ITC) has noted the high sensitivity of cattle prices to increases in beef supply. The ITC stated that each percentage point of increase in beef supply was likely to translate into a decrease in live cattle prices of 2 percent.<sup>10</sup> The two-and-a-half year supply increase resulting from lost export markets and increased Canadian cattle and beef imports is thus applying downward pressure on live cattle prices, to the detriment of U.S. cattle producers. The failure to sequence market opening to ensure that harmonized standards apply to imports and exports of cattle and beef during the same period of time has exposed U.S. cattle producers to imbalanced market opportunities, a large trade deficit, and downward pressure on prices.

### ***C. Undifferentiated Product***

Meat from Canadian animals slaughtered in the U.S. and Canadian meat that is further processed in the U.S. are not identified as such to consumers either in the U.S. or abroad. These beef products bear the USDA inspection sticker and, in some instances, the USDA quality grade stamp, both of which may lead unsuspecting consumers to believe the product is of wholly U.S. origin. Because consumers and export customers cannot distinguish meat exclusively of U.S. origin from meat derived from Canadian animals or commingled with imported meat, many of the health and safety problems experienced in Canada have effectively become obstacles to the marketing of U.S. beef.

For example, U.S. trading partners have insisted that Canadian and U.S. product be differentiated before they will re-open their markets to U.S. beef. South Korea, the third-largest export market for U.S. beef before the import ban was imposed at the end of 2003, recently announced it would not resume imports of U.S. beef until it was assured that it would not be commingled with Canadian product.<sup>11</sup> Singapore and Egypt also do not allow the U.S. to export beef derived from Canadian cattle.<sup>12</sup> As of June 21, 2006, 35 countries, including important

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<sup>8</sup> See U.S. Department of Agriculture, Economic Research Service, *Cumulative U.S. Meat and Livestock Trade, Livestock Dairy and Outlook Report*, updated June 11, 2006, available at [http://www.ers.usda.gov/Publications/LDP/xlstables/cumulative\\_US\\_livestock\\_meat\\_trade.xls](http://www.ers.usda.gov/Publications/LDP/xlstables/cumulative_US_livestock_meat_trade.xls). Total reflects imports of over 2.4 billion pounds of beef from Canada and over 997,000 head of live cattle, which are roughly the beef equivalent of another 750 million pounds of beef based on a 750 pound carcass weight.

<sup>9</sup> *Id.* Total reflects 1.46 billion pounds of beef and 47,357 cattle, which are roughly the beef equivalent of 35 million pounds of beef based on a 750 pound carcass weight

<sup>10</sup> *U.S. – Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, Inv. No. TA-2104-11, USITC Pub. No. 3697 at 44 (May 2004).

<sup>11</sup> “Delay in U.S. Beef Exports to South Korea Will Be Resolved ‘Within Weeks,’ USDA Says,” *Daily Report for Executives*, BNA, Inc., No. 113, Tuesday June 13, 2006, at A-19.

<sup>12</sup> See <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap11/annexre.shtml> and <http://www.ams.usda.gov/lsg/arc/bev.htm>.

global beef importers such as Korea and Taiwan, still do not allow beef imports from cattle of any age from Canada.<sup>13</sup>

This commingling of undifferentiated product may be reducing the value of the mitigation measures followed by the U.S. cattle producers, such as the animal feed ban, in the eyes of consumers. Four of the confirmed cases of BSE in Canada were in cattle born after their feed ban was implemented, while none of the U.S. cases involved native animals born after the U.S. feed ban. The lack of differentiation between Canadian and U.S. product means that any problems Canada experiences with its BSE safeguards and mitigation measures effectively become the U.S. cattle producer's problem as well. The failure to distinguish the more favorable U.S. BSE risk profile from the less favorable risk status of Canada disadvantages the U.S. cattle industry in the global market.

## II. Declining Profitability and Competitiveness of the U.S. Cattle Industry

### A. *Unlike the Packing Industry, the U.S. Cattle Industry Recently Underwent Decline*

Unlike the beef processing industry, the live cattle industry was in a serious state of decline and suffered through a dozen years of depressed prices from 1991 through 2002, beginning first with the decline in fed cattle prices and followed by the decline in feeder cattle prices. During the 12-year period from 1991 to 2002, the U.S. live cattle industry suffered staggering losses measured in the billions of dollars, with the value of cattle and calf production falling from \$30.1 billion in 1990 to \$26.9 billion in 2002.<sup>14</sup> U.S. cattle feeders lost approximately \$3 billion just during the period from March 2001 through May 2002.<sup>15</sup> For the period from 1992 to 2001, the average return to U.S. cow/calf producers was a negative \$30.40 per bred cow per year for each of those 10 years.<sup>16</sup> Consequently, the U.S. industry has lost over 127,000 beef cattle operations since 1994.<sup>17</sup> This includes the estimated loss of over 8,500 U.S. feedlots just since 1995.<sup>18</sup>

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<sup>13</sup> See Canadian Food Inspection Agency, Meat Hygiene Manual of Procedures, *Summary of the Situation with Foreign Markets Relative to BSE as of June 21, 2006*, available at <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap1/annexre.shtml>.

<sup>14</sup> See *Meat Animals Production, Disposition, and Income*, United States Department of Agriculture National Agricultural Statistics Service, 1990 and 2002 summaries, available at <http://usda.mannlib.cornell.edu/reports/nassr/livestock/zma-bb/>.

<sup>15</sup> Figures based on USDA's Great Plains cattle feedlot estimated returns data. See *Current State of the United States Live Cattle Industry (Revised)*, Presented at the 2002 Business Forum of the Free Trade Area of the Americas, Quito, Ecuador, October 29-31, 2002, R-CALF USA, Figure 2, available at [http://www.r-calfusa.com/FTAA-TPA/current\\_state\\_of\\_the\\_us\\_live\\_cattle\\_industry.htm](http://www.r-calfusa.com/FTAA-TPA/current_state_of_the_us_live_cattle_industry.htm).

<sup>16</sup> U.S. Cow-Calf Production Cash Costs and Returns, 1990-95; 1996-99; 2000-2001, Economic Research Service/USDA, available at <http://www.ers.usda.gov/data/farmincome/CAR/DATA/Appendix/Cowcalf/US9095.xls>; <http://www.ers.usda.gov/data/farmincome/CAR/DATA/History/CowCalf/US9699.xls>; and <http://www.ers.usda.gov/data/CostsAndReturns/data/current/C-Cowc.xls>, retrieved from the internet on October 18, 2002.

<sup>17</sup> See U.S. Department of Agriculture, National Agricultural Statistics Service Agricultural Statistics Database, *U.S. and All State Data, Cattle and Calves, Cattle Operations – Numbers, 1994-2005*, available at [http://www.nass.usda.gov:8080/QuickStats/PullData\\_US.jsp](http://www.nass.usda.gov:8080/QuickStats/PullData_US.jsp).

<sup>18</sup> "Economist Sees Gradual Price Decline Next Two Years," *Livestock Weekly*, March 9, 2006.

Despite the fact that domestic beef consumption increased by nearly 3.8 billion pounds from 1993 to 2002,<sup>19</sup> no recovery to the protracted depression in live cattle prices occurred until 2003, the year the Canadian border was temporarily closed to imports of Canadian beef and cattle.

### ***B. Cattle Industry Profitability Was Temporarily Restored Beginning in 2003***

Beginning in 2003, U.S. cattle prices hit historic highs, and these higher prices were sustained through 2005, albeit not without considerable price volatility. The rise in prices afforded a three-year healing period to the U.S. cattle industry.

But the gains in live cattle prices were during this period were perhaps less than they might have otherwise been due to the decline in the producer's share of each consumer's beef retail dollar over the same period. The spread between producer prices and retail prices in each of the years of 2003, 2004, and 2005 was wider than at any time in the industry's recent history.<sup>20</sup> Furthermore, for the period June through August 2005, after USDA warned that beef prices were too high,<sup>21</sup> the producer's share of the consumer's beef dollar fell below the historical low annual average of only 44 percent received in 2002,<sup>22</sup> when live cattle prices were seriously depressed and selling for \$11.52 per cwt. less than producers received a dozen years earlier in 1990.<sup>23</sup> Live cattle prices during the month immediately following USDA's public statement on high beef prices fell to a 17-month low.<sup>24</sup>

Thus, despite the relief in cattle prices resulting from the closure of the Canadian border, it was the beef processing and retailing sectors that increasingly captured the lion's share of the "high" beef prices experienced in 2003, 2004, and 2005, not U.S. cattle producers.

### ***C. Cattle Industry Again Suffers Staggering Losses after January 2006***

While USDA reports issued as recently as December of 2005 continued to predict bullish prices for domestic cattle prices,<sup>25</sup> something went terribly wrong beginning in January 2006 and live cattle prices fell precipitously. Less than six months after the reopening of the Canadian border to live cattle under 30 months of age and the full range of beef products from these cattle,

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<sup>19</sup> See U.S. Department of Agriculture, Foreign Agricultural Statistics Database, *Production, Supply and Distribution Online*, available at [http://www.fas.usda.gov/psd/complete\\_files/LP-0111000.csv](http://www.fas.usda.gov/psd/complete_files/LP-0111000.csv).

<sup>20</sup> See U.S. Department of Agriculture, Economic Research Service, *Beef Values and Price Spreads*, available at <http://www.ers.usda.gov/briefing/foodpricespreads/meatpricespreads/>. See also U.S. Department of Agriculture, Economic Research Service, *Retail Price Spreads, Red Meat Yearbook*, available at <http://usda.mannlib.cornell.edu/data-sets/livestock/94006/>.

<sup>21</sup> Emily Johns, "USDA Secretary Johanns: Beef Prices Too High," *Associated Press*, June 10, 2005.

<sup>22</sup> *Ibid.*

<sup>23</sup> U.S. Department of Agriculture, Economic Research Service, *Table 59, Slaughter Steer Price, Choice 2-4, Nebraska Direct, 1100-1300 lbs., Red Meat Yearbook*, available at <http://usda.mannlib.cornell.edu/data-sets/livestock/94006/livestockprices.xls>.

<sup>24</sup> *Ibid.*

<sup>25</sup> See U.S. Department of Agriculture, Economic Research Service, *Livestock Dairy and Outlook Report LDP-M-138*, December 16, 2005, available at <http://www.ers.usda.gov/Publications/LDP/Dec05/LDPM138T.pdf>.

"Interruptions in cattle moving to packing houses due to weather markets, such as the one observed last week in the Northern and Central Plains, will occur from now until April, briefly boosting prices with each occurrence."

cattle prices began to fall. Fed cattle prices that were averaging \$96.50 per cwt. in December of 2005 nosed downward in January 2006 and continued to decline for a full five months, hitting a low of \$79.10 per cwt. in May of 2006.<sup>26</sup> This substantial decline more than ate up the entire per hundredweight increase in cattle prices experienced between the years 2002 and 2003.<sup>27</sup> U.S. cattle feeders again experienced staggering losses during the period of February through June of 2006. U.S. cattle feeders have lost over 3/4 of a billion dollars just from the sales of fed steers alone during the past 5 months.

Month	Great Plains Estimated Losses per Pound <sup>28</sup>	Estimated Live Weight <sup>29</sup>	Estimated per Head Loss	Number of Steers Slaughtered <sup>30</sup>	Total Loss to U.S. Cattle Feeders
February 2006	(.0408)	1,200	(\$48.96)	1,189,000	(\$58,213,440)
March 2006	(.0983)	1,200	(\$117.96)	1,481,000	(\$175,052,640)
April 2006	(.1043)	1,200	(\$125.16)	1,400,000	(\$175,224,000)
May 2006	(.1293)	1,200	(\$155.16)	1,674,000	(\$259,737,840)
June 2006	(.0451)	1,200	(\$54.12)	1,752,000	(\$94,818,240)
<b>Total 5-Month Loss on Steers</b>				7,496,000	<b>(\$763,046,160)</b>

Based on these large financial losses associated with only fed steers, it can be conservatively estimated that U.S. cattle producers have lost more than \$1 billion during this 5-month period, given that comparable losses were experienced by feeders who fed the over 4.2 million fed heifers that were also marketed during this timeframe.<sup>31</sup> If left unabated, these substantial cattle-feeder losses will soon translate into significant losses throughout the live cattle production chain.

#### D. Conclusion

Profitability of the U.S. cattle industry depends on many factors, including the cattle cycle and the conditions of competition between cattle producers and meat packers. But it is clear that trade policies related to BSE are also influencing the ability of U.S. cattle producers to compete. Live cattle prices experienced a resurgence when the border was closed to Canadian imports in 2003, even though cattle producers at the time were receiving disproportionately low share of the consumer's retail dollar for beef. Six months after the border re-opened and Canadian cattle and beef began entering the U.S. market, U.S. cattle prices began to fall steeply.

<sup>26</sup> See U.S. Department of Agriculture, Economic Research Service, *Beef Values and Price Spreads*, available at <http://www.ers.usda.gov/briefing/foodpricespreads/meatpricespreads/>.

<sup>27</sup> *Ibid.*

<sup>28</sup> See U.S. Department of Agriculture, Economic Research Service, *Production Indicators, Livestock Dairy and Outlook Reports*, January 2006 – June 2006, available at <http://www.ers.usda.gov/Publications/LDP/>.

<sup>29</sup> See U.S. Department of Agriculture, Economic Research Service, *High Plains Cattle Feeding Simulator, Livestock, Dairy and Poultry Outlook Tables*, at fn. 2, Updated May 22, 2006, available at <http://www.ers.usda.gov/Publications/LDP/xlstables/High%20Plains%20Cattle%20Feeding%20Simulator%20May06%20F.xls>. The USDA simulator is based on 1100 – 1300 pound steers, or an average of 1200 lbs.

<sup>30</sup> See U.S. Department of Agriculture, Economic Research Service, *Meat Statistics, Livestock Dairy and Outlook Reports*, January 2006 – June 2006, available at <http://www.ers.usda.gov/Publications/LDP/>.

<sup>31</sup> *Ibid.*

In order for U.S. cattle producers to regain its viability, it is vital that the set of policies constraining the industry's ability to compete be addressed.

### **III. Immediate Action Is Needed to Restore U.S. Cattle Industry Profitability**

U.S. cattle producers can prosper if they are allowed to compete in an open market where U.S. import standards are upwardly harmonized with the rest of the world's, where market access is granted in an equitable and reciprocal manner, and where consumers everywhere can exercise their right to choose U.S. beef. There are four immediate actions that USDA should take to remove the unnecessary encumbrances affecting the U.S. cattle industry. These actions should be viewed as a first, essential step in restoring profitability to the single largest segment of American agriculture. Once a fair playing field is restored for U.S. cattle producers, the industry can begin to address other structural reforms needed to recapture the industry's full potential in the future. The four immediate action steps are listed below.

***1. Postpone the proposal to allow imports of cattle, and beef from cattle, over 30 months of age from Canada.***

USDA should postpone indefinitely its proposal to allow imports of cattle, and beef from cattle, over 30 months of age from Canada. With another BSE case confirmed in Canada in early July 2006, the continued closure of 35 markets around the world to Canadian exports, and the continued resistance of U.S. trading partners to U.S. beef exports due to concerns about commingling with Canadian product, now is not the time to further weaken our import standards below those of our trading partners. This proposal to even further relax our already mismatched import standards, particularly in the face of the ongoing difficulty in restoring the confidence of our lost export customers, casts an ominous shadow of uncertainty over the entire U.S. live cattle industry. Lowering U.S. import standards will further tilt the balance of market power away from independent cattle producers and towards the highly concentrated meatpacking sector, which can effectively leverage its ability to increase supply to drive down cattle prices.

***2. Adopt and enforce the more stringent BSE import standards that are practiced by nearly all BSE-affected countries and which apply to U.S. cattle and beef exports.***

USDA should ensure BSE import standards reflect the consensus among most BSE-affected countries and most beef importing countries. U.S. standards should mirror those that exist abroad, not be lower than those of U.S. competitors. The USDA Final Rule implemented in mid-2005 effectively lowered U.S. import standards for imports of Canadian cattle and beef below the standards of any significant beef importing country. In light of the latest BSE case in Canada, which provides dispositive evidence that the assumptions underpinning the lower import standards contained in the Final Rule are invalid, the USDA must immediately rescind the Final Rule until a more thorough evaluation of the scope and severity of Canada's BSE outbreaks is conducted. Strong, science-based import standards not only protect animal health and consumer safety – they also remove a justification for continued restrictions on U.S. exports. The USDA should immediately adopt and enforce the more stringent import standards recommended by the OIE and practiced by most beef importing countries until such time as the international scientific

community determines that the more stringent standards are unnecessary, or until U.S. export customers signal that they will accept Canadian beef produced under less stringent standards. The U.S. should not be the outlier by accepting Canadian beef products that our own export customers consider unsafe.

**3. *Reverse the policy of granting access to the U.S. cattle and beef market before the U.S. gains access in foreign markets.***

USDA should cease its policy of granting access to the U.S. market for cattle and beef imports before U.S. producers regain access to foreign export markets. Trade must be equitable and reciprocal, not a one-way street. The trade deficit in cattle and beef that results from these imbalanced market access opportunities is not sustainable in the long term for the U.S. industry.

**4. *Differentiate beef products produced from Canadian cattle from beef products produced from U.S. cattle.***

USDA should ensure that beef produced exclusively from U.S. cattle can be easily differentiated by consumers in the U.S. and abroad. Packers already are required to develop differentiation techniques in order to meet certain countries' import requirements –the same process can be used to allow all consumers to exercise their right to choose 100% U.S. beef. The U.S. cattle industry will remain competitively disadvantaged if it must continually bear the burden of its competitors' disease problems. Because Canada has a less favorable BSE risk profile than the U.S., and because Canadian beef is commingled with U.S. beef and is undifferentiated to the consumer, U.S. producers are shouldering any concerns that consumers have with Canadian beef.

R-CALF USA firmly believes that both domestic and international consumers should be afforded the right to choose U.S. beef produced from U.S. cattle – this right can only be exercised if Canadian beef is differentiated in the U.S. market.

#### **IV. Conclusion**

Current policies regarding cattle and beef trade and BSE are contributing to the erosion of the U.S. live cattle industry's global competitiveness and to the financial losses incurred by the U.S. live cattle industry over the past several months. A new approach is needed. Ensuring U.S. import standards are upwardly harmonized with the rest of the world's, negotiating market access in an equitable and reciprocal manner, and allowing consumers everywhere to exercise their right to choose U.S. beef will help alleviate the imbalances that currently hamper the ability of U.S. cattle producers to compete and prosper.

APPENDIX

**BSE Import Requirements of the U.S. and the World's Next Top Ten Beef Importers**

<b>Importing Country by Rank<sup>i</sup></b>	<b>Share of World Market<sup>ii</sup></b>	<b>Age Restrictions<sup>iii</sup></b>	<b>SRM Removal Requirement for Eligible Products<sup>iv</sup></b>	<b>Commodity Restrictions for Products Meeting Age Requirements.<sup>v</sup></b>
1. United States	27 Percent	Under 30 months of age for cattle and beef from Canada.  No age limit on boneless Japanese beef	Removal of only tonsils and distal ileum for Canada.  Removal of only tonsils and distal ileum for Japanese cattle under 30 months of age. For Japanese cattle over 30 months of age, removal also of the brain, skull, eyes, trigeminal ganglia, spinal cord, vertebral column (excluding the vertebrae of the tail, the transverse processes of the thoracic and lumbar vertebrae, and the wings of the sacrum), and dorsal root ganglia.	No restrictions for Canada.  Allows only whole cuts of boneless beef derived from cattle that were born, raised and slaughtered in Japan.
2. Japan	16 Percent	20 months of age or younger	Hygienic removal of the head, excluding tongue and cheek meat, the palatine and lingual tonsils, the spinal cord and dura mater, the distal ileum (two meters from connection to caecum), and the vertebral column, including the dorsal root ganglia.	No beef heads, processed beef products, ground beef, finely textured beef or mechanically separated meat containing beef.  Beef from Canada is additionally limited to only boneless beef. <sup>vi</sup>
3. Russian Federation	14 Percent	Complete Ban	Complete Ban	Complete Ban
4. European Union	9 Percent	Under 30 months <sup>vii</sup>	For the U.S: Removal of the skull including the brain and eyes, the tonsils, the vertebral column excluding the vertebrae of the tail and the transverse processes of the lumbar vertebrae, but including dorsal root ganglia and spinal cord of bovine animals aged over 24 months, and the intestines from the duodenum to the rectum of bovine animals of all ages. <sup>viii</sup>  For Canada: Removal of the skull excluding the mandible and including the brain and eyes, the vertebral column excluding the vertebrae of the tail, the transverse processes of the lumbar and thoracic vertebrae and the wings of	All beef must be labeled according to where the cattle were born, raised, and slaughtered.  No mechanically recovered meat

			the sacrum, but including dorsal root ganglia, and the spinal cord of bovine animals aged over 12 months, and the tonsils, the intestines from the duodenum to the rectum and the mesentery of bovine animals of all ages. <sup>ix</sup>	
5. South Korea	9 Percent	Complete Ban	Complete Ban	Complete Ban
6. Mexico	7 Percent	Under 30 months of age	Removal of the skull, brain, eyes, tonsils, spinal cord, and small intestine.	No ground meat.
7. Canada	5 Percent	Under 30 months of age for cattle and beef from the U.S.	Removal of only the tonsils and small intestines in cattle under 30 months of age.  For cattle over 30 months of age, removal also of the skull including the brain, trigeminal ganglia and eyes, the spinal cord and the vertebral column, excluding the vertebrae of the tail, the transverse processes of the thoracic and lumbar vertebrae, and the wings of the sacrum.	No restrictions for the U.S.  Restrictions apply to other countries depending on their respective risk categories. <sup>x</sup>
8. Philippines	2 Percent	Under 30 months of age	The product contains no specified risk materials including brain, skull, eyes, trigeminal ganglia, spinal cord, tonsils, intestines, vertebral column, and dorsal root ganglia."	Allows only boneless beef, meat products containing boneless beef, and beef offal. No ground beef.
9. Taiwan	2 Percent	Under 30 months of age for the U.S.  Complete ban on Canadian beef <sup>xi</sup>	Hygienic removal of the brain, skull, eyes, trigeminal ganglia, spinal cord, vertebral column (excluding the vertebrae of the tail, the transverse processes of the thoracic and lumbar vertebrae, and the wing of the sacrum), dorsal root ganglia, the tonsils, and distal ileum of the small intestine.	Allows only boneless beef, no bone-in beef or ground beef from the U.S.  Complete ban on Canadian beef. <sup>xii</sup>
10. Egypt	2 Percent	Under 30 months of age	Brain, skull, eyes, trigeminal ganglia, spinal cord, tonsils, intestines, vertebral column, and dorsal root ganglia.	Allows only boneless beef. No bone-in beef or ground beef.
11. Hong Kong	2 Percent	Under 30 months of age	hygienic removal of the skull, including brain, eyes and trigeminal ganglia, tonsils, spinal cord, dorsal root ganglia (with the vertebral column) and the entire intestine (pylorus to rectum).	Allows only boneless skeletal muscle cuts or identifiable trimmings, excluding all parts of the diaphragm, cheek and head meat, trimmings from the vertebral column, mechanically separated meat and product from advanced meat recovery systems.

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<sup>i</sup> See Beef and Veal Summary Selected Countries 2000-2005, USDA Foreign Agricultural Service, available at [http://www.fas.usda.gov/dlp/circular/2005/05-04LP/bf\\_sum.pdf](http://www.fas.usda.gov/dlp/circular/2005/05-04LP/bf_sum.pdf). Together, these 11 importers accounted for 95 percent of global beef imports in 2003.

<sup>ii</sup> *Id.* Together, these 11 importers accounted for 95 percent of global beef imports in 2003.

<sup>iii</sup> See Export Requirements for Countries with an Approved USDA Export Verification Program, USDA Food Safety Inspection Service, available at [http://www.fsis.usda.gov/regulations\\_&\\_policies/Index\\_of\\_Import\\_Requirements\\_by\\_Country/index.asp](http://www.fsis.usda.gov/regulations_&_policies/Index_of_Import_Requirements_by_Country/index.asp); USDA Export Verification Program, USDA Agricultural Marketing Service, available at <http://www.ams.usda.gov/lsg/arc/bev.htm>; Special Requirements by Country, Chapter 11.7, Meat Hygiene Manual of Procedures, Canadian Food Inspection Agency, available at <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap11/11.7e.shtml>; Market Access – Other Countries, Canadian Food Inspection Service, available at <http://www.inspection.gc.ca/english/anima/heasan/disemala/bseesb/accesse.shtml>.

<sup>iv</sup> *Id.*

<sup>v</sup> *Id.*

<sup>vi</sup> Special Requirements by Country, Japan, Meat Hygiene Manual of Procedures, Canadian Food Inspection Agency, available at <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap11/jape.shtml>.

<sup>vii</sup> Special Requirements Applicable to Specific Commodities, High Quality Beef, Chapter 11.6.1, Meat Hygiene Manual of Procedures, Canadian Food Inspection Agency, available at <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap11/11.1-6e.shtml>. (“Under access arrangements negotiated in the General Agreement on Tariffs and Trade (GATT), imports of ‘high quality’ Canadian beef are permitted by the United States of America, Switzerland, Japan, Republic of Korea, Taiwan and the EU member States [‘high quality’ beef is derived from cattle not over 30 months of age].”)

<sup>viii</sup> Export Requirements for the European Union, USDA Food Safety Inspection Service, April 13, 2006, available at [http://www.fsis.usda.gov/regulations\\_&\\_policies/European\\_Union\\_Requirements/index.asp](http://www.fsis.usda.gov/regulations_&_policies/European_Union_Requirements/index.asp).

<sup>ix</sup> European Union, General Information, Chapter 11.7.3.1, Meat Hygiene Manual of Procedures, Canadian Food Inspection Service, available at <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap11/eu-uee.shtml> downloaded on May 18, 2006.

<sup>x</sup> BSE Import Policy for Bovine Animals and their Products, December 2005, Canadian Food Inspection Service, available at <http://www.inspection.gc.ca/english/anima/heasan/policy/ie-2005-9e.shtml>.

<sup>xi</sup> Summary of the Situation with Foreign Markets Relatively [sic] to BSE as of May 4, 2006, Chapter 11, Annex R, Meat Hygiene Manual of Procedures, Canadian Food Inspection Agency, available at <http://www.inspection.gc.ca/english/anima/meavia/mmopmmhv/chap11/annexre.shtml>.

<sup>xii</sup> *Id.*