An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The top bulb is filled with a dark blue color, and the bottom bulb is filled with a light blue color. The globe is centered in the narrow neck of the hourglass.

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February 2, 2009

Congressional Research Service

Report RS21709

*Mad Cow Disease and U.S. Beef Trade*

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June 4, 2008

**Abstract.** The 110th Congress has been monitoring U.S. efforts to regain foreign markets that banned U.S. beef when a Canadian-born cow in Washington state tested positive for bovine spongiform encephalopathy (BSE) in December 2003. The four major U.S. beef export markets, Canada, Mexico, Japan, and Korea, are again open to U.S. products. However, resumption of beef trade with Japan and Korea has not gone smoothly. For example, Korea briefly readmitted but then suspended U.S. beef imports. Now, Korea's delays in implementing an April 2008 agreement to end its ban are a key issue in congressional consideration of the Korea-U.S. Free Trade Agreement.

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## CRS Report for Congress

# Mad Cow Disease and U.S. Beef Trade

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### Summary

The 110<sup>th</sup> Congress has been monitoring U.S. efforts to regain foreign markets that banned U.S. beef when a Canadian-born cow in Washington state tested positive for bovine spongiform encephalopathy (BSE) in December 2003. The four major U.S. beef export markets, Canada, Mexico, Japan, and Korea, are again open to U.S. products. However, resumption of beef trade with Japan and Korea has not gone smoothly. For example, Korea briefly readmitted but then suspended U.S. beef imports. Now, Korea's delays in implementing an April 2008 agreement to end its ban are a key issue in congressional consideration of the Korea-U.S. Free Trade Agreement.

### U.S. and World Beef Trade — Then and Now

In 2003, the United States exported about 1.3 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%.<sup>1</sup>

After USDA's 2003 BSE ("mad cow") 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.

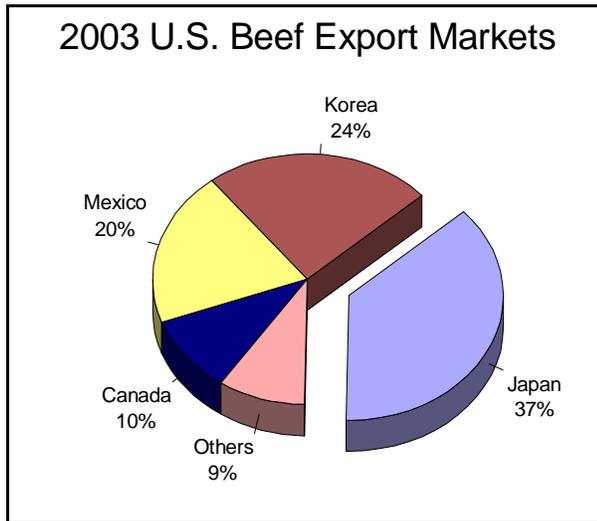
In 2003, the United States was the world's third largest beef/veal exporter, claiming 18% of the world beef/veal market. Australia and Brazil ranked one and two, with 1.3 MMT and 1.2 MMT in exports, respectively. U.S. market share plummeted to 3% in

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<sup>1</sup> 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/currewmt.asp>]; and FAS's U.S. Trade Internet System at [<http://www.fas.usda.gov/ustrade/>].

2004 (209,000 MT). Meanwhile, Brazil became 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.



The World Animal Health Organization (known by its historical acronym, OIE) is the internationally recognized standard-setting agency for animal health.<sup>2</sup> 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 argues that all beef importing countries should acknowledge this OIE determination and more fully reopen their markets to U.S. beef.

U.S. exports continue to recover gradually. U.S. market share for beef climbed to almost 9% in 2007. USDA reported that beef, veal, and beef variety meat exports reached more than 771,000 MT and were valued at more than \$2.7 billion in 2007. However, Mexico took nearly 360,000 MT, or 47%, of the 2007 total volume; Canada took 132,000 MT, or 17%. By contrast, Japan and Korea, combined, imported 72,000 MT, or 9%, of all U.S. beef, veal, and variety meat exports, behind Egypt, which took more than 86,000 MT, or 11%.<sup>3</sup> (See sections on Korea, Japan, and Canada, below.)

## U.S. Beef Exports to Korea

Korea has been the last of the four major foreign markets to accept U.S. beef. Korea's prohibition, which had been in place since December 2003, was first lifted on September 11, 2006, under a Korea-U.S. health protocol negotiated in January 2006. Under this protocol, only boneless beef from cattle under 30 months of age were to be accepted — even though OIE guidelines do not consider any type of bone from these younger animals to be specified risk materials (SRMs, a rule-defined list of cattle parts most likely to harbor the BSE agent). Even so, only about 25,000 MT of U.S. beef has been exported to Korea since then. Korea rejected renewed shipments of U.S. beef first

<sup>2</sup> The OIE website is at [[http://www.oie.int/eng/en\\_index.htm](http://www.oie.int/eng/en_index.htm)].

<sup>3</sup> Source: USDA, FAS, Trade Internet System, data extracted by CRS on May 12, 2008.

because they found bone fragments, albeit very small ones typically acceptable in commercial trade, and, later, for what they said were unacceptable dioxin levels. No beef has entered since October 2007.<sup>4</sup>

On April 18, 2008, the United States and Korea announced a new agreement to fully reopen Korea's market consistent with OIE guidelines. Specifically, the agreement was to allow all U.S. beef and beef products from cattle of all ages, to include bone-in as well as boneless beef, along with offals, variety meats, and processed beef products. This was dependent upon the removal of the following SRMs: the tonsils and part of the small intestine of all cattle; and the brain, eyes, spinal cord, skull, dorsal root ganglia, and vertebral column from all cattle of 30 months and older, again consistent with OIE guidelines. In a two-stage reopening, Korea was to open first to beef from under-30-month old cattle. It next was to allow beef from all cattle, upon publication of final rules, promulgated by the U.S. Food and Drug Administration (FDA), expanding the restrictions on feeding SRMs to animals and pets. Because these feed rules were published in the April 25, 2008, *Federal Register*, the hope was that the Korean market would soon be opened fully rather than in stages.

U.S. officials said Korea had promised not to close its entire market again due to violations by a single plant, among other assurances intended to open and then maintain beef trade. The United States agreed to permit Korea, during the first 90 days, to audit and/or reject U.S. decisions on which of its plants could export. Special labeling requirements applied to T-bone and Porterhouse steak exports for the first 180 days, and there are restrictions on beef from Canadian-sourced cattle.<sup>5</sup> Although the protocol was expected to take effect on May 15, 2008, two days after a Korean public comment period on it ended, market reopening has been delayed as officials there reportedly cope with a furious backlash among many consumers and opposition politicians.

The Korean President first promised them he would halt all U.S. imports if another BSE case is reported here (which could contradict OIE guidelines), and renegotiate the agreement.<sup>6</sup> By June 3, 2008, the Korean government asked that beef from cattle older than 30 months not be shipped. Although several beef companies said they would begin providing age information on their shipments to Korea, U.S. government officials expressed disappointment in the Korean decision and indicated they did not want to renegotiate the April agreement — so the market remained closed in early June 2008.<sup>7</sup>

The U.S. meat industry has stressed the importance of fully implementing the agreement: the U.S. Meat Export Federation has estimated that the United States has lost

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<sup>4</sup> Source: various FAS documents, including *Korea, Republic of Livestock and Products Annual, 2007*, GAIN Report KS7062, October 1, 2007, at [<http://www.fas.usda.gov/gainfiles/200710/146292697.pdf>].

<sup>5</sup> Office of the U.S. Trade Representative (USTR), *Fact Sheet on Korea Beef Protocol*, April 18, 2005.

<sup>6</sup> See, for example, "South Korean officials try to counter U.S. beef rumors," *Agri-Pulse*, May 5, 2008; and "Korean Hysteria May Mean Delays," *Cattle Buyers Weekly*, May 12, 2008.

<sup>7</sup> Various media reports, including "In S. Korea, a Reversal on U.S. Beef Imports," *Washington Post*, June 4, 2008.

\$3.5 billion to \$4 billion in sales to Korea since December 2003. A National Cattlemen's Beef Association (NCBA) economist estimated that the agreement could lead to a \$1 billion annually in sales there. Still, 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. Last year, Australia, the main U.S. competitor for the Korean beef market, had a 72% share of beef imports there.

**In Congress.** In the 110<sup>th</sup> 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; the U.S. International Trade Commission has estimated that FTA itself could increase U.S. beef exports by \$600 million to \$1.8 billion. Nonetheless, a number of lawmakers have signaled that their support for legislation to implement the FTA is contingent on Korea fully opening its market for U.S. beef.<sup>8</sup>

## U.S. Beef Exports to Japan

After months of negotiations, the United States and Japan announced on October 23, 2004, an interim U.S. marketing program to certify that only beef products from cattle of 20 months or younger are shipped. Also, the United States agreed to an expanded definition (for the Japanese only) of potentially higher-risk cattle parts. These 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 animal disease including BSE there, into the U.S. market following U.S. 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).<sup>9</sup>

Japan finalized its decision to permit U.S. beef imports in December 2005, after its independent Food Safety Commission (FSC) certified the adequacy of U.S. safeguards, at which point shipments resumed. 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 to Japan, the market reopened on July 27, 2006.

U.S. officials continue to press the Japanese to expand eligibility for more types of beef products, as acceptable under OIE guidelines. But U.S. exports have encountered continuing beef safety concerns among some consumers, 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. Australia currently provides about 88% of Japanese imports of chilled and frozen beef. FAS said 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. The current beef import

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<sup>8</sup> See CRS Report RL34330, *The Proposed U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*.

<sup>9</sup> 70 *Federal Register*, pp. 48494-484500 and pp. 73905-73919.

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 could seriously curtail U.S. beef exports.<sup>10</sup>

**In Congress.** Legislative initiatives in the 110<sup>th</sup> Congress will depend in large part on the pace of resumption of U.S. beef imports by Japan.

## 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.<sup>11</sup> 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 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.<sup>12</sup> R-CALF's legal efforts to block issuance of earlier rules also did not meet with success.<sup>13</sup>

One major concern of some cattlemen has been that MRR2 would result in a flood of Canadian cull cattle exports to the United States. Analysis by USDA, however, suggests that, for a variety of reasons, this was unlikely to occur. 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.<sup>14</sup> U.S. imports of Canadian cattle had fallen to 512,000 head in 2003, and virtually none in 2004,

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<sup>10</sup> See USDA, FAS, *Japan: Livestock and Products Annual Report 2007*, at [<http://www.fas.usda.gov/gainfiles/200710/146292723.pdf>].

<sup>11</sup> Information on the Canada situation is based on *Canada: Livestock and Products Annual Report 2007*, USDA, Foreign Agricultural Service, GAIN Report CA7050, October 3, 2007, at [<http://www.fas.usda.gov/gainfiles/200710/146292635.pdf>].

<sup>12</sup> See "U.S. Accepts All Canadian Cattle, Meat from Cows Over 30 Months," *Inside U.S. Trade*, online version, November 19, 2007.

<sup>13</sup> 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/>].

<sup>14</sup> USDA, FAS, *Canada and Products Annual Report 2007*, p. 6.

but recovered to approximately 1.4 million in 2007, still somewhat below their pre-BSE annual level of 1.7 million, according to USDA data.

Besides concerns about competition from increased Canadian live cattle imports, there were worries that opening the border to what some 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, and that all countries should, like the United States, base their import policies on international standards.

**In Congress.** In the 110<sup>th</sup> Congress, resolutions of disapproval of MRR2 have been introduced in both chambers (H.J.Res. 55 and S.J.Res. 20). If passed and signed by the President, MRR2 would have no force or effect. Another bill introduced in the 110<sup>th</sup> 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*).

## Related U.S. Economic Impacts<sup>15</sup>

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 but quickly stabilized. Continuing demand, plus 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 average U.S. fed steer (i.e., slaughter-ready cattle) prices at nearly \$85 per cwt. for all of 2004, compared with average fed steer prices of \$85 in 2003 and \$67 in 2002. By 2007 they reached nearly \$92.

A study by 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 loss of beef and by-product exports in 2004 ranged from \$3.2 to \$4.7 billion, according to the study.<sup>16</sup>

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<sup>15</sup> 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.

<sup>16</sup> The Kansas State study can be found at [<http://www.agmanager.info/livestock/marketing/bulletins%5F2/industry/demand/EconomicImpactofBSEonUSBeefIndustry.pdf>].