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After issuing its proposed rule to import cattle from minimal-risk BSE regions in November 2003 and soliciting public comment, USDA released its final rule on December 29, 2004 (published in the January 4, 2005 Federal Register). The rule creates the requirements for minimal-risk regions, classifies Canada as such a region, and defines the type of cattle and beef trade that may occur after the rule takes effect on March 7, 2005. Regions classified as minimal-risk are those that have diagnosed animals infected with BSE but having domestic regulatory measures that would make introduction of BSE into the U.S. unlikely. After USDA conducted a risk assessment of Canada's regulatory measures and other BSE safety precautions, USDA approved it as the first minimal-risk region (other countries could be added following a risk assessment by USDA). USDA indicated that Canada met the minimal-risk standards by having 1) import restrictions since 1990 that would limit BSE exposure to Canadian herds, 2) surveillance for BSE at or above international guidelines, 3) a ruminant-to-ruminant feed ban since 1997, and 4) risk mitigating measures imposed as necessary following BSE investigations and risk assessments.

Under the rule, the U.S. may import from Canada 1) live cattle for feeding or slaughter provided they are slaughtered before 30 months old, 2) boneless or bone-in beef from cattle of any age, and 3) cattle livers, tongues, gelatin, and tallow. Live cattle imports from Canada must meet several standards to insure they are less than 30 months of age before slaughter. First, they must be branded with "C\N" on their right hip and be individually identified with an ear tag that can be used to trace the animal back to its herd of origin. Cattle that are imported to feed prior to slaughter may not be moved between feedyards (i.e., they can only be fed at one feedyard prior to slaughter). All cattle destined for feedyards or slaughter must be shipped in sealed containers, verified by USDA-APHIS veterinarians or its approved representatives. In addition to certification from Canada of the animals' age, feeding history, and identification, the health certificate for the imported cattle must include the origin and destination of the animals, the responsible parties, and the individual ear tag numbers of all the animals.

The impact of the rule will be varied across the beef industry. With additional cattle available from Canada, U.S. livestock producers are expected to face lower cattle prices. Commercial cattle feeders and processors may benefit from the additional supply as it increases their throughput. Consumers could benefit from additional beef supplies that would lower retail beef prices. USDA's economic analysis indicates that even with a drop in cattle prices, the net benefit of the rule to the U.S. could range from \$71.7 to \$77.5 million from 2005 to 2009.

In 2001 and 2002, the last two complete years of "normal" live cattle trade with Canada, the average number of feeder cattle imported from Canada was about 308,000 and the average number of imported slaughter cattle less than 30 months old was roughly 635,000 (assuming 80% of the average 793,000 slaughter cattle imports were less than 30 months). Thus, approximately 943,000 head of cattle could be expected to enter the U.S. from Canada to be consistent with normal trade prior to the import ban disruptions. It may take some time, however, before this level of imports is resumed. The resulting cattle price impact that could be

expected from this addition of cattle can be roughly estimated assuming that a 1% increase in supply results in a 1.6% decrease in cattle prices. Adding the 635,000 fed cattle to the projected 2005 commercial beef production of 25.1 billion pounds implies a 1.9% supply increase and a 3% decrease in fed cattle prices. Accounting for the feeder cattle as well, 2005's beef production will increase by about 2.9%, leading to a 5% decrease in cattle prices. Based on a current fed cattle price of \$85/cwt, this would suggest that the price impact could be between \$2.62/cwt and \$3.88/cwt. Comparably, February and April CME Live Cattle futures declined \$3.95 and \$2.78 Tuesday through Thursday last week, respectively. If additional cattle were imported due to a backlog created by the import ban in place since May 2003 or fed cattle displaced from slaughter in Canada as Canadian processors slaughter additional cattle more than 30 months old, these impacts could be larger.

Following its December 30, 2004 announcement of a "suspected" BSE case, the Canadian Food Inspection Agency reported a positive diagnosis of an 8-year old dairy cow from Alberta with BSE on January 2, 2005. This announcement comes in the midst of the U.S. minimal-risk and Canadian importation rule, but, according to USDA press releases last week, a positive BSE case would not change the import ruling. Because Canada has followed risk mitigating procedures and launched investigations of this BSE case, and others, it is expected to still qualify for minimal-risk status. The likely impact of this second Canadian BSE case is that it will likely delay U.S. rule-making to resume imports of live cattle more than 30 months old.

The Markets

Fed cattle prices advanced about \$4/cwt in active trade the week before Christmas as packers found themselves short of inventory. Last week, following the import announcement, a light trade occurred at mostly \$2/cwt lower than the previous week. Choice boxed beef increased \$2.84/cwt last week although the Choice-Select spread narrowed \$1.23/cwt. A light run of feeder cattle sold in Nebraska last week at mostly steady money.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight (35-65% Choice)	\$88.01	\$89.99	\$76.63
Neb. Fed Steer Price, dressed weight (35-65% Choice)	\$138.81	\$140.13	\$146.98
700-800 lb. Feeder Steer Price, Kansas 4 market average	NA	\$106.64	NA
500-600 lb. Feeder Steer Price, Kansas 4 market average	NA	\$110.00	NA
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$109.17	\$109.71	NA
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$122.65	\$122.06	NA
Choice Boxed Beef Price, 600-900 lb. carcass	\$141.45	\$138.61	\$142.23
Choice-Select Spread, 600-900 lb. carcass	\$5.82	\$7.05	\$9.13