

# **Impact of BSE on beef marketing**

(revised July 6, 2005 – Meyer)

## **How will the new USDA rules affect prices?**

Because Specified Risk Materials (SRMs) must be removed from cattle more than 30 months old, these cattle are discounted dramatically when they go to harvest. Price discounts average \$7 to \$9 per cwt., and are as much as \$25 per cwt. at some packers. While the impact on feeder cattle prices has not been quantified, older feeder cattle which may go to harvest when they are more than 2 ½ years old are likely to be discounted because of the indirect impact of the slaughter cattle discount.

Downer cows have not been accepted by stockyards in recent history and now no non-ambulatory cattle are allowed to be used for human food (even custom processed for the owner). In general, beef producers are not expected to experience a reduction in prices due to the changes. If there is any reduction in prices it would logically be in the slaughter cow sector of the market as the uses for the resulting product would have some limitations and there would be a somewhat lower yield of product due to the processing limitations. Downer animals will now be a loss to whoever owns them as has been the case for most beef producers for some time now, these animals will be rendered.

## **What are the short run market impacts?**

When the first U.S. BSE case was identified in December, 2003, prices for slaughter cattle and wholesale beef initially fell – largely due to uncertainty and expectations of increased domestic supplies. Prices declined from record-high levels, so slaughter cattle prices dropped dramatically, but were still near year earlier levels and \$10 per cwt. over the price level of mid 2002.

The second case (November, 2004, confirmed in June, 2005) had little market impact. Futures prices dropped in the first part of June based on speculation of a positive case. However, later in the month when the case was confirmed as positive, markets did not react. Slaughter cattle prices were lower than in early June, but higher than a few days before the confirmation. Kentucky feeder cattle prices at major markets held steady. Prices at some smaller markets, especially in the central and western parts of the state did drop \$2 to \$5 per cwt., but that could have been for reasons other than the BSE case.

## **What are the trade impacts and how do they affect the market?**

During the early 2000s, the U.S. exported about 9% of its beef production and imported about 14%. Because many countries (Mexico, Canada, Japan, S. Korea, etc.) closed their doors to U.S. beef, the supply of beef on the domestic market increased as the beef intended for export was diverted to the U.S. market. Economic research suggests this would have about a 14% to 18% negative impact on slaughter cattle prices, which would drop them to the mid \$70s/cwt., as did happen for a short time.

U.S. cattle and beef imports from Canada were also cut off for a while. As of mid, 2005, no live cattle are being imported from Canada. However, boneless cuts of beef from cattle under 30 months of age are coming in. Initially, Canadian slaughter capacity severely limited the amount of beef that could be processed. Since mid 2004, slaughter capacity has increased by about 50% and there is not much of a backlog in Canada and beef imports from Canada to the U.S. have increased to 92% of the 2002 record level.

## **What is happening to beef demand?**

The U.S. and Canadian experiences with BSE have demonstrated that there is not a significant negative consumer response. Retail market surveys conducted soon after the first U.S. case supported this finding, even though some categories of consumers may be changing their eating habits. One consumer survey suggested that as many as one-third of consumers might change their beef consumption habits. But because this group is already at the low beef consumption level, the total impact will be small.

Per capita beef consumption actually increased slightly in 2004, and will be only slightly lower in 2005. Demand studies suggest that BSE is not a key factor in beef demand. Economic demand (defined as “willingness to pay”) may be weakening slightly, but not due to consumer confidence in food safety. Tight supplies, along with continued demand strength have led to record high retail prices.

#### **What are the longer term prospects?**

Since the trade embargoes caused the greatest negative price impact, reopening doors to U.S. exports is the most important factor in a price recovery. Negotiations with Japan are continuing, and whatever arrangements are agreed upon, will impact trade with other Pacific Rim countries. Rules to allow importation of live cattle from Canada are being controlled by regulatory procedures and court cases. However, when (as is likely) live cattle trade is resumed, it is likely to have only a small (\$2 to \$5 per cwt.) and short run impact on cattle prices since beef imports have largely substituted for cattle imports.

One other lasting impact will be the uncertainty of consumer demand and the corresponding response of the industry to adopt quality control and source verification procedures.

### **National Animal Identification System (NAIS) Facts and Information**

Important Points to understand:

- No components of the NAIS are mandatory at this time. The premise registry system is operational but voluntary. All electronic animal tracking is market driven at this point in time.
- Premise Id Code is a registry code for the farm, it does not designate ownership merely the location of the farm or other facility housing livestock. There are only two points of information in the Premise application that are not already a matter of public record: 1. Name of your farm, 2. What species of livestock you have.
- USDA/APHIS has expressed a desire to move to a mandatory system by January 2009.
- There is no need or even request to tag the entire cow herd or even tag any animals prior to leaving your farm unless you intend to use the electronic tags for record keeping purposes.
- Just tagging an animal with an electronic tag does not mean anything, you must register the tags/animals with a credible system like the Kentucky Beef Network so data can support your claims.
- You do not have to have any electronic reader equipment on the farm to participate. The only equipment you need is an ear tagger.
- The electronic tag does not record any information.
- (alternative/or edit of previous bullet) The electronic tag is really no different in concept from a visual dangle tag, it is just easier to read since it can be electronically scanned, and uses a standardized 15 digit number that is internationally recognized and unique. The number system is just like a bar code which identifies a product in a store.
- Two points of information are driving premiums in the markets – Source Verification and Age Verification.
- Source Verification is different from traceability – Source Verification means the animal is registered in a credible system, to the farm of birth.

- At this point, age can be established by reporting dates in one of three ways:
  - actual birth dates
  - The date the calving season began
  - Bull turn out date

#### Action Points for Progressive Producers

- Get your Premise Id registered with the State Veterinarian. Forms are available at UK Cooperative Extension Offices, most auction markets, on line at: [http://www.kyagr.com/state\\_vet/producersvs/index.htm](http://www.kyagr.com/state_vet/producersvs/index.htm) or by calling (502) 564-3956.
- Consider selling your calves through CPH 45 at a location using electronic id. This program meets or exceeds the strictest demands in the market and offers you the opportunity to participate with a proven record of premiums.
- Maintain simple records to support your claims. Simply record the beginning and end of your calving season if you do not have individual birth dates and file those in the event you are ever asked. Something as simple as a calendar with events written in will suffice as long as you keep it and can access it if you need it.
- Keep track of any animals that you purchase from this point forward. We strongly suggest that you use the Kentucky Beef Network Origin Affidavit when purchasing cattle, get the seller to sign it, tag and record those animals with the KBN.
- If you do not plan to sell in CPH 45 you can still sell Source and Age Verified cattle by contacting the KBN or participating local suppliers. You will be issued electronic tags, asked to sign the Origin Affidavit and declare a birth date on the animals. Cost for this program is \$2.50/head including tag and data services.
- Recognize that the market activity is driven by demand and business rules. The buyers who are demanding these cattle and paying premiums for them are part of auditable systems. By taking advantage of those premiums you enter the auditable system. KBN is your buffer but that does not mean that you will never be asked to show that you have recorded the information to support your claim.
- If you plan to sell Source and Age Verified cattle in the local market it is important that you communicate that to the management and buyers. Everyone in the system is learning to adapt to this change in the marketplace, letting them know what you have done will help them market your cattle.
- Once animals are registered with the KBN you can access a Source and Age Verification Certificate on those animals to present to the market.
- The data that you submit to support your claims is your proprietary data and can only be accessed with your permission.
- For information on Premise Id contact the Kentucky State Veterinarians Office.
- For information on marketing programs contact the Kentucky Beef Network at (859) 278-0899, your local county extension agent or your local market.