



**CATPRN**

Canadian Agricultural Trade Policy Research Network

# **The Losses in the Beef Sector In Canada from BSE**

**CATPRN Trade Policy Brief 2006-4**

**October 2006**

**Danny Le Roy**

Assistant Professor  
Department of Economics  
The University of Lethbridge

**K.K.Klein**

Professor  
Department of Economics  
The University of Lethbridge

**Tatiana Klvacek**

Research Assistant  
Department of Economics  
The University of Lethbridge

<http://www.catrade.org>

Trade Policy Briefs are short summaries of studies funded by the CATPRN. As such, the briefs omit many of the details and all of the references contained in the longer reports. This brief is based on CATPRN Commissioned Paper CP 2006-5. Funding for this project was provided by the CATPRN, which in turn is funded by Agriculture and Agri-Food Canada but the views expressed in this paper are those of the authors and should not be attributed to the funding agencies.

Before May 20, 2003 Canadian cattle and beef production activities had been expanding, especially in Alberta, because of changes in government policies and from growing demand among foreign consumers. Governments instituted several policies during the 1980s that led to the expansion of the Canadian beef herd. Since subsidized freight rates for prairie grains increased the on-farm prices of grain, provincial governments in the Canadian prairies instituted subsidies to offset its detrimental impacts on the growth of the cattle industry. A second initiative entailed subsidizing the expansion of cattle slaughter capacity in Alberta. Finally, to help diversify export destinations for beef, a third initiative involved developing and funding a beef export promotion agency. Changes in federal policies regarding international trade provided additional stimulation. Following the implementation of the Canada-United States Trade Agreement (CUSTA), beef produced in Canada became exempt from import quotas in the United States. In turn, beef exporters in the United States gained largely unhampered access to the Canadian market and tariffs on live cattle trade were eliminated.<sup>1</sup> However, trade barriers were maintained by Canada and the United States against beef imports from outside the CUSTA region.<sup>2</sup> Shielded from the full effect of competitive pressure, domestic producers focused on satisfying consumers in North America and those in high price regions like Japan and South Korea.

These policy changes had the desired effects. While cattle and beef production was aimed at satisfying domestic demands during the 1980s, by 2003 about one-half of what was produced in Canada was intended for foreign customers. Almost all live cattle exports were destined for the United States. Seventy per cent of meat exports went to the United States with the remainder sent to consumers in Mexico, Japan, South Korea and other countries. In Alberta between 1986 and 2001, the number of yearling steers increased from 426,000 to 960,000 (125 percent), the number of beef heifers for market increased from 225,000 to 720,000 (220 percent), and the total number of cattle and calves on farms increased from 3,746,000 to 6,500,000 (73.5 percent). When BSE was discovered in Canada on May 20, 2003, export markets were partially or completely shut – nearly eliminating the foreign demand for Canadian beef and cattle overnight. This led to unprecedented production and marketing disruptions throughout the Canadian beef sector.<sup>3</sup> Canadian market prices for live cattle on the Canadian market

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<sup>1</sup> Prior to the CUSTA, the Canadian tariff on cattle imports from the United States was zero for purebred breeding animals and dairy cattle, while all other bovine animals faced a duty of 2.2 cents/kg. The U.S. tariff on imports of Canadian cattle was zero for purebred breeding animals and dairy cows, while all other bovine imports had a duty of 2.2 cents/kg. The Canadian tariff on all fresh chilled and frozen beef from the United States was 4.41cents/kg. United States tariffs on fresh and frozen beef imports from Canada ranged from an *ad valorem* duty of 4 to 10 percent on some cuts, while others were set at 4.4cents/kg.

<sup>2</sup> Non-NAFTA beef faces a within quota tariff of zero, in Canada, and the over-quota tariff is 26.5 percent on imports above 76, 409 tonnes. For the United States, the non-NAFTA within quota tariff is zero and the over-quota tariff is 26.4 percent on imports above 696,621 tonnes.

<sup>3</sup> The reader might be interested in papers published in the book *Second Annual American Agrifood Market Integration Workshop: Agrifood Regulatory and Policy Integration Under Stress* sponsored by the North American Agrifood Market Integration Consortium. These papers which are available at <http://naamic.tamu.edu/sanantonio.htm> contain more information on the policy response to the BSE crisis, its welfare effects in the beef/cattle sector and its effects in the US market.

plummeted as a large increase in the domestic supply of animals confronted limited slaughtering capacity, especially for cows.

In our Commissioned Paper we attempted to document the major losses in the Canadian beef sector that resulted from the border closures. The method of analysis was to compare price and quantity data from 2002, prior to the discovery of BSE, to data from May 2003 to May 2005, the two years following the border closures.<sup>4</sup> Using historical data, losses to the beef sector were calculated as the reduction in value of exports of beef and live animals, plus the reduction in exports of beef by-products, plus the cost of extra processing required to implement new procedures, less any drop in imports of cattle, beef and by-product (as this broadens the scope for domestic marketing of domestic production). Basing the analysis on historical data has limitations because it assumes that the future would be identical to the past, which in a dynamic and cyclical industry like beef and cattle may not be completely accurate. Still, the shocks to the production, marketing and trading system resulting from the border closures were so great we feel confident that our approach identifies the major components of losses to the beef sector.

Table 1 summarizes the estimated \$4,062 million loss to the Canadian beef sector during the two year period from May 2003 to May 2005. Increased processing costs resulting from complying with new regulations enforced by the Canadian Food Inspection Agency for handling, slaughtering and exporting cattle and beef were estimated to be \$240 million during this time period. Losses from reduced net exports of live animals totaled \$3,918 million. Restricting the quantity of imported beef in Canada broadened the market for domestically produced beef and generated a net gain to the industry of \$221 million. Finally, the net losses in the market for by-products totaled \$125 million.

A long history of producing mostly for the domestic market led to institutions and “ways of thinking” that left Canadian producers ill prepared for major exposure to the severe demands of the international market place. The industry expansion that started in earnest in the mid-1980s led by enthusiastic producers and supportive government policies developed into a situation where suppliers became vulnerable to the closure of export markets. Efforts by governments to negotiate international trade accords to prevent indiscriminate border closures ultimately proved fruitless in the face of the BSE discovery in Canada. Moreover, governments, primary producers and packers in Canada appeared to have learned little from the British experience of long term closures to export markets and were not well prepared for the eventuality of discovering BSE in Canada. For the long term success of the Canadian beef sector, it is important to continue to seek international agreement on appropriate protocols that not only limits consumer exposure to animal diseases and pests but also takes account of the real risk to human health as based on scientific knowledge and evidence. At the same time, Canadian beef producers need to be cognizant of their vulnerability to export markets

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<sup>4</sup> This period coincides with the most immediate and extensive losses. Live cattle under thirty months of age were permitted entry to the United States beginning July 18, 2005. However, since older animals are still not permitted entry and additional border measures are still in place, losses continue to increase.

and so adopt production practices and supply chains that are in line with changing consumer wants in export markets.

**Table 1: Losses from BSE**

	May- Dec 2003	2004	Jan-May 2005	TOTAL
<b>Extra processing costs</b> (@ \$30/head)	\$45M	\$120M	\$75M	\$240M
<b>Number of Head</b>	1.5M	4M	1.9M	
<b>Reduced Exports</b>				
<b>Live Animals</b> (@ \$1100/head)	\$1,210M	\$1,650M	\$1,210M	\$4,070M
<b>Number of Head</b>	1.1M	1.5M	1.1M	
<b>Beef</b> (@\$4.50/kg) Number of kg	\$540M 120M kg			\$540M
<b>Byproducts</b> (@ \$84M/Year)	\$49M	\$84M	\$35M	\$168M
<b>Reduced Imports</b>				
<b>Live Animals</b>	(\$44M)	(\$76M)	(\$32M)	(\$152M)
<b>Beef</b>	(\$81M)	(\$492M)	(\$188M)	(\$761M)
<b>Byproducts</b>	(\$5M)	(\$28M)	(\$10M)	(\$43M)
<b>TOTAL</b>				<b><u>\$4,062M</u></b>