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Economic Consequences of BSE for the North American Cattle and Beef Industries

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- Prior to the discovery of BSE in North America, the U.S. and Canada generally traded freely with one another in cattle, beef and beef products. Cattle numbers had been trending up slowly in Canada while cattle numbers in the U.S. had been trending down. Canada's cattle production exceeded its slaughter capacity; consequently, Canada exported an average of 1.2 million head to the U.S. during 1998-2002.

- In May 2003, Canada discovered BSE in a Canadian–born cow. Immediately, Canada lost all of its export markets for ruminants and ruminant products and cattle prices fell sharply from $77 (U.S. $) per cwt in May to $27 in July. As prices dropped, slaughter declined, producers held animals back, and with the U.S. border closed, cattle inventories started rising.

- The resumption of boneless beef exports to the United States in the fall of 2003, and strong beef demand by Canadian consumers, helped Canadian slaughter and beef prices begin a partial recovery. The price recovery continues today but remains limited by the closure of the U.S. market to imports of live cattle and beef from cattle over 30 months of age.

- After the U.S. discovery of BSE in a Canadian-born cow in Washington State in December 2003, more than 50 countries suspended imports of U.S. ruminant and ruminant products. U.S. cattle prices fell, but the decline was brief, and cattle prices went on to set a record high for 2004, and continue to be strong today.

- With no trade in live cattle between the U.S. and Canada, Canada has a surplus of live cattle. Canadian meat packers are paying less than U.S. packers for cattle, and Canadian slaughter is expanding, up about 25 percent in 2004 from 2003's depressed level. Meanwhile, cattle slaughter in the U.S. fell by 8 percent in 2004, reflecting steadily declining U.S. cattle numbers and the suspension in imports of Canadian cattle.

- The longer the border remains closed, the more likely Canada will continue to expand cattle slaughter and beef exports to the United States, and ultimately to the rest of the world. The Canadian federal and provincial governments have stated that they must be able to solve their cattle surplus problem themselves. Federally inspected slaughter is up another 6 percent year–to–date, and several plant expansions are coming on line in 2005.

- Record–high U.S. cattle prices in 2004 and relatively high prices thus far in 2005, combined with an open border for beef with Canada, will likely cause an expansion in U.S. cattle production at the same time U.S. meat packers may be reducing slaughter capacity. Without access to Canadian cattle, U.S. slaughter will remain below capacity, forcing some U.S. meat packers to curtail slaughter operations. If current conditions continue and permanent plant closures occur as U.S. cattle inventories are expanding, fewer U.S. packing plants competing for cattle would affect where and at what price U.S. producers would be able to market their cattle.