

Analysis

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United States: Fears Over Case of Mad Cow Disease in US Shut Down Foreign Markets

The discovery of a dairy cow infected with Bovine Spongiform Encephalopathy - also known as 'mad cow' disease - in the US state of Washington has prompted a virtual worldwide ban on US beef exports and has government officials scrambling to contain further damage to the US\$40bn cattle industry in the US.

WMRC Perspective

- Significance** If humans consume beef that is tainted with Bovine Spongiform Encephalopathy (BSE) they can contract Creutzfeldt-Jakob disease, which is a fatal brain degenerative disease that killed 138 people in Britain in the late 1990s after a widespread outbreak there.
- Implications** The discovery of a cow infected with BSE calls into question the efficacy of the US beef monitoring safeguards put into place in 1997 after widespread cases of BSE decimated the British beef industry.
- Outlook** The US learned a great deal from the British example: only a few days after the case was discovered, officials have almost identified the pertinent information about the cow and have recalled any beef products that have the slightest possibility of being infected. The US beef industry will suffer in the short term, but will quickly rebound once the case is resolved in the next few weeks.

Bovine Revenge

'Mad cow' disease, which is technically known as Bovine Spongiform Encephalopathy (BSE), creates holes in the brains of infected cattle. The origin of the disease is not known, but the popular belief is that humans can catch a similar form of the disease, known as Creutzfeldt-Jakob disease (CJD), by eating beef products containing infected nervous tissue from cows, such as the spinal cord or brain. CJD is fatal in humans.

A single case of BSE was found in a dairy cow in the US state of Washington on 22 December, during routine screening for the disease as required by the US Department of Agriculture. Within 48 hours all of the beef associated with the infected cow and 19 others (around 10,000 pounds in weight) was recalled from stores across eight different states, and production facilities with which the cow came in contact were shut down for inspection. The meat does not contain any flesh through which BSE is thought to be transferred to humans, because the spinal cord and brain tissue were removed at the processing plant in accordance with regulations, but the meat was recalled as an added precaution.

Mad About US Beef

The US exports 10% of the 27 billion pounds of beef it produces annually. Upon the announcement of the BSE case, 30 countries quickly banned US beef imports, which will dramatically impact the US\$3bn export market in the short and medium term. According to forecasts, at today's market prices for US beef, the industry stands to lose at least US\$6bn a year in exports and falling domestic prices because of the single cow with BSE. In South America, Colombia, Argentina, Peru, Venezuela, Uruguay, Nicaragua, Costa Rica, Brazil and Chile have

banned US beef imports, and elsewhere, Egypt, Indonesia, Vietnam and Ukraine also announced measures to keep out beef imports. However, the crushing blows come from the bans in Japan, South Korea and Mexico - they are the three largest markets for US beef, accounting for the bulk of all exports.

The Market Responds

Trade in US cattle futures was automatically halted for a third consecutive session yesterday, as prices immediately plummeted by the maximum daily allowance after the announcement of the expanded recall of possible infected beef across eight US states. If prices reach the cut-off point again today, the Chicago Mercantile Exchange (CME) will ease the rules for the second time in a week and allow the price to fluctuate by up to seven and a half cents before again freezing trading.

Buyers of US beef, including the world's largest fast-food chain McDonald's, said that it was confident in the safety of the US beef supply, but its stock on the New York Stock Exchange fell. However, in the medium term, as the price of US beef falls dramatically, buyers will benefit from the cheaper prices and companies like McDonald's will see their profit margins expand.

Blame Canada?

The origin of the infected cow is being traced to a cattle farm in Alberta, Canada, not far from where, earlier this year, an Angus cow was discovered to be carrying BSE, and the animal is believed to have been infected before safeguards were put into place. A report released on 27 June by an independent, international panel of experts found that Canadian officials need to do more in order to ensure the safety of Canadian beef products. The discovery prompted several countries, including the US - which receives 70% of Canadian beef exports - to issue a ban on importation. The ban, which was lifted by most countries on a limited number of Canadian beef products a few months ago, cost the Canadian beef industry an estimated C\$11m (US\$8m) per day.

After the first case of BSE found in a Canadian cow, the US issued new regulations that would require cattle, sheep and other livestock to be 'tagged' and tracked in an effort to prevent domestic cases of BSE. Citing tainted feed as the cause of the May case of BSE in Canada, the experts' report recommended the elimination of certain animal tissues from production as well as better surveillance and disease testing. However, those new systems are still being put in place.

Making Political Hay out of Beef

Nearly all of the candidates for the Democratic nomination for president seized upon the public's fear over tainted beef and turned it into an opportunity to criticise the administration of US President George W Bush. Leading candidate, former Vermont governor Howard Dean, called for a more comprehensive tracking system and tighter regulations and accused Bush of being too cosy with the beef lobby, giving this as the reason that the US system did not have better safeguards. The cattle industry is no stranger to the halls of power in Washington, DC - the nation's capital - and the government's handling of the case will require a delicate balance between protecting the health of consumers and that of the beef cattle industry. The country's Farm Belt is rural and more conservative and is the core region of support for Bush, but some of the farm states - such as Iowa, Missouri and Wisconsin - are competitive swing states that could be won by either party.

Outlook and Implications

The outbreak of BSE in Britain is evidence enough of how devastating this could be to the US beef industry both in and outside of the US. Consumers need to have complete confidence in the

safety of the food supply and the government's ability to identify problems along the production chain. Therefore, a quick and strong response from government officials is critical, and with so many eyes on their performance, the real facts, no matter how disturbing, need to come out. However, it must also be done in such a way that does not create an unwarranted perception that all US beef (a US\$40bn industry) is possibly tainted or that the government did not do its job to prevent the spread of BSE. Thus far, the system seems to have worked fairly well.

The political fallout will probably be minimal, especially as evidence points to the tainted cow having originated in Canada, which has already had its problems with BSE. Even though Bush's opponents will try to throw rhetorical manure at him, hoping it will stick, the ongoing investigation will most likely leave them with nothing but stained and smelly hands.

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