

DISRUPTION IN THE SUPPLY CHAIN FOR BEEF AND PORK

**What Has Happened And
What Was NAFTA Doing?**



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ORGANIZATION



- Overview: BSE in North America
- Market integration
- Responses to the BSE crisis
- Effect on the hog market
- Preliminary empirical research
- Lessons learned and look forward

BSE IN NORTH AMERICA – 1



- December 8, 1993
 - Alberta
 - Purebred beef cow imported from UK

- May 20, 2003
 - Wanham, Alberta
 - Angus cow
 - Born, fed and raised in Canada

BSE IN NORTH AMERICA – 2



- December 25, 2003
 - Yakima, Washington
 - Holstein cow
 - Born, fed and raised in Canada, shipped to the US
- December 29, 2004 the USDA announced that it would reopen the US border to live cattle under 30 months on March 7, 2005.
 - E-u-p-h-o-r-i-a in Canada!!!
 - Very short lived.

BSE IN NORTH AMERICA – 3



- January 2, 2005
 - Barrhead, Alberta
 - Holstein cow
 - Born, fed and raised in Canada

- January 11, 2005
 - Innisfail, Alberta
 - Charolais cow
 - Born, fed and raised in Canada

BSE IN NORTH AMERICA – 4



- **Problematic legal and political situation:**
 - Preliminary injunction against opening the border
 - US senate voted to keep border closed
 - Hearing on a permanent injunction scheduled for July
- **Problematic economic situation:**
 - Cattle producers and taxpayers in Canada
 - Processors in the Pacific Northwest

BSE IN NORTH AMERICA – 5



- The cattle sector was a shining example of harmonization and integration under the NAFTA.
- It is now a stunning and troubling exemplification of disharmony, market segregation, and confusion.
- The role of the NAFTA:
 - Did it contribute to the current problematic situation?
 - Can it help resolve it?

MARKET INTEGRATION - 1



- Background statistics:
 - Cattle populations (current)
 - United States: 95 million
 - Mexico : 27-30 million
 - Canada : 15 million
 - Annual slaughters (2004):
 - United States: ~33 million
 - Mexico : ~8 million (?)
 - Canada : ~4 million

MARKET INTEGRATION - 2



- History:

- There have been three distinct “boom-bust” cycles in Canada, each the product of interventionism.

- 1913 – early 1920s (US: tariffs)
- 1939 – 1948 (Canada: transportation subsidies *et al*)
- Mid 1980s – today (NAFTA, subsidies & BSE)

MARKET INTEGRATION - 3



- The recent integration of the cattle market developed behind a wall of protection from the world beyond North American shores.
 - Multilateral protectionism

MARKET INTEGRATION - 3



- Timeline:

- US Meat Import Act (1979)

- Quantitative import restrictions created significant impediments to beef exporters in Canada and Mexico.

- CUSTA (1989)

- Exemptions for Canadian beef. US beef gets unhampered access to Canadian market
- Import quotas enforced for non-CUSTA beef

- NAFTA (1994)

- Preferential system extended to the Mexican government

- Uruguay Round (1995)

- Beef import quotas converted to bound tariffs.

MARKET INTEGRATION - 4



Region	Within NAFTA tariff	Outside NAFTA tariff rate quotas	
		Quota (tonnes)	Over quota tariff
Canada	0	76,000	26.5%
United States	0	696,000	26.4%
Mexico	0	?	25%

MARKET INTEGRATION - 5



- Effects of a high tariff policy:
 - Shifts production from the most advantageous regions to regions less well suited.
 - Diminishes the productivity of labour and capital and increases production costs.
 - Benefits producers in the NAFTA region at the expense of:
 - Producers of all other goods and services
 - All consumers everywhere

MARKET INTEGRATION - 6



- ***Additional*** prescriptions were designed and applied to expand cattle production in Canada
 - Feed Grain Market Adjustment programs
 - Crow Offset (AB: ~C\$50 million/yr)
 - Subsidies for the construction of a processing plant
 - 1987: C\$4 million for plant in High River, AB
 - Subsidies to promote beef exports from Canada outside the NAFTA region
 - Canadian Beef Export Federation
 - Producer price stabilization schemes
 - National Tripartite Stabilization Program

MARKET INTEGRATION - 7

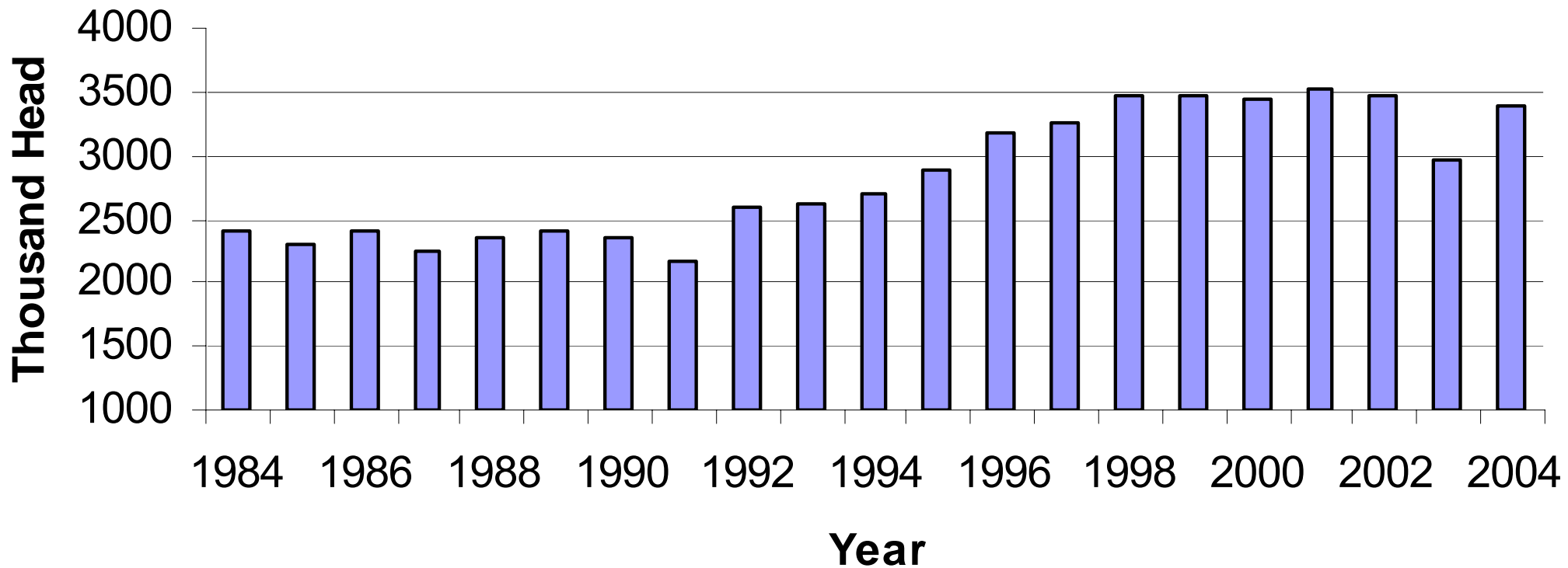


- Policy outcomes (1989-2001)
 - Canada
 - Cattle inventory ↑ from 11 million to 14 million
 - Beef exports increased 500%
 - Net cattle exports increased from 0 to 1.5 million head, annually
 - United States
 - Cattle inventory ↑ from 95 million to 97 million
 - Net beef imports decreased 30%

MARKET INTEGRATION - 8



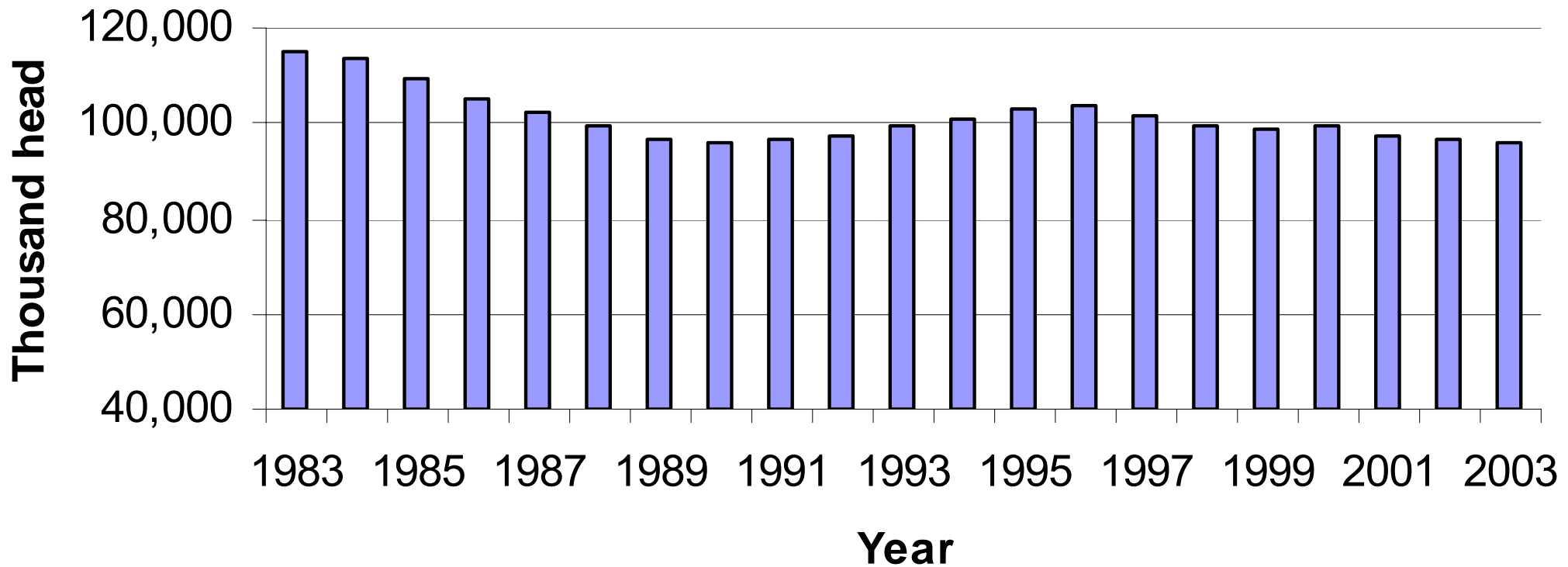
**Canadian Fed Cattle Production
1984-2004**



MARKET INTEGRATION - 9



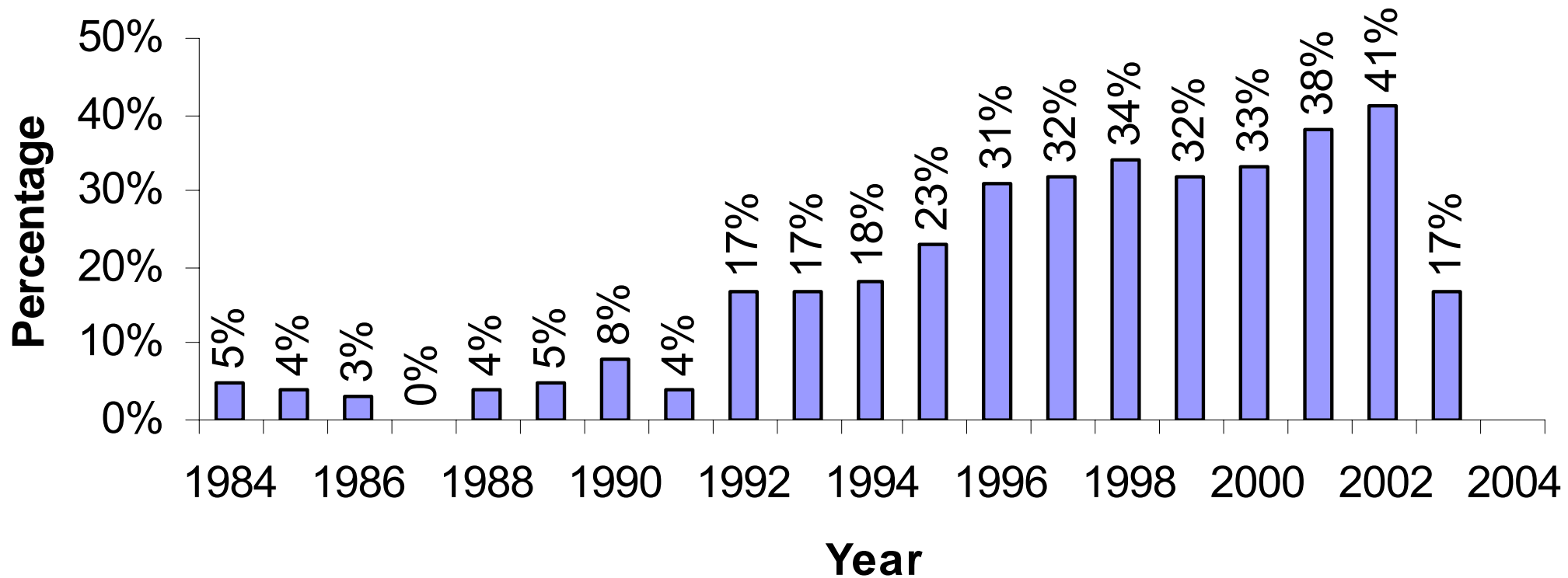
**Total US Cattle Inventory
1983-2003**



MARKET INTEGRATION - 10



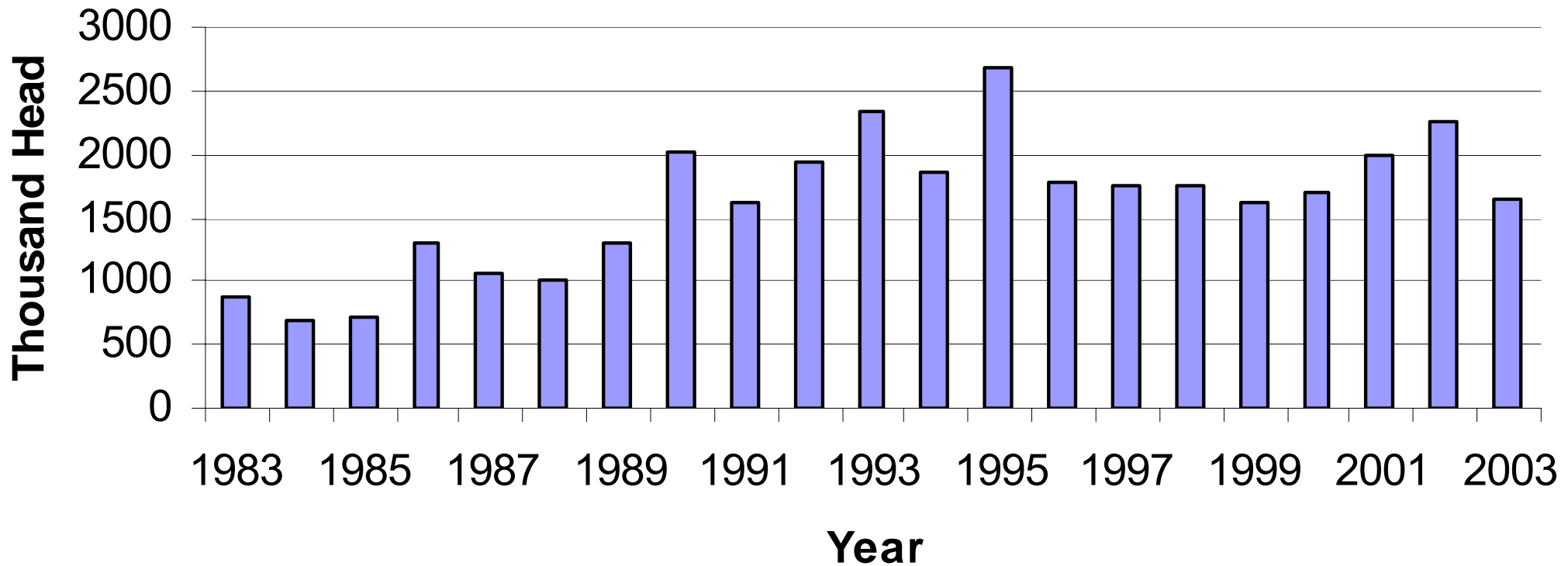
**Net Exports From Canada as a % of Production
1984-2004**



MARKET INTEGRATION - 11



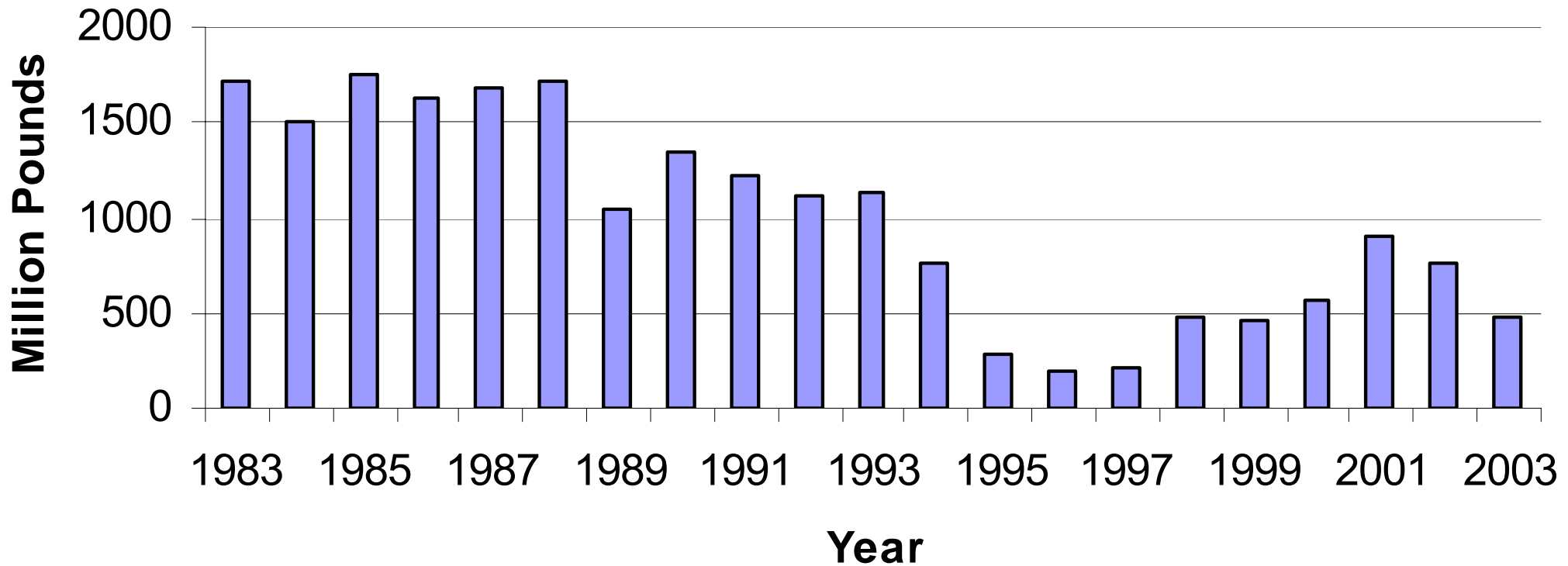
**US Net Cattle Imports
1983-2003**



MARKET INTEGRATION - 12



**US Net Beef Imports
1983-2003**



MARKET INTEGRATION - 13



- Worrisome outcomes for Canadian producers:
 - Dependence on US market
 - No contingency plan for a US border closure
 - Inadequate domestic slaughter capacity
 - Spread between cattle and processing capacity: >1 million hd

RESPONSES TO THE CRISIS – 1



- Short term solutions – policy makers and industry representatives believed the problem to be **temporary**.
- **Idea**: Avoid producer adjustments to the new (and presumed short term) economic circumstances through taxpayer transfers.

RESPONSES TO THE CRISIS - 2



Taxpayer Transfers in Alberta as at June 4, 2004

Program Name	Date	Forecasted Expenditure	# of Applications	# of Animals Covered	Dollars Transferred	Funding Structure
Canada-Alberta BSE Recovery Program	June 18, 2003	C\$297,046,000	4,369	478,024	C\$248,091,473	Fed (60%) Prov (40%)
Alberta Fed Cattle Competitive Bid Program	July 25, 2003	C\$60,909,000	423	106,750	C\$58,527,130	Alberta (100%)
Alberta Fed Cattle Competitive Market Adjustment Program	Aug 25, 2003	C\$66,606,000	979	149,991	C\$64,862,978	Alberta (100%)
Alberta BSE Slaughter Market Adjustment Program for other Ruminants	Sept 23, 2003	C\$3,000,000	1,014	36,975	C\$1,443,340	Alberta (100%)
Alberta Steer and Heifer Market Transition Program	Oct 9, 2003	C\$55,000,000	975			Alberta (100%)
Beef Product and Market Development Program	Oct 24, 2003	C\$8,000,000				Alberta (100%)
Food Processor Assistance Initiative	Oct 24, 2003	C\$400,000	7			Alberta (100%)
Alberta Mature Market Animal Transition Program	Nov 24, 2003	C\$60,000,000	22,565	146,317	C\$26,051,449	Alberta (100%)
Winter Feed Program for deer, elk, llama and alpaca producers	Nov 24, 2003	C\$4,000,000	734	54,744	C\$3,906,257	Alberta (100%)
TOTAL		C\$544,694,000		972,721	C\$402,882,627	

RESPONSES TO THE CRISIS - 3



- Chapter 11 NAFTA Challenge
 - Preferential treatment of US investors?
- C\$7 billion class action law suit against the Canadian government
 - Was the it negligent because mad cow disease became established in Canada?
- Import harmonization for BSE
 - Outcome of meeting in Mexico City on March 29, 2005?

EFFECT ON THE HOG MARKET – 1



- Hog industry also has become more integrated since the NAFTA was implemented.
- Prohibition of live cattle trade in 2003 had a complex effect on the hog market.

EFFECT ON THE HOG MARKET – 2



- Higher beef prices in the US raised the demand for pork.
 - Increased demand in the US was met largely by hog and pork exports from Canada.
 - ↑ from 20,000 - 25,000 hd/week to 40,000 hd/week/
 - In 2003, 7.3 million head exported (yr-to-yr↑: 33%)
- ↑ in exports to the US also a consequence of lower beef prices in Canada.

EFFECT ON THE HOG MARKET – 3



- March 5, 2004 - US National Pork Producers Council alleged that hog imports from Canada were both subsidized and sold below fair market value.
- Petition filed with US Department of Commerce for countervail and anti-dumping duties.
 - October 20, 2004: **14.06% countervail**
 - March 7, 2005: **10.63% countervail**
 - April 6, 2005: **countervail terminated** as at April 18. All duties collected to be returned.

PRELIMINARY EMPIRICAL RESEARCH



- Static, partial equilibrium model
 - Two inputs (cattle under 30 months; over 30 months)
 - Two outputs (beef from young cattle; beef from old cattle)
- Scenarios:
 - Open border (cattle prices $\uparrow 20\%$; quantity supplied $\uparrow 12\%$)
 - $10\% \uparrow$ slaughter capacity (young cattle price $\uparrow 15\%$; old $\uparrow 7\%$)
 - 20% cull (young cattle price $\uparrow 11\%$; old $\uparrow 6\%$)

LESSONS LEARNED & LOOK FORWARD - 1



- **Summary:**

- The NAFTA was the legal means used to integrate the North American market by encouraging free trade within the region and high tariffs beyond the region;
- While the NAFTA authorizes a central government to prohibit imports for the purpose of protecting animal, human and environmental health, *it is silent on how and when to resume trade if the problematic situation is resolved and if the health risk is miniscule.*
 - The result has been a catastrophe for cattle producers in Canada.

LESSONS LEARNED & LOOK FORWARD - 2



- There is a need for better measures to deal with border closures.
 - Need a science based mechanism in the NAFTA or the WTO to re-open borders when there is no significant chance of further incidence of BSE.
 - Fine tuning of Article 712.2 ?

LESSONS LEARNED & LOOK FORWARD - 3



- Serious set back to growth and productivity if freedom of exchange continues to be restricted.
- The best way to ensure long term competitiveness is through **minimal government interference** in market processes.
- The overall outcome of intervention in the cattle market in Canada:
 - A situation that is **even more unsatisfactory** than the preceding state it was designed to remedy.