

PolicyPennings by Dr. Daryll E. Ray

What a difference a day makes

US Secretary of Agriculture Mike Johanns, in calling for the reopening of the US-Canadian border to the importation of Canadian beef, argues that the continued closure has a negative impact on US beef processing plants and workers. Speaking at the E.A. Miller beef processing facility in Hyrum, Utah on May 17, 2005, Johanns said, "I am very, very concerned about the fate of our producers and our small packers, like this one. . . . At this plant, 66 workers have been let go, and the number of cattle processed has dropped about 20 percent."

The border was scheduled to be reopened in early March, 2005, when R-CALF filed for an injunction in federal district court. The temporary injunction was granted and the issue of the risk of importing cattle from a country with cases of BSE is being considered by the court.

At a press conference that was held in conjunction with his tour of the E.A. Miller plant which is one of Swift and Company's ten US beef and pork processing plants, Johanns asserted that cutbacks at the Hyrum plant may ultimately force cattle producers in that area to ship their cattle into the Midwest for processing. The assumption behind that statement appears to be that the Hyrum plant would have to close if it could not obtain adequate cattle supplies from Canada. That closure would then leave area producers without a local plant to process their cattle.

One of the ways that the Canadians have dealt with their inability to get their cattle across the border and into US processing facilities is to expand the capacity of Canadian processing plants, shipping beef cuts across the border instead of live cattle. Johanns addressed this issue saying, "We cannot ignore the fact that Canada is expanding its capacity. Canadian cattle inventory has, as of April 1 (2005), jumped more than 2 million head compared with January 1, 2003." In 2004, "the number of federally inspected slaughters in Canada rose 24 percent," while the US slaughter fell by 8 percent.

"The market is restructuring before our eyes," Johanns said. "American producers and processors will be left out in the cold if the border is not reopened soon. My concern is that as more and more processing moves to Canada, production follows."

The day after Johanns expressed concern for beef processing leaving the country, another BSE-related story hit the wire. According to DTN political correspondent Jerry Hagstrom, "The US government has decided to support a World Organization for Animal Health (known by its French acronym, OIE) proposal to approve worldwide trade in almost all boneless muscle cuts of beef, even if there is a risk of bovine spongiform encephalopathy (BSE) or mad cow disease in the country of origin, according to documents linked to the USDA website."

If that is true, the logical and likely effect of implementing the US-backed OIE proposal would be to encourage meat processors to further expand beef processing capacity outside the US, including—if not especially—in Canada.

The OIE proposal has implications that go well beyond the current dispute. Hagstrom says that the announcement would seem to suggest that, under the proposed policy, the US would find it hard to "justify banning [importation of] boneless beef from the United Kingdom, European countries, and Japan, which have had much higher incidences of BSE."

Over time, processors with an international presence will continue to process beef; it's just a matter of where. In the short-run, current processing capacity can best be utilized if cross-border movement of cattle is restored. If in the longer-run because of an eventual OIE-like agreement, it turns out that cattle processing is best done where the cattle are produced, processors will rebalance their international processing capacity accordingly.

US cattle producers, on the other hand, may be hard pressed to find a silver lining should such a short-run-long-run set of events unfold.

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Originally published in *MidAmerica Farmer Grower*, Vol. 22, No. 21, May 27, 2005
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