

PolicyPennings by Dr. Daryll E. Ray

# Primer on how to kill a market

With last December's reopening of the Japanese market to US beef we thought that just maybe the BSE (bovine spongiform encephalopathy or mad cow disease) story was winding to a close. But our hopes were dashed with two late January announcements. A US packer included spinal column material in a shipment of veal to Japan resulting in the Japanese once more closing their market to US beef. The second story was the discovery of another Canadian animal with BSE.

But that wasn't the worst of it. Mixed into all of this was a case of foot-in-mouth disease on the part of a USDA official who was reported by the Japanese press to have said "that there was a higher probability of being hit by a car while going to buy beef at a store than being harmed by eating beef infected with mad cow disease."

While that may be true from a statistical perspective, such a statement does not communicate any awareness of how seriously the Japanese take the problem of BSE. One can get by with ridiculing one's enemies, but that is hardly the way to treat a customer who prior to the discovery of BSE in one cow in December 2003 purchased \$1.4 billion worth of beef a year.

As we review this whole saga from its start in late 2003, it appears to us that the US response to Japanese concerns has been ill-considered at best. From the beginning US officials have treated the issue as if the Japanese response were a matter of trade protectionism on their part – protecting their domestic beef market – instead of treating it as a reflection of a real concern on the part of the Japanese public.

The result has been to run the risk of driving the Japanese beef consumer into the arms of one of our export competitors. Australia. While US officials did everything they could to force the Japanese to back down on their demand that every animal be tested for BSE, the Australians were moving into the market and capturing a part of the market share that had been occupied by US beef producers. The wrangle lasted for nearly two years giving the Australians plenty of time to convince Japanese consumers of the quality of their product.

Much of this could have been avoided if the USDA and the US meat industry had remembered the old adage, "The customer is always right," even if a majority of other market participants disagree. The traffic death toll matters little if what the customer is concerned about is BSE.

Within a month and a half of the discovery of BSE in the US herd, Creekstone Farms submitted a request to USDA to be allowed to conduct private BSE testing at their plant in Arkansas City, Kansas. The Japanese were willing to cover the extra testing cost and open their market to Creekstone's product. If the USDA had permitted Creekstone to test all of the animals it sent to Japan, US exports could have resumed quickly giving the Australians little time to move into that market.

Instead the USDA waited six weeks before refusing Creekstone's request. In part the USDA argued that if they allowed one company to test for BSE in order to sell into the Japanese market it would force all other companies wishing to sell to the Japanese to test for BSE as well. And if it became the norm a fear was that domestic consumers may begin to demand testing as well.

What an interesting perspective. One company makes an innovation like painting cars red, yellow, green, and blue and pretty soon all car companies will have to do it, even though black cars work just as well as green ones and green paint is a little more expensive. Ford ignored consumer preference and ended up permanently losing market share.

Having been forced to buy other brands to get the color they wanted, consumers developed loyalties to these companies. When growing up we knew several generations of families who only bought Plymouths or Chevys or Pontiacs.

Other innovations fall by the wayside like the huge fins on the back of 50s and 60s Chrysler Corporation vehicles. Consumer preference is the way the market sorts out various innovations.

Our guess is that if the USDA had quickly approved Creekstone's request the market interruption for US beef would have been less than three months, giving little time for competitors to establish themselves in the market. In addition it would have signaled our attentiveness to the concerns of Japanese consumers.

Instead, we are once again at loggerheads with Japanese agricultural and trade officials – hardly a position from which we are likely to quickly recapture a market worth \$1.4 billion.

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