

Welcome Back— or **Not**

*U.S. producers suffer
disappointment as they fight to win
back a share of their top export market.*



by **BOYD KIDWELL**

U.S. beef is back in Japan — or at least it was when this story was submitted. Then, just as American cattlemen anticipated a return to days when Japanese consumers spent \$1.3 billion annually on U.S. beef, misfortune struck again. With less than two months of renewed trade, a vertebral column was found in a U.S. veal shipment to Japan, and Japan halted trade Jan. 20.

The status of trade with Japan is in limbo. It could have reopened by the time this publication arrives in mailboxes, or the industry may face a repeat of the two-year ban that was lifted in December 2005. Regardless, the renewed trade was a first step, and at press time several countries

— including Hong Kong, South Korea, Taiwan and Singapore — were opening their borders to U.S. beef.

A start

“I feel the return of U.S. beef to Japan was a wonderful first step in reopening our exports to markets worldwide. It is absolutely critical to the profitability of cow-calf producers to restore our beef exports to pre-BSE (bovine spongiform encephalopathy) levels, especially in the face of increasing cattle supplies,” says Angus breeder and American Angus Association Board member Richard Tokach of Saint Anthony, N.D.

There were good reasons for euphoria over the reopening of the Japanese market.

Until 2004, the U.S. exported about 12% of its beef, with one-third of the exports going to Japan. At that time, U.S. beef accounted for 28% of Japan’s consumption. South Korea and other Asian countries were also excellent customers.

However, the first confirmed case of BSE in the United States changed that pleasant picture. In December 2003, Japan, South Korea and most other Pacific Rim countries shut off beef imports from the U.S.

“Before we had a case of BSE, I think that about 40% of our export dollars were coming from markets (Japan and Korea) that have just opened back up,” said former Association President Joe Elliott prior to Japan’s January 2006 halting of

U.S. beef imports. “I’m sure that some of this market has been lost to other countries. We have our work cut out for us to build back confidence in U.S. beef, and thus the demand for our product over the beef from other countries.”

The Adams, Tenn., Angus breeder is exactly right. Australia, traditionally a producer of grass-fed beef, has worked with Japanese businesses to increase its production of grain-fed beef for the Japanese market. Australia has also introduced a national animal identification (ID) program that makes it possible to trace cattle back to their ranch of birth.

“Traceability is very important to Japanese consumers,” says Keiko Tanaka, a

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News Flash!

Canadian officials confirmed Jan. 23 that a new case of BSE had been discovered in Canada. The Canadian Food Inspection Agency (CFIA) reported the disease was found in an approximately 6-year-old, crossbred cow born and raised

in Alberta. According to reports, the animal did not enter the human food or animal feed systems. U.S. Agriculture Secretary Mike Johanns said he did not anticipate changes in the status of beef or live cattle imports to the U.S. from Canada.

— Adapted from the Jan. 23 *Angus e-List*


sociologist at the University of Kentucky (UK) who is researching the effects of BSE on Japanese society. “Japanese consumers are very sensitive to food safety issues.”

Understanding the obstacles

To understand the challenge facing U.S. beef, it helps to realize that Japan is the world’s largest food importer and that Japanese consumers are very aware of food safety issues. In 2003, Japan reformed its food safety system. The new system emphasizes assessment for the risk of BSE, and every animal is tested before harvest.

In an effort to woo back Japanese consumers, the U.S. Meat Export Federation (USMEF) has launched a media blitz. Given the magnitude of the challenge, USMEF Chief Executive Officer (CEO) Philip Seng predicted, prior to the January 2006 trade halt, that it would take until 2008 for the U.S. to reclaim a Japanese market volume comparable to what American beef enjoyed in 2003.

Export avenue



The AngusSourceSM program can be an avenue for U.S. beef producers to document the age of their cattle in a U.S. Department of Agriculture (USDA) Process Verified Program (PVP). AngusSource cattle meet the requirements of export verification programs such as the USDA Export Verification (EV) program for Japan.

AngusSource documents the group age of the enrolled lot. All of the cattle enrolled together are given a “group age” established as the birth date of the oldest calf. This information is verified through calving records submitted to the American Angus Association. After enrollment, cattle are identified with official AngusSource program tags.

To be eligible for AngusSource, cattle must be sired by registered Angus bulls, enrolled by the ranch of origin, and have a known group age of month, day and year. Producers interested in enrolling cattle can visit www.angussource.com.

For information on the USDA Japanese export program, including the current status of trade, see www.ams.usda.gov/lsg/arc/bev.htm.

One of the obstacles for U.S. exporters is Japan's demand that only products from cattle 20 months of age or younger can qualify for imports from the U.S. To qualify, cattle must come through a Quality System Assessment (QSA) program, which is part of the U.S. Department of Agriculture (USDA) Export Verification (EV) program. The QSA stretches from ranch to processor and ensures, with USDA-approved third-party certification, that beef destined for Japan is age-verified.

Under the EV program, only about 15% of U.S. cattle ready for harvest could meet requirements for export to Japan, according to USMEF. In addition to age verification by the USDA Agricultural Marketing Service (AMS), cattle age can also be verified physiologically during the quality grading process if maturity is A⁴⁰ or lower.

Filling the void

Even with the reopening of the Japanese market, analysts were expecting little immediate effect on feeder-calf or fed-cattle prices.

"I don't think that the opening of the Japanese/Pacific Rim markets will have more than a \$1 to \$2 positive impact on the U.S. cattle market in 2006," said UK livestock economist Lee Meyer prior to the January halt and Canada's confirmation of another case of BSE (see "News Flash," page 132).

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News Flash!

The American Meat Institute (AMI) reported Jan. 24 that Japan's Ministry of Agriculture, Forestry and Fisheries confirmed the country's 22nd case of BSE. The infected 64-month-old cow died on a farm in northern Japan the week

before the announcement was made. According to *Reuters*, a ministry official reported the carcass from the Holstein cow would be destroyed and would not enter the market. Japan reportedly maintains a 100% testing policy, testing all cattle for BSE prior to harvest.

— Adapted from the Jan. 24 Angus e-List

The long road back

U.S. beef faces these hurdles as it reclaims its previous share of the Japanese market:

- The U.S. must gain Japan's confidence in the U.S. inspection system and reopen the Japanese border.
- Even under the rules of the December 2005 border opening, U.S. beef exports to Japan were limited to products from animals 20 months of age or younger at the time of harvest.
- Few U.S. animals have records necessary to verify the Japanese required age certification by auditors approved by the U.S. Department of Agriculture (USDA) Agricultural Marketing Service (AMS).
- Australian competition has grown tougher.
- Japanese beef consumption is down 10%.
- U.S. beef was facing an import duty of 38%, as it did before the ban on U.S. beef.

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"We'll have to displace product that is currently filling the void," Meyer says.

"I don't know about the packers/processors, but the reopening of the Japanese market has sparked a lot of cussing and discussing among cattle feeders," says Dave Nichols, Bridgewater, Iowa. "I believe it has resulted in

premium prices for those cattle that meet all the Japanese requirements."

Through Nichols Farms and its franchises, the Iowa cattleman has introduced Nichols Value Added feeder calf sales in four states. The Nichols feeder cattle have birth dates that are audited by an AMS-certified

auditor, Nichols explains.

Restoring expectations

Ranchers with good Angus genetics have an excellent opportunity to benefit from reopening the Asian markets. Until the end of 2003, Japan was the top export customer for the *Certified Angus Beef*®

(CAB®) brand. South Korea was also a high-growth market for CAB.

"We're excited about South Korea in a big way," says Mark Spengler, Certified Angus Beef LLC (CAB) international director. "The South Korean market appears to be opening without nearly as many stipulations, and South Korea was really going crazy for CAB just before that market closed."

Spengler points out that the American Angus Association's AngusSourceSM program provides a way for producers to document the age of their cattle in a USDA Process Verified Program (PVP) that meets the requirements of USDA's EV program.

"Producers who had the foresight to enroll their cattle in a program like AngusSource now have an additional opportunity to receive premiums for their cattle," says Jim Shirley, Association vice president of industry relations and director of commercial programs.

Tokach points out that many ranchers in his area have been turned off by the slow process of restoring Japanese exports and that some cattle producers are beginning to think the U.S. can continue to have record prices without worrying about exports.

"However, the majority of ranchers realize that the U.S. cattle herd is rebuilding, and our beef supplies will be larger in the near future. They understand the only way to maintain our present price structure is to increase demand for our product both domestically and in our foreign markets," Tokach says.

**News Flash!**

U.S. Agriculture Secretary Mike Johanns announced Jan. 25 that Taiwan will resume trade of U.S. boneless beef from animals less than 30 months of age. According to the U.S. Department of Agriculture (USDA), the United States exported more than \$76 million worth of beef to Taiwan in 2003, with boneless beef products accounting for \$56 million. Taiwan's market is now open to more than 90% of total U.S. ruminants and ruminant products, whose value reached \$325 million in 2003. Taiwan reopened its market to U.S. beef in April 2005, but closed it again in June 2005 following the confirmation of a second U.S. case of BSE.

— Adapted from the Jan. 25
Angus e-List