

## Animal Identification Is Key to Restarting Beef Exports to Japan

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December 26, 2004, marked one year since Japan banned imports of U.S. beef following the discovery of bovine spongiform encephalopathy (BSE) in an imported animal. The loss of more than 375,000 metric tons (mt) of U.S. beef and beef variety meats created a shortfall in supply that Japan has been unable to fill. Australian exports to Japan were 41 percent higher in 2004 than in 2003, but Australia and other countries cannot supply the volume and types of beef the United States had supplied.

Japan's search for alternative suppliers includes China. Although China has problems with foot-and-mouth disease and other sanitary issues, Japan has sourced small quantities of inexpensive, heat-treated beef for *gyudon*—a popular lunch meal of beef and rice served in bowls. Japan is likely to increase these imports as the Japanese Ministry of Agriculture, Forestry, and Fisheries (MAFF) approves additional processing plants. This willingness to source beef from China is an indication of how badly Japan needs to increase beef imports.

Shortly before the U.S. presidential election, Japan and the United States signed an agreement outlining the conditions necessary to resume imports of some U.S. beef under an interim trade program. In retrospect, USDA's statement that "several weeks will be required for the resumption of sales" was overly optimistic, and several conditions of the agreement have proven problematic. Briefly, conditions to restart trade include a Beef Export Verification Program, managed by the USDA's Agricultural Marketing Service, to ensure the following industry practices are implemented.

- Specified risk materials (SRMs) must be removed from animals of all ages.
- Beef items, including offals and variety meats, must be derived from cattle verified to be 20 months of age or younger.
- Cattle must be traceable through live animal production records that indicate the animals are 20 months of age or younger at the time of slaughter. Records must be based on (a) individual animal age verification, (b) group age verification, (c) insemination age verification, or (d) USDA Process Verified Animal Identification and Data Collection Services.

In addition, the USDA would document how physiological maturity using carcass grading and quality attributes can be used to determine chronological age.

Conditions for the Japanese side included revising domestic rules from requiring 100 percent BSE testing to testing of animals 21 months and older. Members of Japan's Liberal Democratic Party have resisted this change and asked that public hearings be held before the law is revised. U.S. consumers may have reacted with relative equanimity to a case of BSE in the domestic herd, but Japanese consumers did not. The first case of BSE in Japan, confirmed in September 2001, caused immediate and dramatic consumer reaction against both domestic and imported beef. Following recovery in beef consumption and despite 14 confirmed cases of BSE in Japan, demand for domestic beef remains strong because consumers know every animal is being tested. Japanese policymakers are understandably concerned about potential damage to the domestic industry as a result of

resuming trade with the United States and have yet to lift the policy of blanket testing for cattle. Japan also needed legislation permitting imports of beef from animals 20 months and younger.

Under the interim trade agreement, U.S. supply will not be a problem. The USDA estimates that approximately 70 percent of the 35 million U.S. cattle slaughtered each year are steers and heifers 20 months or younger. This estimate means the United States will slaughter 23.5 million heifers and steers and produce more than 8 million mt of beef meeting Japan's age requirement.

However, a major point of contention in restarting exports is that most of these animals do not meet the agreement's criteria for age verification. Beef industry sources estimate that only 10 to 20 percent of U.S. cattle are covered by the appropriate documentation to confirm age.

The USDA's physiological maturity study was recently analyzed by the Japanese government. Japan reportedly may accept beef from animals that fit the "A40" quality category, which has been shown to cover an age bracket between 12 and 17 months. USDA estimates that 35 percent of U.S. slaughter cattle fit this category. An agreement to accept A40 beef would allow additional beef to be harvested for Japan, but further negotiations will delay the resumption of trade.

Compared with many other countries, the United States has been slow to adopt a system that would provide age verification of all cattle. The U.S. National Animal Identification System (NAIS) is under development but, at least initially, will be voluntary. By comparison, Canada's national animal identification system received strong approval from Japanese MAFF officials who made an inspection mission to Canada and the United States in late

2004. Canada has been out of the Japanese market since May 2003 because of BSE, but the Canadian cattle identification system will be a cornerstone of Canada's efforts to reenter the Japanese market.

Both Canada and the USDA believe effective firewalls are in place to ensure cattle suspected of having BSE are removed from the North American herd and kept from entering the food system. The United States has named Canada a "minimum-risk region," which means the Canadian industry meets risk standards that (a) prohibit specified risk materials in human food; (b) implement a ruminant-to-ruminant feed ban; (c) restrict imports to minimize exposure to BSE; (d) use surveillance procedures that meet or exceed international guidelines; and (e) use epidemiological investigations, risk assessment, and risk mitigation measures.

Canada's third case of BSE created renewed concern in the U.S. beef industry, with some groups urging the U.S. government to keep the border closed to live cattle. However, both countries had acknowledged the possibility of additional cases, and the United States is proceeding with its decision to allow imports of live cattle under 30 months of age and other specified animals and products from Canada. On March 7, 2005, the United States

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and Canada will once again become a North American market.

Based on the importance Japan places on documented age verification and Canada's adoption of a national identification system, opening the U.S. border to live Canadian cattle should not slow U.S. efforts to reenter the Japanese import market. On the other hand, additional negotiations will be required to compensate for the U.S. industry's slow uptake of animal identification, age verification, and traceability systems. Further, being banned from the U.S. market forced Canada to increase slaughter capacity. This means the Canadians will have more beef to sell and can market their source-identified product as being distinctly different from most U.S. beef.

Of greater concern than opening the border is that, once access is

granted, exporters are likely to face consumer resistance to U.S. beef. Consumer polls indicate that between two-thirds and three-fourths of Japanese consumers say they will not buy U.S. beef when it becomes available. Given this consumer attitude, markets for less-expensive cuts of U.S. beef will exist in food service outlets where source identification is not required. However, convincing consumers to purchase more-expensive cuts from retail outlets that require country-of-origin labeling and from restaurants that provide source identification will be a much harder sell.

Experience has given the Japanese government a strong incentive to respond to consumer concerns. Traceability of livestock and other food products is a high priority in Japan, and supermarkets and other food suppliers have been quick to embrace traceability as part of consumer assurance programs. The intent of the U.S. NAIS is to allow for rapid tracking of animals in case of disease outbreaks. However, because the system would provide both documentation of age and traceability from birth to the doors of the slaughter plant, adoption of the system would be a major step forward in satisfying Japanese concerns about animal identification and traceability and perhaps in avoiding extended import bans in the event of future animal disease or meat safety issues. ♦

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*Agricultural Situation Spotlight*  
Continued from page 7

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bushel of soybeans would be needed to offset the costs and maintain net returns. With a corn price of \$2.37 per bushel (the futures price for corn on January 7) and assuming no soybean rust problems, soybean prices would need to move up to \$6.42 per bushel (82¢ higher than the soybean futures price on January 7) to match

expected net returns with corn. With soybean rust, soybean prices would need to increase to nearly \$7 per bushel. Of course, \$7 soybeans are quite possible if rust significantly reduces yields or causes major acreage shifts out of soybeans and into corn. But, at least so far, the futures market is discounting the possibility of either event happening. ♦