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Disease-Related Trade Restrictions Shaped Animal Product Markets in 2004 and Stamp Imprints on 2005 Forecasts

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Abstract

Disease outbreaks and related trade restrictions that affected U.S. animal-product markets and exports in 2003 continued to constrain markets in 2004. U.S. cattle and beef markets were most affected. Bans on key U.S. beef export markets were implemented and adjusted; court cases in the United States related to reopening the U.S. border to Canadian cattle and beef imports are moving forward. On July 14, 2005, the Ninth District Court of Appeals lifted the preliminary injunction that blocked implementation of the BSE minimal-risk regions rule. Pork, dairy, and lamb markets did not face any direct disease issues but both U.S. and international outbreaks of Avian Influenza buffeted poultry markets. Forecasts of 2005 U.S. animal-products trade reflect expected market responses given the uncertainties surrounding cattle and beef markets in the United States.

Keywords: Avian Influenza, AI, Bovine Spongiform Encephalopathy, BSE, animal products, beef, cattle, hogs, pork, poultry, dairy, sheep, trade

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Introduction

Beef, cattle, and poultry trade restrictions related to disease have been key features of animal-product markets in the United States since the middle of 2003. In particular, cattle and beef markets continue to be impacted by the trade restrictions that followed the discovery of Bovine Spongiform Encephalopathy (BSE) in North America in 2003. Both U.S. and international outbreaks of Avian Influenza (AI) influenced poultry markets late in 2003 and during all of 2004.¹

Other factors shaped worldwide animal-product markets in 2004, including the changing flow of animal products as countries adjusted to redefined markets. Brazil in particular has emerged as a significant competitor of the United States in international poultry markets and as a major player in international beef markets. Exchange rate movements that weakened the dollar relative to key currencies also played an important role. The cloud over beef and poultry trade contrasted with the robustness of the pork, lamb and mutton, and dairy markets. International forces were at play in these markets, but not in such a negative way as for beef and poultry. The outlook for the U.S. meat, poultry, and dairy markets in 2005 relies on assessments of domestic production, the continuing effects of disease and trade restrictions on exports to major trading partners, the role of “new” animal product suppliers, and currency exchange relationships.²

¹ For a recent historical context on the relationship between disease and trade restrictions, see Leuck, Dale, Mildred Haley, and David Harvey, *U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions*. LDPM-120-01, July 2004, U.S. Department of Agriculture, Economic Research Service, Washington, DC. <http://www.ers.usda.gov/publications/LDP/JUL04/LDPM12001/>

² Data are current through the July 2005 *World Agricultural Supply and Demand Estimates* (WASDE) report. <http://usda.mannlib.cornell.edu/reports/waobr/wasde-bb/2005/wasde07.txt>

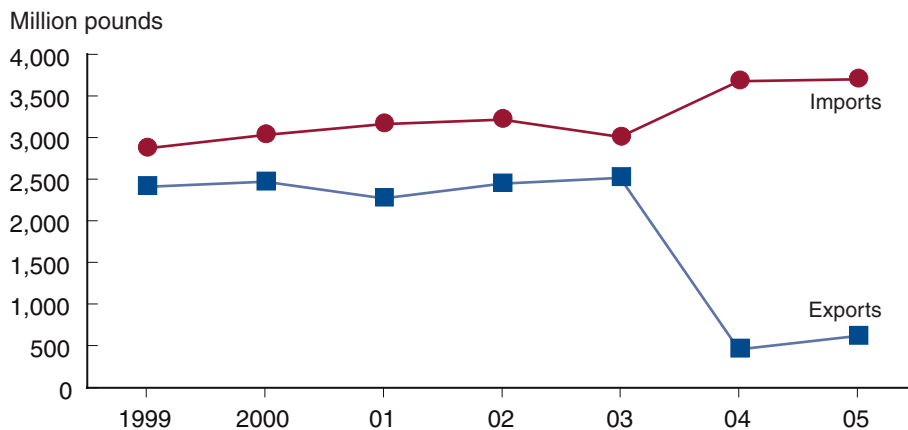
Cattle/Beef

World beef markets have long been divided into disease-restricted—primarily due to foot-and-mouth disease (FMD)—and disease-free countries. There is also a quality-based categorization. Lower quality beef comes from grass-fed animals, generally used for processing beef (hamburger), and high-quality beef from younger (less than 30 months of age) grain-fed animals. Today, the beef markets are being fragmented further into BSE countries, minimal-risk BSE countries, and BSE-free countries. At present, the United States and Canada are the most notable of the minimal-risk BSE countries and the U.S. cattle and beef markets remain the world's primary producer of high-quality fed beef.

U.S. beef exports (including veal) increased throughout 2003 because of a weak dollar and generally strong markets, particularly in Japan, which was recovering from the effects of its own first BSE discovery in 2001. U.S. beef exports accelerated further after BSE was discovered in Canada in May 2003, which initially led to a worldwide ban on exported Canadian beef and live cattle. U.S. beef and pork became substitutes for Canadian beef imports in many markets, principally Mexico. Both the United States and Mexico reopened their markets to boneless Canadian beef from animals less than 30 months of age at slaughter several months later, but other major markets remain closed to Canadian beef.

As a result, U.S. beef exports reached record levels in 2003 (fig. 1) and were second only to Australia, then the world's largest exporter of beef. Nevertheless, limitations on U.S. beef exports imposed by other countries after a Canadian-born cow with BSE was found in Washington State in December 2003 led to significant world beef market adjustments. The 461 million pounds of beef exported by the United States in 2004 was almost 82 percent below the year-earlier record quantity, reducing the U.S. share of exports by the major traders from 18 percent to 3 percent (fig. 1). Exports by other major traders increased however, as many countries, including Australia, Argentina, and—perhaps more importantly—Brazil increased beef exports during the year.

Figure 1
U.S. beef trade, 1999-2005



Note: 2005 forecast.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

In 2004, U.S. and Canadian beef faced complete bans in the major overseas markets while beef and cattle imports and exports continued among the North America Free Trade Agreement (NAFTA) countries (Canada, Mexico, and the United States) under a variety of restrictions. A framework agreement in October 2004 between the United States and Japan, the most important U.S. beef export market, allowed regulatory rulemaking processes to begin in both countries, largely focusing on how to confirm the age of cattle slaughtered and the number of animals to be tested for BSE. The imposition of a younger age threshold (under 20 months of age) is for U.S./Japanese negotiations only—the United States and Canada are working with a 30-month age limitation.

U.S. beef exports in 2005 will depend on the resolution of border issues with Canada and what other major U.S. beef importing countries, like Japan and South Korea, do to reestablish trade. USDA forecasts as of July 2005 assume that foreign country policies remain in place concerning imports from countries banned from trade as a result of disease. (In mid-July, the courts overruled a preliminary injunction that had kept the border closed to imports of Canadian cattle under 30 months of age since March, and trade has resumed pending a final ruling.) Based on expectations that the U.S.-Canadian beef and cattle trade issues will be resolved in 2005, beef exports are forecast to increase modestly to 615 million pounds in 2005 (fig. 1). Although an increase of 33 percent from 2004, the 2005 forecast leaves U.S. exports well below the 2003 record of 2.52 billion pounds. Lower prices and a favorable exchange rate for the U.S. dollar will help maintain or even increase exports to currently open markets.

In the absence of access to the Japanese and South Korean markets—exports to both countries are below historical levels—U.S. beef exports to Canada and Mexico have taken on increased importance. Exports to Canada are limited by ongoing questions related to U.S. imports of Canadian cattle and beef from cattle over 30 months of age. Additionally, the combination of cyclically low U.S. cattle inventories and continued strong beef demand in the United States contribute to high domestic prices that are not conducive to stimulating exports.

Cattle inventories in Canada have increased since the May 2003 BSE discovery, due in part to the U.S. ban on imports of Canadian live animals and the ban on Canadian beef imports by non-NAFTA countries. In the face of this increased supply of animals, slaughter numbers reached a record 4.0 million head in 2004, almost 10 percent more than normal. This additional supply of beef and export restrictions combined to keep Canadian boxed beef prices generally lower than U.S. prices and, consequently, U.S. beef exports to Canada declined. The premium on U.S. boxed beef prices over Canadian prices has narrowed significantly since August 2004, when boneless Canadian beef from cattle under 30 months of age was allowed to enter the United States. As a result, U.S. beef exports to Canada may increase in 2005. However, Canada still has an excess of cattle and beef from animals over 30 months of age, selling domestically at relatively low prices.

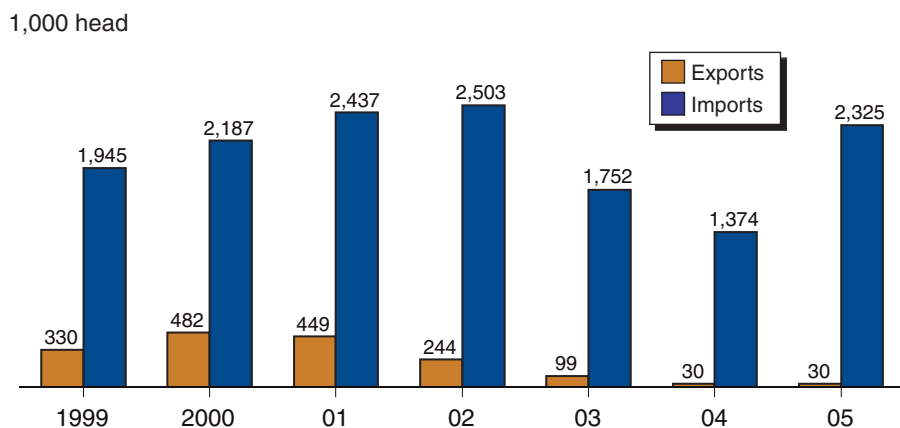
Beginning in March 2004, Mexico limited beef imports from the United States to animals under 30 months of age. Combined with a weakened peso and high U.S. prices, U.S. beef exports to Mexico fell below historical

levels. Tight U.S. supplies of fed beef at record prices, perhaps more than BSE-related delays on exports, explain the failure of U.S. beef exports to Mexico to rebound to the record levels achieved in 2002 when U.S. supplies were at a record high. Supplies of meats other than U.S. beef in Mexico increased in 2004, some provided by Canada. Rising domestic production of other meats in Mexico also reduced the need to import as much from the United States in 2004.

The United States also imports beef (largely processing beef) and veal. In 2004, imports totaled 3.7 billion pounds—14 percent higher than the previous record for imports set in 2002 (fig. 1). Cyclically low U.S. cow slaughter forced meat processors to use processing beef imports to “lean up” U.S. fed-beef trimmings in the manufacture of ground meat products. A comparison with 2003 is less meaningful because the BSE-related ban on Canadian beef imports after May 2003 distorted the market. After the border opened for some products, U.S. imports of Canadian beef rebounded in 2004 to almost the record high 1.1 million pounds recorded in 2002. U.S. imports from Australia declined as sales normally made to North America were redirected to the Asian markets due to bans on imports of U.S. beef. U.S. imports of Uruguayan beef moved above historical levels in 2004, a result of Uruguay’s having 352,000 more cattle available on January 1, 2004, compared with a year earlier, and about 2 million above historical levels for the year. Uruguayan cattle inventories increased due to an outbreak of FMD in 2001 that resulted in a loss of export markets. U.S. beef imports are expected to increase fractionally (0.6 percent) from 2004’s record level in 2005.

The United States is a net importer of cattle. However, in 2003, cattle imports from Canada were banned due to BSE and total cattle imports declined to 1.75 million head from 2.5 million the previous year, and declined further in 2004 to 1.37 million head (fig. 2). Strong feeder cattle prices resulted in a sharp rise in lightweight cattle imports from Mexico during this period.

Figure 2
U.S. cattle trade, 1999-2005



Note: 2005 forecast.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

On July 14, 2005, the Ninth District Court of Appeals lifted the preliminary injunction that blocked implementation of the BSE minimal-risk regions rule and Canadian cattle moved across the border on July 18. The final resolution of disputes concerning the U.S.-Canada border closure to cattle trade will play a large role in the import picture for both cattle and beef, but the United States is likely to remain a major destination for Canadian cattle and beef.

Hogs/Pork

Hog slaughter in the United States in 2004 was around 103 million head, about 8 percent of which were of Canadian origin. About two-thirds of the 8.5 million head that came into the United States from Canada last year were feeder pigs, with most of the remainder for immediate slaughter. The importance of live hog exports from Canada has grown due in part to a changing hog and pork industry structure in both Canada and the United States. Hog production in Canada has been moving to the western provinces, with firms specializing in producing feeder pigs and slaughter hogs for export. Incentives for this movement include favorable U.S. feed costs and western Canada's favorable climate with respect to disease control.³

U.S. hog imports are expected to decline slightly in 2005 to about 8 million head (fig. 3). This expectation is based on a slight growth in U.S. hog numbers. Even though there is a decline, U.S.-Canada hog trade has been facilitated by the resolution of an antidumping complaint.

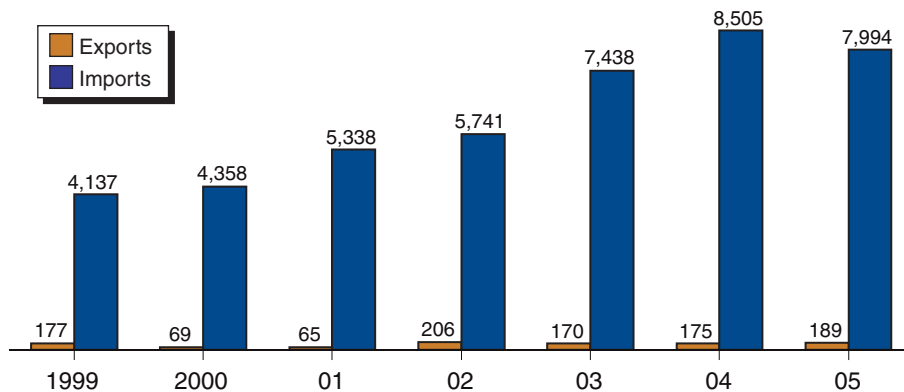
In March 2004, U.S. pork producer organizations and individual producers filed petitions with the U.S. Department of Commerce and the International Trade Commission (ITC). Those petitions alleged illegal subsidization of Canadian exports in 2003 and sought trade relief in the form of anti-dumping and countervailing duties. On April 6, 2005, the ITC determined that the domestic hog industry is not materially injured or threatened by material injury by reason of live swine imports from Canada, effectively terminating this antidumping case.

U.S. pork exports in 2004 reached a record 2.18 billion pounds, up 27 percent from a year earlier (fig. 4). This increase was achieved by growth in almost all major markets, with those in Asia taking more pork since both beef and poultry imports from major suppliers were restricted. Exports to Canada also grew substantially. The largest increase in pork exports was to

³ See Haley, Mildred M. *Market Integration in the North American Hog Industries*. LDP-M-125-01, November 2004, Economic Research Service, U.S. Department of Agriculture, Washington, DC.
<http://www.ers.usda.gov/publications/ldp/NOV04/ldpm12501/>

Figure 3
U.S. live hog trade, 1999-2005

1,000 head



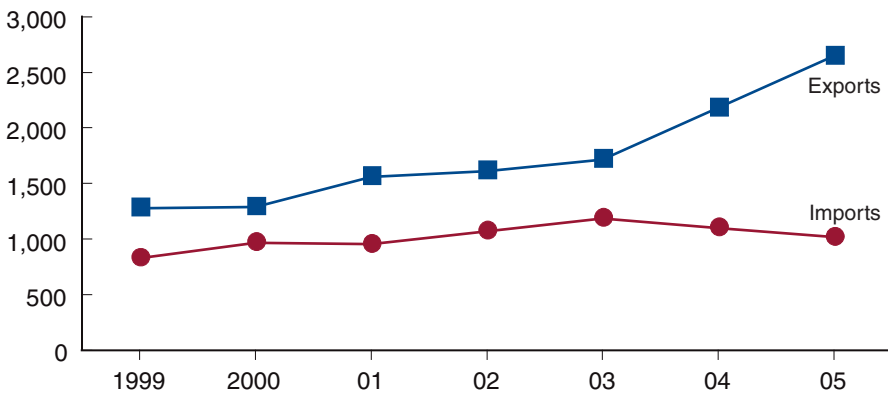
Note: 2005 forecast.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

Figure 4

U.S. pork trade, 1999-2005

Million pounds



Note: 2005 forecast.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

Mexico, an increase of 53 percent over 2003. Mexico accounted for about 25 percent of U.S. pork exports in 2004. Japan remained the largest export market, accounting for 42 percent of U.S. exports. U.S. pork exports fell substantially to South Korea and Hong Kong, but increased to Taiwan and to mainland China.

Canada has emerged as the major competitor to the United States in world pork markets. Canada’s share of global pork exports in 2004 was about 21 percent, the same as the U.S. share. Japan has been the world’s largest single pork importer for several years, and has become an increasingly important market for both the United States and Canada. In 2004, the United States and Canada together supplied 51 percent of Japan’s pork imports (31 percent by the United States, 20 percent by Canada). However, for Canada, the major pork export market is still the United States, to which 50-60 percent of Canadian pork exports flowed in 2004. Canada could remain competitive with the United States in international pork markets, but its competitiveness traditionally has been limited by the Canadian pork industry’s heavier reliance on live animal exports rather than pork production—a situation that has been changing somewhat in recent years.

U.S. pork exports are forecast to rise about 21 percent in 2005 to over 2.6 billion pounds, the 14th consecutive annual record, while imports are expected to decline by about 8 percent after having fallen 7 percent in 2004 from the previous year (fig. 4).

Poultry

World poultry trade in 2004 was affected by outbreaks of Avian Influenza (AI), first in Southeast Asia in late 2003, and in selected areas of the United States in February 2004. Thailand and Vietnam continued to experience outbreaks of a highly pathogenic AI, which appears to be transmissible to humans, throughout 2004. Early hopes in the United States were that the bans by some major countries on U.S. exports would be lifted entirely or at least restricted to only the AI-affected regions. However, China, Hong Kong, and South Korea maintained total bans through most of 2004. U.S. broiler exports fell by just over 3 percent from 2003 to 2004, even though world exports increased.

Short production cycles make the world poultry market perhaps the most dynamic of the three major meat markets in terms of adjusting market shares. U.S. broiler exports increased rapidly in the early 1990s, making the United States the largest exporter of broiler meat by 1996. After 1996, however, U.S. broiler meat exports did not increase much until 2001, when BSE and FMD concerns about red meats resulted in significant increases. Disease-related trade restrictions have directly, or indirectly, affected U.S. poultry product exports for several years.

The record U.S. poultry exports in 2001 resulted, in part, from fears related to BSE and FMD that led to increased demand by consumers for beef substitutes such as poultry meat. At the same time, poultry exports by the European Union (EU) declined in order to satisfy the increased internal EU demand for poultry meat, a situation that provided opportunities for additional U.S. exports. In 2002, beef imports resumed in major markets as disease-related fears abated, reducing demands for U.S. poultry meat.

Bans in Russia and other countries pushed U.S. exports lower because of concerns about the use of antibiotics in broiler production, microbial rinses used in U.S. processing plants, and poultry disease outbreaks. Russia, the largest U.S. export market for poultry products, also introduced and implemented a poultry quota in 2003 that limited export opportunities. The subsequent lifting of trade restrictions in mid-2003 helped shift U.S. poultry meat exports back on track for the rest of the year, although still lower overall. However, exports were again curtailed by AI outbreaks in some parts of the United States in early 2004.

The February 2004 AI outbreak in some regions of the United States initially precipitated bans on all poultry meat by a number of important importing countries including China, Hong Kong, Japan, South Korea, Cuba, and Mexico. Complete bans by China, Hong Kong, and South Korea remained in effect for most of 2004 and resulted in a 3-percent reduction in total U.S. poultry exports for the year. Broiler exports account for about 90 percent of U.S. poultry meat exports, and these three countries, plus Japan, accounted for 22 percent of U.S. broiler exports in 2001-2003. Some of the other countries that initially imposed complete bans, most importantly Mexico, later restricted the bans to imports from only selected U.S. States or counties. Canada imposed no ban at all.

The United States has increased broiler meat exports significantly in recent years to three important regions: Mexico and Canada (NAFTA partners), the Caribbean, and the array of countries that emerged from the breakup of the Soviet bloc and the Soviet Union itself. Most of the growth to the Caribbean market is due to increased exports to Cuba, which accounted for about half of the U.S. broiler meat exports to the Caribbean in 2004. Following the U.S. AI outbreak, Cuban poultry import bans led to declining exports to the Caribbean in 2004. U.S. broiler meat exports to Mexico increased 18 percent in 2004 following a 12-percent increase in 2003, in part due to initial restrictions on U.S. and Canadian beef imports imposed by Mexico following the discovery of BSE in those countries. Coupled with relatively high U.S. beef prices, consumers turned to meat substitutes for beef. Even with large, relatively cheaper supplies of beef available in Canada, U.S. broiler exports to Canada rose by 7.5 percent and 7 percent in 2003 and 2004, respectively.

Exports of poultry meat to the countries emerging from the Soviet bloc's breakup increased from nearly zero in 1993 to about 200 million pounds through the late 1990s. By 2004, these countries had become the second-largest destination for U.S. broiler meat. The increased broiler meat exports are attributed to economic growth in that part of the world and transshipments to Russia, which itself accounted for 34 percent of U.S. broiler exports in 2001-03.

An annual quota of 1.05 million metric tons on all poultry imports into Russia went into effect May 1, 2003, to be in place for 3 years. The quota is allocated according to historical market shares, with the United States receiving 75 percent of the total. Distribution of the quota has been fraught with difficulties, however, and neither the prorated quota for 2003 nor the full quota for 2004 was filled. Farm lobbyists in Russia argued in favor of quotas or high tariffs as a means of protecting the Russian food industry in general, and the poultry sector in particular. Russian-produced poultry meat likely could not compete with imported product because of high costs and a slowly modernizing market infrastructure from production through processing and distribution to consumers.

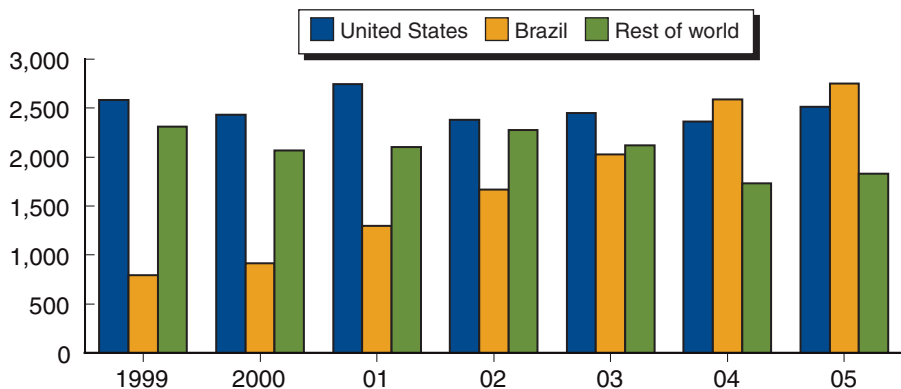
Increased exports of poultry meat by other countries have cut into the U.S. share of the global market, with Brazil, China, and Thailand being principal competitors in the past several years. Brazil became the world's largest exporter of poultry meat in 2004 as production increased in response to both growing domestic demand and increasing import demands from countries that had bans on shipments from other poultry meat suppliers (fig. 5). Brazil's poultry meat exports are diversified (among products) and its continued ability to supply markets with competitively priced poultry meat puts Brazil in direct competition with the United States across many markets.

For example, Brazil accounted for 7 percent of Russian poultry imports in 2001, and increased to 21 percent in 2002. The added Brazilian exports were a substitute for U.S. poultry meat that had been banned on the Russian market. The implementation in 2003 of the Russian quota based on its historical exports to Russia, which averaged quite low, dramatically reduced Brazil's share of the Russian market, a result Brazil asks Russia to review.

Figure 5

Poultry meat exports, 1999-2005

1,000 metric tons



Note: 2005 forecast.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

Poultry meat exports from both China and Thailand are concentrated in Asian markets, with Japan being the largest single market for both countries. Concerns about disease problems and drug residues in Chinese poultry products continue to limit China’s poultry meat exports to several countries. Prior to a ban on China’s poultry exports announced in June 2001 because of an AI outbreak, 70 percent of China’s poultry meat exports were to Japan. AI also disrupted Thailand’s poultry exports—with the exception of significant shipments to the EU, nearly all of Thailand’s poultry meat exports had gone to Asian markets. Thailand’s exports to its major markets are currently limited to fully cooked products.

Turkey meat markets were caught up in the adjustments brought about by the impacts of the AI outbreaks as importers linked the disease with all poultry, not just chicken. Despite increased sales to Mexico, the largest market for U.S. turkey meat, total exports fell by about 8 percent in 2004 as sales to China and Hong Kong were significantly curtailed due to AI worries. Sales to China and Hong Kong are expected to recover in 2005, and increasing sales to Mexico are also expected. Based on these forecasts, turkey meat exports are likely to exceed the 2001 record of 487 million pounds. For 2005, turkey exports are expected to reach about 536 million pounds, an increase of almost 21 percent over 2004.

Combined U.S. exports of broiler and turkey meat are expected to increase about 6 percent in 2005, to 5.6 billion pounds. That forecast presumes, however, that disease-related limitations on U.S. poultry meat exports are relaxed while limitations on China’s and Thailand’s exports remain for the year, and that exports by Brazil do not undercut U.S. product. Brazil’s exports of fresh/chilled and frozen poultry meat to Japan increased 65 percent in 2004. Were Japan to allow uncooked product imports from Thailand and/or China, U.S. poultry meat exports would not be expected to increase.

Egg and egg product exports in 2004 were as low as 23.2 million dozen (shell-egg equivalent) in the first quarter, when U.S. prices were very high. Egg exports increased to just over 53 million dozen in the fourth quarter as

exports adjusted to plummeting U.S. prices as egg production recovered. Total egg exports in 2004 were about 167 million dozen. The outlook for 2005 is promising, as competitive U.S. prices are expected to persist. Also, the EU is implementing supply controls on layer flocks that will likely reduce export supplies. Total U.S. shell egg and egg product exports in 2005 are expected to be about 18 percent higher than in 2004, at 197 million dozen.

Dairy

International dairy markets were generally tight in 2004, with the weakening U.S. dollar driving prices to relatively high levels. Prices of nonfat dry milk were about \$2,400 per metric ton in late November 2004, up about \$600 from a year earlier and \$200 since late summer, while butter was selling for about \$2,100 per metric ton, up about \$500 from a year earlier and up slightly from the previous summer (fig. 6). International market watchers suggested prices for cheese and dry whole milk were even stronger.

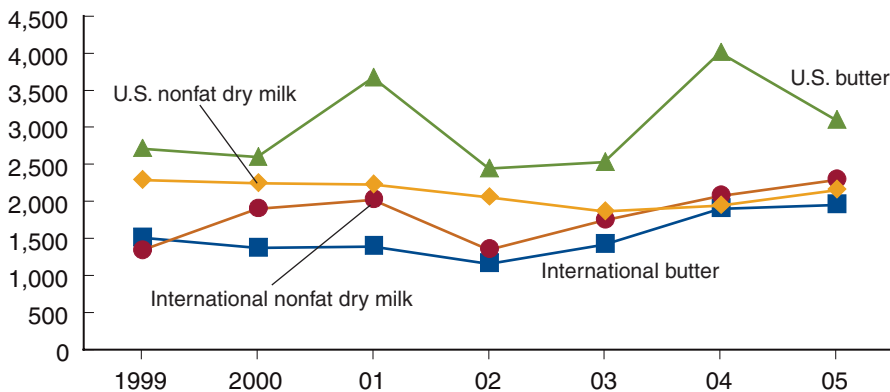
International dairy product demand was generally strong. Dry milk powder demand in eastern Asia was brisk, a reflection of the region's generally good economic performance. Latin American imports remained fairly large in spite of the high prices. Increased revenues generated by higher oil prices boosted powder demand in the Middle East, North Africa, and other oil-producing countries, as did rebuilding efforts in Iraq and Afghanistan. Butter demand in the Middle East was also influenced by higher oil prices and demand for butter in Russia was reportedly fairly robust but not extraordinary.

Supplies of dairy products for export were limited during the year by economic and production factors in major exporting areas. European Union (EU) milk production was down slightly, domestic use was generally strong, and intervention stocks were quite moderate. As a result, the EU did not dramatically adjust export subsidies to compensate for the strength of the euro. Milk production in Australia during the second half of their 2003/04 season was reduced by drought and the production recovery in the first half of 2004/05 (the new season beginning in July) was modest. Additionally, cool and wet conditions foiled pre-season predictions of another sizable increase in New Zealand output in the last half of 2003/04. Early in 2004, the United States had large quantities of nonfat dry milk that could have been exported at the observed prices but, by late in the year, depletion of stocks limited U.S. participation in the international market.

Figure 6

U.S. and international dairy product prices, 1999-2005

\$/metric ton



Note: Prices for May 2005.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

International nonfat dry milk prices are expected to remain high through at least most of 2005 as the dollar is expected to stay weak (fig. 6). Normal seasonal price weakening during the Northern Hemisphere winter did not materialize, and demand is projected to stay firm. Export supplies are unlikely to expand substantially before the year's end. Commercial exports from the United States are projected to be sizable in 2005, as international markets probably will need substantial quantities of nonfat dry milk. The same general price picture is projected for butter, but the U.S. and international markets are not expected to affect each other significantly. Prospects for cheese exports are the most uncertain of all. The weak dollar will certainly aid exports, which have trended upward in recent years. However, domestic prices are projected to be high enough to limit the attractiveness of U.S. supplies.

U.S. imports of dairy products may slip in 2005, on both a milkfat and skim solids basis, but the decreases likely will be modest. Imports of milkfat within the tariff-rate quotas (TRQ) will be attractive, but high-tier imports probably will be considerably smaller. Within-TRQ imports of cheese will generally be attractive, although imports of some unsubsidized European cheeses could be affected by the exchange rate. Imports of skim solids products may decrease even within TRQ limits. Further erosion of imports of concentrated milk proteins is possible in 2005 as domestic skim solids may well have a price advantage that discourages the use of imported proteins where domestic solids are easily substituted.

Sheep/Lamb

U.S. sheep and lamb inventories stabilized in 2004 and even grew somewhat, a result that will eventually lead to increased lamb and mutton production. Lamb and mutton trade, mainly with Australia and New Zealand, had been on an upward trajectory, with imports from both countries continuing to make up a growing share (over 45 percent) of total U.S. lamb meat consumption. Canada supplies less than 1 percent of U.S. imports; imports of meat from Canada are restricted to animals up to 1 year old at slaughter. The age limit is associated with the minimal-risk rule affecting Canadian meat trade due to BSE concerns.

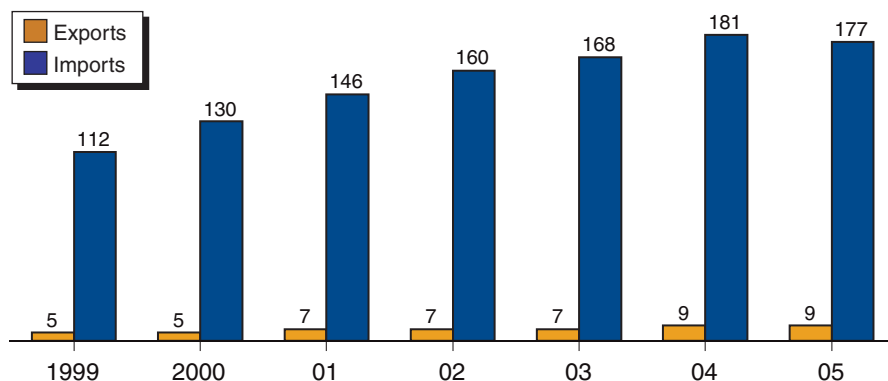
U.S. live sheep trade occurs mainly within North America. Since BSE was detected in Canada, all Canadian live sheep imports to the United States have been banned along with cattle and other ruminants. Live imports from Mexico are permitted but are minimal; Mexico still allows U.S. sheep exports, primarily culled ewes.

Imports of lamb and mutton in 2004 were 181 million pounds, up almost 8 percent from a year earlier (fig. 7). Much lower than expected first-quarter 2005 imports, about 34 percent below a year earlier, led to a reduction in the import forecast for the year. The relative prices of imported lamb related to exchange rates between exporting countries and the United States may have been a factor contributing to the reduced imports. Imports for the entire year are forecast at about 177 million pounds, down just over 2 percent from 2004 (fig. 7).

Figure 7

U.S. lamb and mutton trade, 1999-2005

Million pounds



Note: 2005 forecast.

Source: Economic Research Service, USDA, based on data from *Livestock, Dairy, and Poultry Outlook*, various monthly issues.

Conclusion

Cattle and poultry trade restrictions related to disease clearly shaped the animal product markets in 2004. Beef, cattle, and poultry trade directly responded to changing situations related to diseases. Pork, dairy, and sheep and lamb markets were indirectly affected. Other factors of some consequence in shaping last year's markets include the emergence of competing animal product suppliers—Brazil being a prime example—and exchange rate movements that made U.S. exports more competitive on the international stage. As legal proceedings and regulatory actions are resolved, the import and export expectations and forecasts for animal products will be adjusted. Pork, sheep, and lamb trade forecasts are less influenced by these factors, and dairy markets often move to a different beat altogether.

Exports of U.S. animal products should remain competitive in international markets as exchange rate movements continue to result in a relatively weak U.S. dollar. The dollar's position would tend to limit imports somewhat, at least from some suppliers. Countries like Brazil and Canada emerged as significant competitors of the United States in some animal product markets—beef and poultry for Brazil, pork for Canada. This initial outlook for the U.S. meat, poultry, and dairy markets in 2005 and forecasts into the future rely on continuing assessments of the various ongoing legal and regulatory actions, the role of competing animal-product suppliers in international markets, and currency exchange relationships. While 2005 forecasts are highlighted in this report, USDA started making initial forecasts for 2006 in May 2005.⁴

⁴ *Livestock, Dairy, and Poultry Outlook*. Mildred Haley, coordinator. LDP-M-131, May 19, 2005, Economic Research Service, U.S. Department of Agriculture, Washington, DC.
<http://www.ers.usda.gov/publications/ldp/May05/LDPM131T.pdf>