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**HARMONIZING INTERNATIONAL AGREEMENTS WITH RESPECT  
TO INTEGRATED AGRICULTURAL MARKETS: BSE CASE STUDY**

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# **Harmonizing International Agreements with respect to Integrated Agricultural Markets: BSE case study**

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# *Organization*

- Interactions among market, trade and regulatory integration
- Integration of NAFTA beef industries
- BSE as a case study
- Integrated markets – integrated regulations?

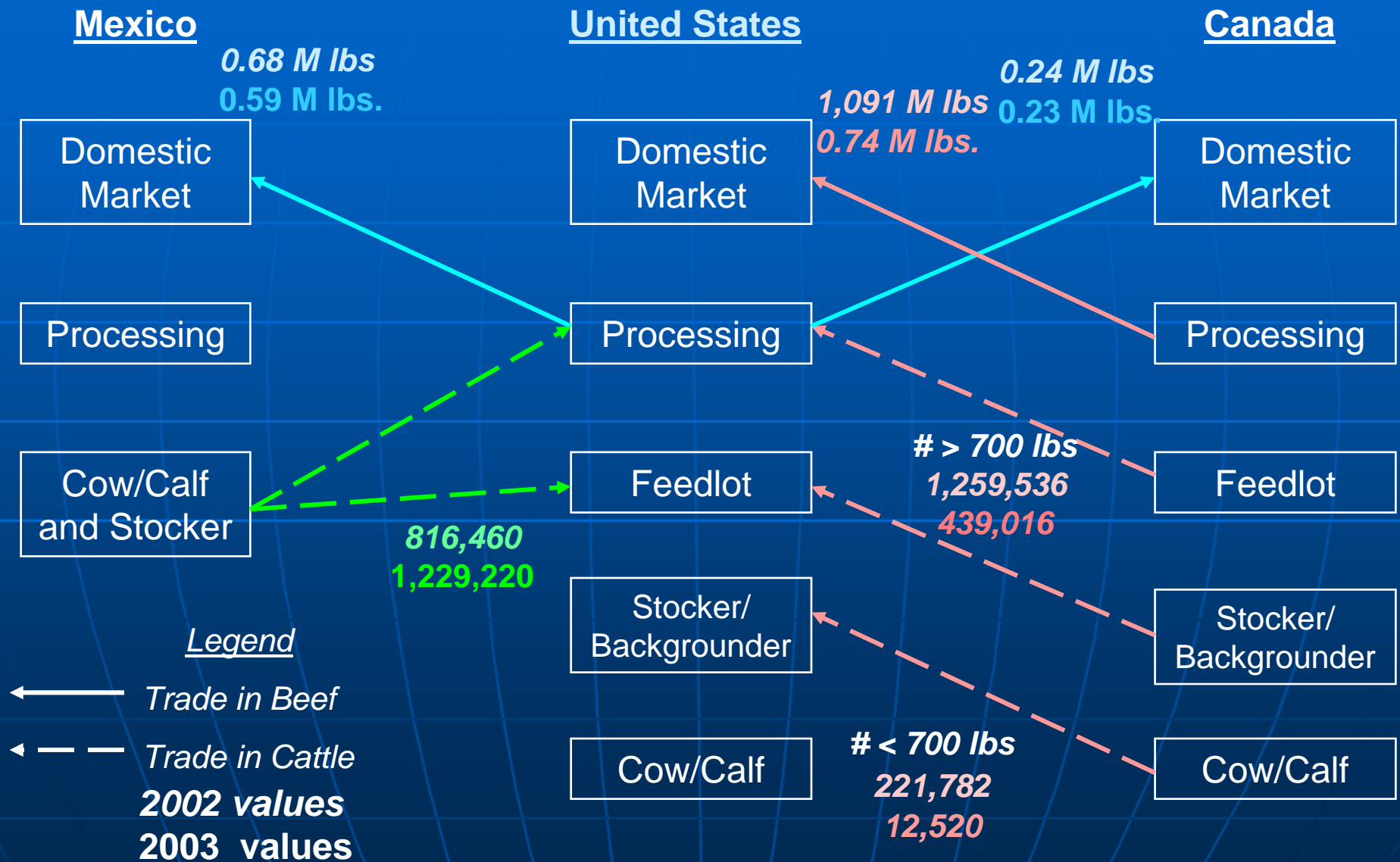
# Firms, Trade and Regulations



# NAFTA & Beef Integration

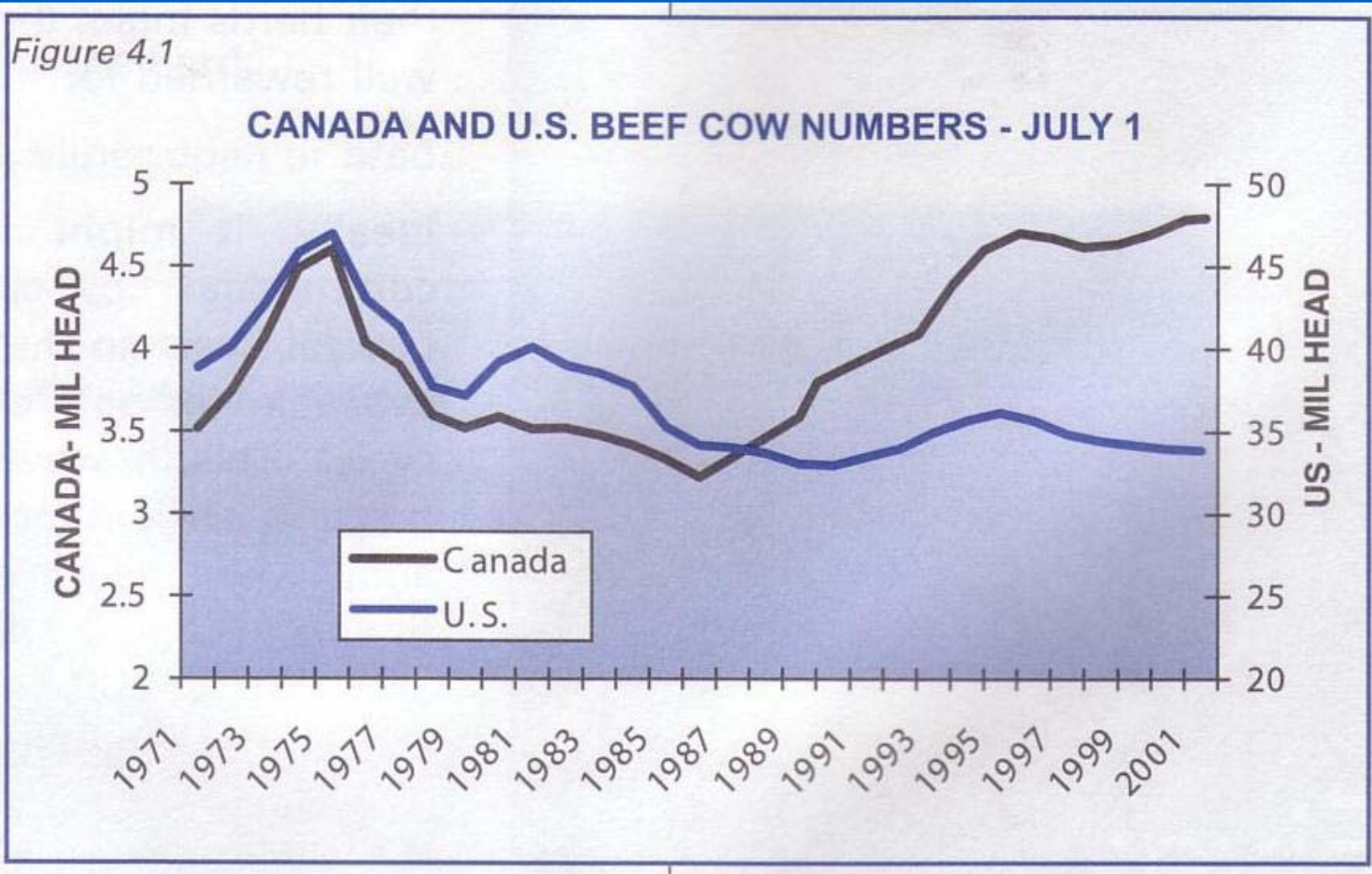
- Prior to CUSTA and NAFTA tariffs inhibited extensive integration
- 1989– CUSTA removed Canada/US barriers
- 1994 – NAFTA removed barriers to trade with Mexico
- Extensive integration at every level

# NAFTA Beef & Cattle Trade Flows



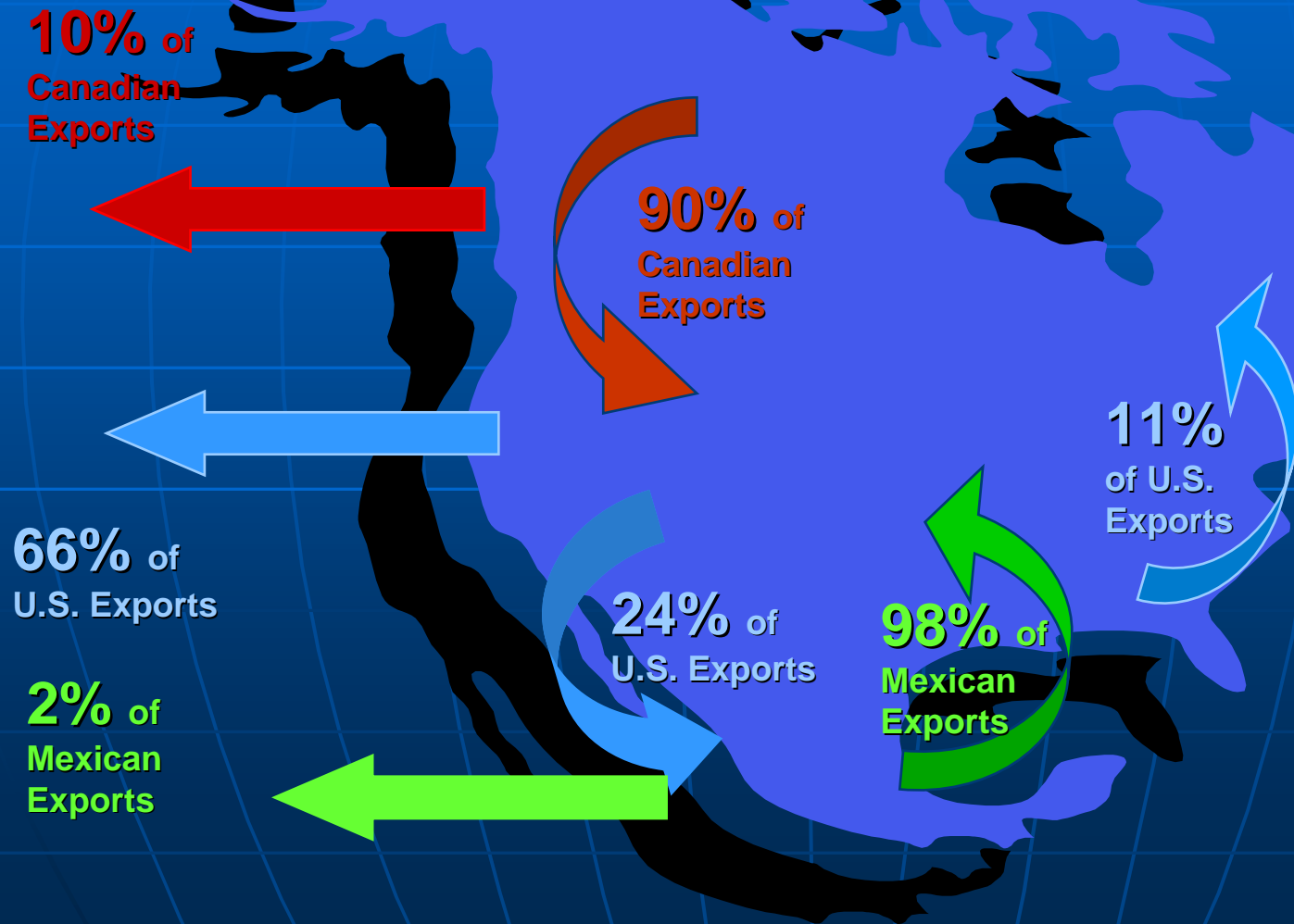
# Production Shift

Figure 4.1



Source: Canfax and Gracey 2002, *The Cattle Cycle*, p. 19.

# *Percentage Flows-Beef Exports*



# Why Study BSE?

- Beef industry is integrated at every level
- Integration → interdependence
  - Smooth operation of NAFTA industry depends on flow of cattle and beef
- Impact of a case of BSE is immediate and substantial
- Management of BSE is an interesting mix of science and politics

# Animal Health/Food Safety Events

## - Two Broad Categories

### ■ ***Private Events***

- Risks and impacts limited to supply chains in which they occur
- *E. coli, Salmonella*

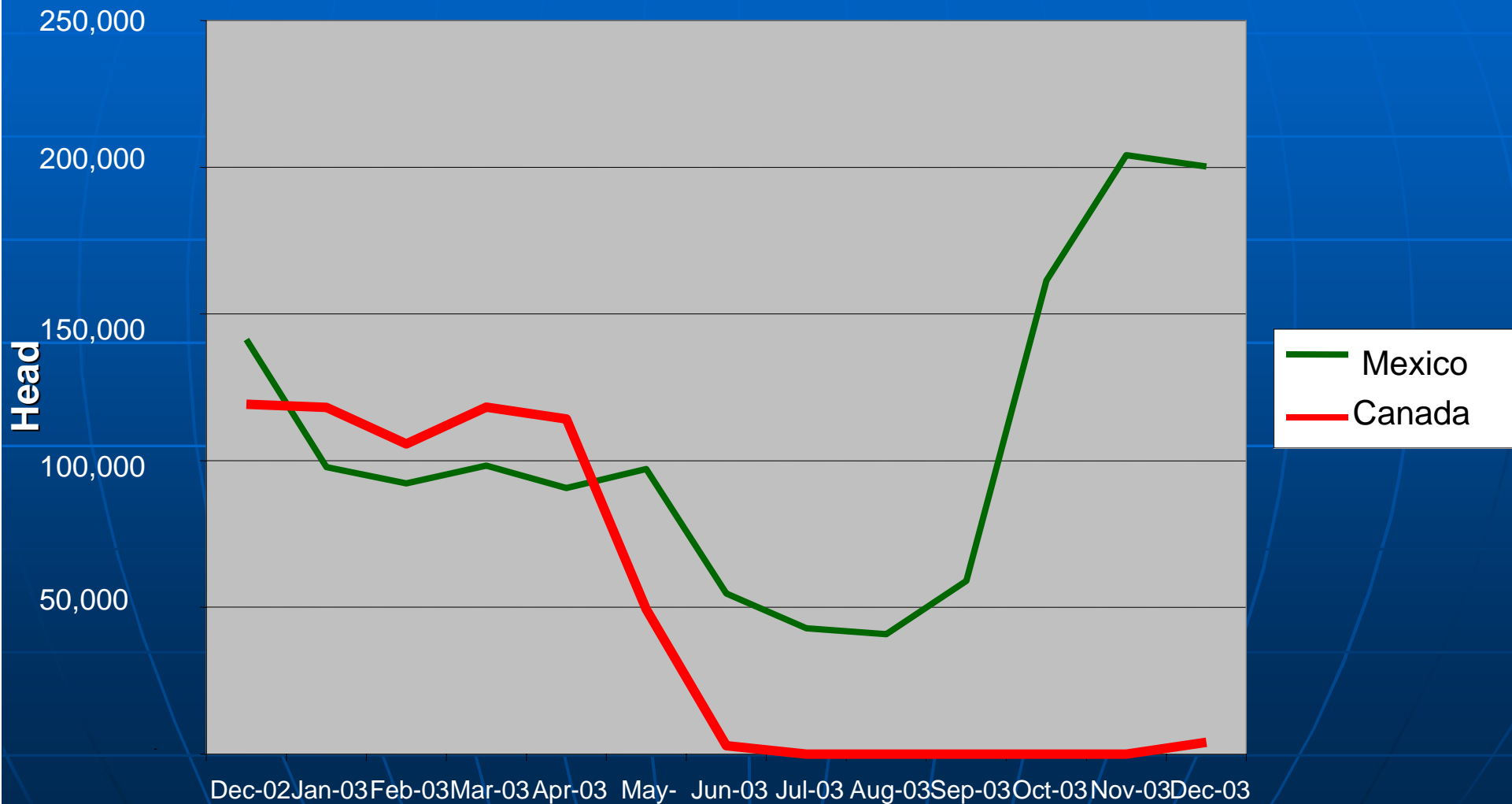
### ■ ***Public Events***

- Impacts reach outside supply chain
- Impact may be Regional or National
- BSE or Foot and Mouth Disease
- Trade distorting

# First NAFTA BSE Event

- May 20, 2003 – Canada
  - One animal found with BSE
  - Animal had already been removed from the food system
- Trading partners notified
- All borders closed immediately for cattle and beef
  - Exceeds OIE recommendations

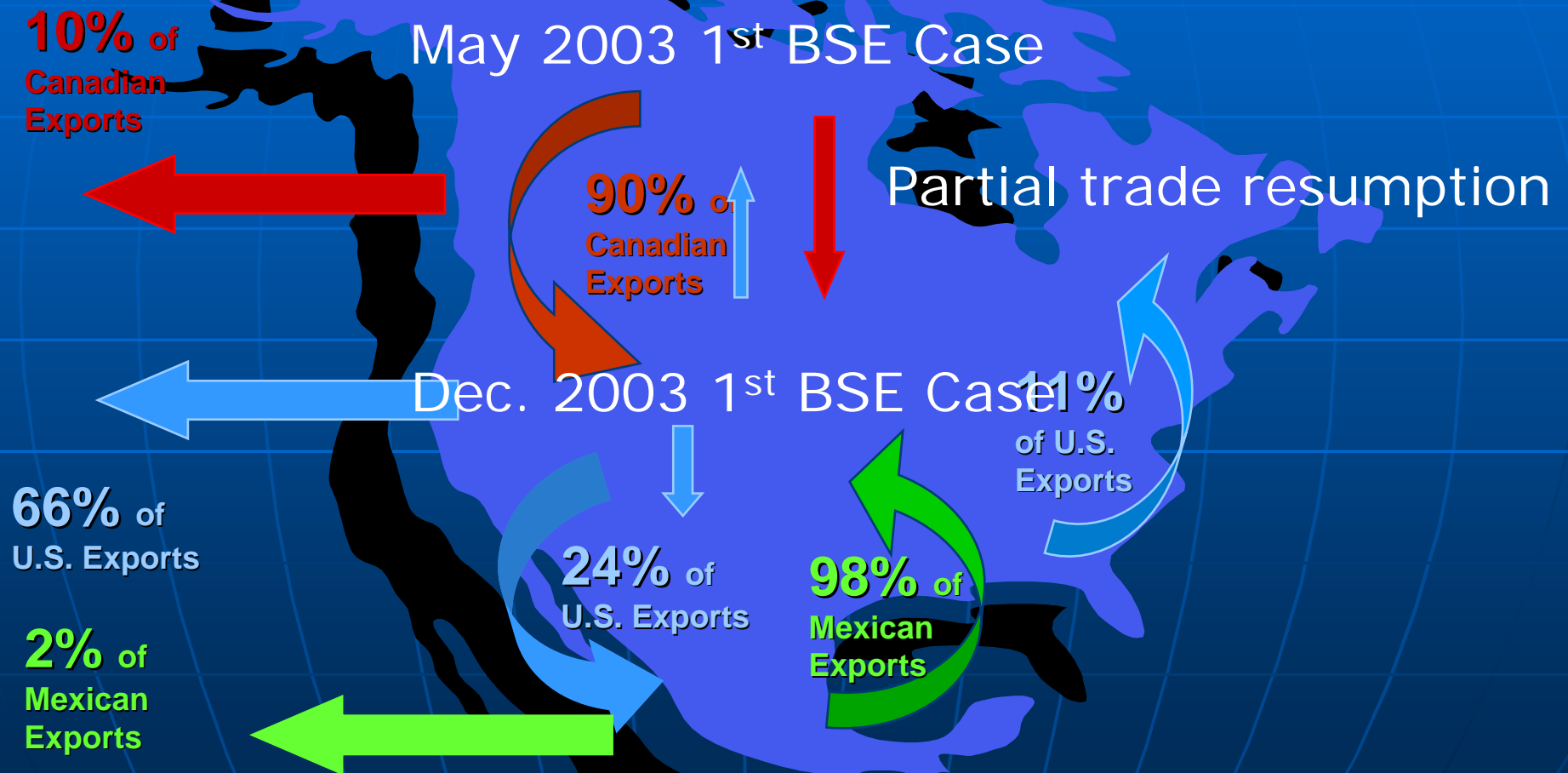
# Impact: Live Cattle Imports to U.S. from Canada and Mexico, 2003



# Second NAFTA BSE Event

- Dec. 23, 2003
- BSE found in U.S. dairy cow
- Traced back to Canadian herd
- Traceback could only locate half of animals which may have received the same feed

# *BSE Impacts & Recovery*



# Result

- Canada is oversupplied, with low prices particularly for farmers
  - Movement to reverse integration by building more slaughter capacity
- U.S. is undersupplied with record high prices
  - Some producer resistance to reopening the border
- Mexico's prices are elevated
- KEY POINT: Bulk of trade impact was within NAFTA and could have been avoided through concerted effort before the fact (before BSE cases)

# Lessons from BSE (1)

- NAFTA is pursuing **high** level of market integration
- But has a relatively **low** level of coordination in regard to nontariff barriers, such as regulations
- Economic integration has outrun regulatory integration, leaving industries more vulnerable to disruption

## Lessons from BSE (2)

- There are legitimate reasons why countries are reluctant to harmonize regulatory policy
- And market integration within NAFTA poses problems for exports to non-NAFTA countries

## Lessons from BSE (3)

- NAFTA currently has no mechanism to move toward regulatory integration except on a very ad hoc basis
- Serviceable mechanisms exist for closer coordination of regulatory policy but they are limited
- NAFTA countries will have to decide to what extent to take the next step toward regulatory harmonization

# Lessons from BSE (4)

- Harmonization itself depends on further development of risk management capabilities in each country
- Failure to address regulatory integration will be:
  - A continuing drag on market integration
  - Leave markets vulnerable to recurring disruptions

**Thank You**