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First US Mad-Cow Discovery Has Widespread Implications

By RICHARD GIBSON

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DES MOINES, Iowa -- The first suspected U.S. case of Mad Cow disease is expected to bring widespread, if short-term, implications for the domestic food chain.

From feedlots to supermarket meat cases to fast-food restaurants, the discovery of what so far is believed a lone infected cow will create economic uncertainty, alter the American diet and even affect the U.S. balance of trade.

"Everything in the meat sector will change in some way from this point forward," analyst Timothy Ramey of D.A. Davidson & Co. predicted. Saying there was just one mad cow is "a bit like saying we've only had one 9/11," he wrote.

Even if the Mad Cow case is an isolated one, U.S. cattlemen are likely to incur significant short-term losses in what last year was a \$175 billion business.

The front month February live cattle futures contract on the CME is offered at \$89.17 per hundredweight, limit down \$1.50.

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Japan and several other Asian countries immediately slapped bans on the import of U.S. beef, after the USDA announced the discovery of the infected cow in Washington State. The U.S. exports about 10% of its annual production.

Buying habits are likely to shift domestically as well until more is known about whether the Mad Cow episode was an isolated one. The USDA quickly quarantined the dairy herd from which the animal came.

Supermarket operator Albertsons Inc. (ABS) said it had worked through the night to keep up with developments. While a spokeswoman said it was too early to determine if there will be an impact, or what it might be, she said the chain was keeping in close touch with government officials so as to take whatever measures are recommended to assure a continued safe food supply.

Potential near-term beneficiaries include American red-meat consumers, who are likely to see prices at supermarkets drop for steaks, ribs and hamburger. That could be particular plus for the millions who are on low-carbohydrate, high-protein diets.

Also benefitting from lower beef prices are restaurant chains -- even those who feature beef on their menus, as their costs will decline.

Wall Street mirrored reaction to the USDA's announcement.

Shares of the world's largest beef processor, Tyson Foods Inc. (TSN), fell 5.5% to \$13.21 during an abbreviated session Wednesday.

Stocks of big beef purchasers -- among them hamburger behemoths McDonald's Corp. (MCD) and Wendy's International Inc. (WEN) -- also dropped. McDonald's shares are off 5.6% to \$23.87 while those of Wendy's are down 3.9% to \$38.10.

Several analysts, hoping that the Mad Cow scare diminishes quickly, advised investors to take advantage of such price drops and load up on those stocks.

What one Wall Street analyst called a Christmas Eve "lump of coal" disrupted livestock futures trading early Wednesday, as live cattle futures hit limit-down levels with a selling imbalance.

Feed grains also were immediately hit. Corn futures on the Chicago Board of Trade collapsed Wednesday, with opening bids down more than 13 cents a bushel.

The longer-term impact of the nation's first mad-cow case will be shaped by what investigators find. The USDA said Wednesday it is racing to learn the life history and travels of the infected cow, what herds it may have been part of and how it became infected.

Because bovine spongiform encephalopathy, the formal term for mad cow disease, typically is transmitted through feed grains, and has a multi-year incubation period, "it's important to focus on the feed where she was born" in 1999, USDA chief veterinarian Ron DeHaven said.

In announcing the discovery late Tuesday, USDA Secretary Ann Veneman sought to assure American consumers of beef's safety - as well as that of the entire food chain. She vowed to serve beef at her own Christmas dinner.

Such assurances notwithstanding, analysts noted that the discovery of a single BSE-infected cow in Canada in the spring led to massive losses by that country's cattle producers and processors, as well as a multi-nation ban on Canadian beef.

The National Cattlemen's Beef Association Wednesday said it applauded "the swift action taken by the USDA to announce the findings of this possible case and its aggressive investigation of the circumstances ... we will work closely with the USDA to carry out a full investigation and determine what additional preventive measures, if any, need to be taken to continue to protect animal and public health."

It added, "consumers should continue to eat beef with confidence."

Tyson Foods, which derives nearly half its revenue from beef processing, issued a statement Wednesday distancing itself from the Washington State discovery. "We have confirmed no product from any of the three Washington plants identified by USDA has been purchased by Tyson Foods' facilities or used in any products manufactured" by the Springdale, Ark., parent of beef-processing giant IBP.

A spokeswoman for retailing giant Wal-Mart Stores Inc. (WMT), which operates food centers as well as discount stores and is a major customer of Tyson, said it only purchases USDA-approved beef "and we have no reason to believe that we're affected by this."

Hamburger purveyor Wendy's issued a statement seeking to assure the public that its beef supply is similarly safe. It said its contracts prohibit the processing of a "downer" cow - that is, one that is not ambulatory at the time of slaughter. The lone Holstein dairy cow implicated in the current mad-cow scare was described by the USDA as a downer.

McDonald's didn't issue an immediate formal statement on the situation. But its Japanese business is known to obtain all its beef from Australia and New Zealand for sale in Japan, its second-largest market.

Merrill Lynch analyst Leonard Teitelbaum forecast a "minimal" impact on earnings of meat processors and other agribusiness companies he tracks.

"We would expect headlines will determine price movements in the market until all the facts are known," Teitelbaum predicted.

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