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## UPDATE:Mad-Cow Case Could Have Widespread Impact

By RICHARD GIBSON

OF DOW JONES NEWSWIRES

DES MOINES, Iowa -- The first suspected U.S. case of mad-cow disease holds 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 for an array of businesses, 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.

Among the most likely losers will be the American cattle producer and what last year was a \$175 billion business. Japan, Mexico, Russia, South Korea, Taiwan and Chile were among countries immediately slapping import bans on 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.

In an ominous harbinger, February live cattle contracts fell limit-down on the Chicago Mercantile Exchange Wednesday.

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Various exchanges closed early and many traders were away for the Christmas holiday, so the scare is expected to continue to impact markets when they reopen.

Domestic buying habits are likely to shift as well, until more is known about whether the mad-cow episode was confined to a single animal. The U.S. Department of Agriculture quickly quarantined the dairy herd from which the cow came.

One processing plant in Washington state issued a voluntary recall of about 10,000 pounds of meat produced the day the infected animal was slaughtered.

A representative of the National Cattlemen's Beef Association, the primary trade group for U.S. cattle producers, said on a conference call Wednesday that while he was certain of the safety of U.S. beef supplies, "it's unknown to us...if potential consumers already consumed" meat from the cow in question.

He emphasized that under U.S. slaughterhouse rules, the brains and spinal cords of animals aren't marketed; mad-cow disease is believed confined only to those body parts.

Supermarket operator Albertson's 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.

It's too early to predict the extent to which the domestic farm economy might be impaired, but some analysts said businesses ranging from seed companies to ag chemical producers and even farm-machinery makers would be damaged should the episode erupt into a full-blown outbreak.

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 a particular plus for the millions who are on low-carbohydrate, high-protein diets.

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

Wall Street's reaction to the USDA's announcement was swift.

Shares of the world's largest beef processor, Tyson Foods Inc. (TSN), fell 7.7% on very heavy volume during Wednesday's abbreviated trading session.

Stocks of big beef purchasers - among them hamburger behemoths McDonald's Corp. (MCD) and Wendy's International Inc. (WEN) - also dropped. McDonald's was down 5.2%, or \$1.32, to \$23.96. Wendy's was off 4.7%, or \$1.87, to \$37.79. Casual-dining chain operator Outback Steakhouse Inc. (OSI) stock was hurt as well, as shares fell 5%, or \$2.23, to \$42.40, on more than four times average daily volume.

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.

Standard & Poor's Ratings Services said it put ratings on all U.S. beef protein processors on its CreditWatch with negative implications. Total rated debt for those processors is about \$9.2 billion, the rating agency said.

S&P also downgraded the outlook for Cargill Inc., the big closely held diversified agribusiness, to negative from stable because of its "significant presence in the beef-processing industry." Cargill owns beef-processor Excel Corp.

The disclosure - called a "lump of coal" by one analyst - roiled agricultural commodities markets as well. Not only were live-cattle futures down but feed grains also were hit. Corn futures on the Chicago Board of Trade collapsed, 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 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 multiyear 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 multination ban on Canadian beef.

The National Cattlemen's Beef Association 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 said.

"Consumers should continue to eat beef with confidence," the producers' group added.

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 purchases only USDA-approved beef "and we have no reason to believe that we're affected by this."

Hamburger purveyors Wendy's, Jack In The Box Inc. (JBX) and Sonic Corp. (SONC), among others, issued statements seeking to assure the public that their beef supplies are similarly safe. The companies said their 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 said the episode "has absolutely no connection whatsoever" to the company or its suppliers. It touted what it described as "the most experienced, comprehensive and trusted quality-assurance programs in the world."

In the past, Japanese consumers have reacted sharply against outbreaks of mad-cow disease elsewhere in the world. Japan is McDonald's second-largest market after the U.S., but its unit there is known to obtain all its beef from Australia and New Zealand.

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

He noted that when demand for one protein falls, demand for others tend to increase. "Companies with poultry and pork operations could benefit," Teitelbaum said.

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

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