



“Economic and Governmental Factors Affecting Canadian-United States Basis for Fed Cattle”

## FACTORS AFFECTING THE FED CATTLE BASIS

**PROJECT NO.:** 0005-017

**RESEARCH INSTITUTION:** Oklahoma State University and Kansas State University

**LEAD RESEARCHER:** Dr. Clem Ward and Dr. Ted Schroeder

**Objectives:** These researchers are trying to determine what factors have influenced the Canadian-U.S. fed cattle basis in the past so that future variability in basis and profitability may be predicted more accurately.

**Background:** Basis influences feedlot profitability. The “fed cattle basis” is the difference between the prices that U.S. and Canadian packing plants pay for fat cattle, adjusted for exchange rate. In a normal market, basis reflects transportation costs and differences in supply and demand between Canadian and U.S. markets. Generally speaking, a narrow basis is a sign of a healthy market. The North American beef industry was highly integrated before BSE was discovered in Canada, and the basis averaged \$0.07 to \$0.08/lb. In other words, Canadian cattle prices were \$0.07 to \$0.08/lb lower than U.S. cattle prices. Basis was narrowest in winter and wider in the spring, summer and fall.

During the U.S. border closure to live Canadian slaughter cattle (mid-May 2003 through mid-July 2005), the fed cattle basis averaged \$0.27 to \$0.53/lb. This reflects the vast oversupply of fat cattle in Canada (resulting in lower bids from packers in Canada) and undersupply of fat cattle in the U.S. (increasing competition among U.S. buyers for this limited supply).

Even though the U.S. border has re-opened, the fed cattle basis is wider (averaging \$0.09 to \$0.15/lb), more variable, and the seasonal trend has been reversed (narrower in spring and summer and wider in fall and winter). Between 2003 and 2009 there have been changes in transportation and labor costs, numerous regulatory changes governing live cattle and beef entering the U.S., packer ownership, increased cow slaughter in Canadian plants, new regulations affecting processing costs (e.g. different SRM removal and disposal requirements in Canada and the U.S.), and ongoing and uncertain impacts of Country of Origin Labeling on prices for Canadian cattle. The researchers plan to decipher the interplay of these factors and their relative impact on the fed cattle basis.

**Implications of the Research:** The factors that influence the basis also determine feedlot profitability and feeder calf prices. Accurate basis information will help feedlot producers in their marketing decisions. This research will also help to determine whether basis risk can be effectively managed, and help in policy development regarding trade, industry structure and regulatory issues. This project should be completed in 2010.



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