Beef in North America

The United States, Canada and Mexico provide 30% of the world's beef.

by ***Corinne Blender***

North America offers a vast array of environments that are ideal for raising cattle throughout every phase of production. The beef industry is a changing and evolving industry, as new laws are written and third-world countries grow economically. These factors will continue to shape the industry in North America.

Jose Peña, an economist at Texas A&M University, says the relationship among North American countries is symbiotic. The countries produce what they do best, he says.

"Mexico has a lot of range and therefore produces a lot of calves and stockers, yet they cannot produce enough corn," Peña says, pointing out that the United States can produce a lot of corn — 9-10 billion bushels (bu.) a year. "We import a lot of young calves, feed them and finish them, then distribute the finished animals throughout the United States and back into Mexico.

"Canada … has a lot of wheat and small grains, so therefore we can send a lot of our cattle from the Northwest into Canada and finish them there and then distribute them to serve the northwestern United States and Canada, an area that is kind of distant and underserved," Peña says.

Trade liberalization under the North American Free Trade Agreement (NAFTA) and economic recovery in Mexico since the 1994 peso devaluation have led to a strong expansion of U.S. beef exports to Mexico in recent years. "Our trade balance with Mexico has increased by more than 30% to 40% as NAFTA was put in place," Peña says. Canada and the United States adopted the Canada Free Trade Agreement (CFTA) that has contributed to the integration of the countries' beef industries.

The North American continent provides approximately 30% of the beef produced in the world. Derrell Peel, a livestock marketing specialist at Oklahoma State University (OSU), says demand for beef around the world should offer new markets.

Data available from the last few years shows considerable growth and opportunity in the global market for beef and, to some extent, for live cattle as well, he says. Because of the expense and the challenges of shipping live animals internationally, it tends to be restricted by the logistics to specific regional markets, and North America is one of those areas where live-animal movement occurs.

Many developing countries focus on grain production to achieve a caloric level of intake that solves basic nutritional needs. But as developing countries achieve greater financial status, they begin to seek higher quality nutrition from products like meat, Peel says.

"We have just generally seen enough growth around the world in a number of these major developing economies where we have significant potential for more international marketing of beef and beef product," Peel says.

Mexican industry

The North American continent is no stranger to emerging economies.

"Mexico is a great example of one of those economies that has emerged very rapidly in the last 15 or so years — to the point where meat demand is growing very, very rapidly," Peel says. Peel spent an entire year living with his family in Mexico and continues to return to that country to study the industry.

Traditionally, Mexico has produced animals that are harvested off grass at a mature age of 3 to 4 years with virtually no supplemental feed. During the last 20 years, Peel explains, the Mexican beef industry has expanded. Now, approximately 20% of the calf crop is fed in a feedlot or semi-intensive production environment that utilizes supplemental feed resources. Peel says that because the country cannot support enough land to raise crops to become large feeders of cattle, he doesn't foresee their developing a feeding system that mirrors that of the United States.

"The most dramatic change in the Mexican industry occurred in the last five or six years. Because of the economic level of development and, in some sense, I guess you can say the expected consequences of NAFTA, Mexican beef demand has grown very quickly. Mexico doesn't have the ability to produce all [of the beef] they need," Peel says. "Even if they kept all of their cattle at home they wouldn't have enough. They would still need to import meat."

Peel says there are still economic reasons for Mexico to send cattle to the United States to take advantage of the fact that the U.S. industry can feed them and process them much more efficiently, and then export the meat back to Mexico.

"What's important is for [Mexico] and for [the United States] to really understand the economic forces, the evolution of these markets that are happening on both sides of the border and to understand that these trade flows we are seeing, for the most part, are the *expression* of economic conditions in the two countries more than the *cause* of economic conditions in the two countries," Peel says.

In 2002, Mexico was the No. 1 destination for U.S. beef and beef byproduct exports on a quantity basis. Mexico exports about 1 million head of cattle annually into the United States, with the vast majority being stocker-type cattle. The United States essentially obtains the raw product — unfinished calves — grows them, processes them and exports them back to Mexico and to other markets. Both sides of the border have questioned this relationship, but Peel says both markets can prosper by working together. Differences in consumer taste preferences, available feedstuffs, etc., allow for this.

"The Mexican industry has been, and still predominantly is, a carcass-based market. So if you look at a feedlot level, the majority of those cattle are sold as whole carcasses," he says.

In the United States, the majority of beef is sold as boxed beef. U.S. consumers prefer the middle meats, while Mexican consumers prefer a leaner product that comes from the end cuts.

"There is a misunderstanding of the amount of differentiation of value that occurs in the U.S. market," Peel says. "In terms of pounds, 15% of the carcass the U.S. demands is 60% of the value. A relatively small number of cuts are tremendously high-valued. By the same token, that means that we're dramatically lowering, relatively speaking, the values of some of those end meats."

Mexican consumers' preferences for leaner beef, consistent with what their country can raise, has opened the door for U.S. product that is not highly desirable to U.S. consumers. The United States exports many chucks and the round cuts to Mexico.

Mexican demand for Angus

Peel says he has a good report for Angus breeders — Mexico is getting the same cues that U.S. beef producers are hearing about cattle preferred by the market.

"I was in Mexico three weeks ago, and I was specifically asked to make presentations about what kinds of cattle are preferred in the U.S. market," Peel says. "Based on the data we have here in Oklahoma and in other states on characteristics that are popular, obviously black hide is one of them." Peel acknowledges that the same sharp marketing signals about the color of hide,

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Milanesa

The United States exports to Mexico many chucks and rounds, cuts of beef that aren't highly demanded by U.S. consumers. Mexican consumers prefer the cuts because they are leaner and more consistent with the product that their country can raise.

From the round, a cut called *milanesa* is sold at retail and prepared in restaurants, says Derrell Peel, a livestock-marketing specialist at Oklahoma State University (OSU).

"If you order *milanesa* at restaurants, it's almost like a chicken-fried steak, except it is served without the gravy and the mashed potatoes," Peel says. "It's a breaded, real thin cut of round, typically, although it can actually come from a number of different muscles, that's fried."

When purchased in a retail store, he explains, "it's just a thin cut of round, typically boneless, and it's a very popular product. You can brown it in a jiffy on a hot griddle, from there slice it up and put it in tortillas, throw chili on it and you've got a great little dish. It is a very versatile kind of meat."

Peel says marketing rounds to Mexico to make *milanesa* has worked well for the United States. "There are some similar cuts off a chuck, as well, that are very popular in Mexico and, because of our relative differences in preferences, very price-competitive," he adds.

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the quality of cattle, frame sizes, muscling and vaccination protocols have been heard by Mexican producers.

But will the Mexican consumer prefer a highly marbled, grain-fed product? Peel says the answer will vary by region.

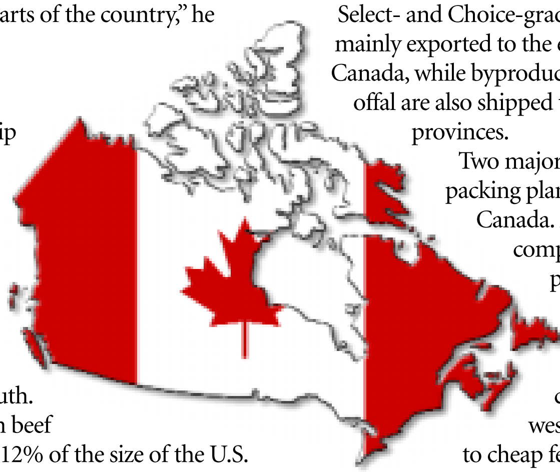
Demand for U.S. grain-fed product occurs in northern Mexico and major cities in northern Mexico like Chihuahua and Monterrey, where those cities have developed cultures that are in many ways quite similar to those of the United States, Peel reports.

But he cautions not to paint Mexico with too broad a brush. He says the cultural representation is very different in the northern and southern regions.

"The farther south you go, they have a saying that the culture stops when the grilling starts because many times they accuse the Northerners of being too much like Americans," Peel says. The Northerners, or *Norteños,* grill steaks and prepare meat more like U.S. consumers. "You have tremendous diversity in cultural background that relates to all aspects of society in Mexico, politically, culturally in terms of food preferences, cooking styles, meat processing styles. Meat is not cut the same way in different parts of the country," he adds.

Canadian beef

The relationship between the Canadian and the U.S. beef industries is very different from that of the United States and its bordering country to the south.



"The Canadian beef industry is about 12% of the size of the U.S. beef industry," says John Marsh, professor of ag economics at Montana State University, Bozeman. "Like the United States, it is a mature industry with efficient cow-calf, feedlot and meatpacking production."

The United States and Canada produce the lion's share of high-quality, fed beef in the world because each country supports a large grain industry, Marsh adds.

Since the enactment of the CFTA in 1989 and NAFTA in 1994, he says, the United States and Canadian beef markets have become highly integrated.

Canada is a country that produces more beef than it consumes, while the United States consumes more beef than it produces. A unique relationship of imports and exports has developed as trade doors have opened.

"There are trade issues both ways, but the bottom line is if we all recognize our role in the market there's room for all of us. And we are all going to be better off if we do what we do best in respective countries and allow trade to move things around."

— Derrell Peel

"Canada is more dependent on the United States market for exports of live cattle and beef than the United States is dependent upon exports to Canada for these two commodities," Marsh says. "The United States relies upon imports of Canadian cattle to keep domestic packing facilities running efficiently." Nearly one-third of Canada's steer and heifer inventory is exported to the United States, primarily for harvesting.

U.S. exports to Canada include feeder cattle exported under the Restricted Feeder Cattle Program from the northern states, which amounts to only approximately ½% of the total U.S. feeder supplies, Marsh says.

Select- and Choice-grade boxed beef is mainly exported to the eastern region of Canada, while byproducts of hide and offal are also shipped to the Canadian provinces.

Two major U.S.-based packing plants are in Alberta, Canada. Marsh says the companies opened plants there because of the increased cattle-feeding capacity in western Canada due to cheap feed supplies and for exploiting potential markets for Canadian beef into the United States and Asian markets. The packinghouses are state-of-the-art, both in technology and capacity, and have increased the demand for U.S. feeder calves into Canada, he reports.

U.S. producers have been leery about the number of Canadian cattle crossing the border as finished animals. But Marsh says that, in the future, the largest source of U.S. imports of fresh/chilled beef is expected to continue with Canada.

"Producers are concerned about the deepening U.S. beef and live-cattle trade deficit with Canada," Marsh points out. "This deficit (value of imported beef and cattle from Canada exceeds the value of U.S. beef and cattle exports to Canada) steadily increased by $1 million from 1998 to 2001. Others feel the challenge (competition) of Canadian packers selling high-value beef cuts into the Asian markets. However, because the markets are highly integrated, changes in total cattle supplies in both countries might be more important in affecting prices than what moves across the border."

A strong relationship?

Peel says there is a lot of opportunity for the beef industry in North America as a whole.

"My mission in life is education, and I think education on both sides of the border is terribly important because the interesting thing is when you sit down with a group of ranchers here or there about 90% of what we talk about is exactly the same stuff for the same reasons," he says. "We have so much in common, and despite our tendency to sometimes think of trade as antagonistic or as competitive … it is really no different from your competition from the guy down the road who is in the same business.

"Ultimately, this industry is going to survive or not survive, thrive or not thrive, together. Certainly I think that is true on the North American continent. I don't believe realistically that we have a U.S. market that's distinguishable from the North American market. I think it's terribly important that we begin more and more to think of the United States, Canada and Mexico as one market and to recognize that it's not fundamentally 'us against them' in a trade sense," he continues. "There are trade issues both ways, but the bottom line is if we all recognize our role in the market there's room for all of us. And we are all going to be better off if we do what we do best in respective countries and allow trade to move things around."