

# It's a Small World After All



U.S. beef exports bring extraordinary value to beef producers.

by **Kasey Brown**, associate editor

**'N**ew money in the industry is coming from the trade side. Seventeen percent of the money that is paid for our cattle comes from some other currency," said Gregg Doud, president of the Commodity Markets Council, at the 23rd Range Beef Cow Symposium Dec. 3-5, 2013, in Rapid City, S.D. This is indicative that, in terms of the American beef industry, it is a small world after all. No, you don't have to sing the theme-park song, but do realize that many beef consumers are not within the borders of the United States.

Customers now are global, especially with the emergence of trans-pacific partnerships (TPPs). To give some perspective, just 10 years ago, the first case of bovine spongiform encephalopathy (BSE) in the United States was discovered Dec. 23, 2003, and became the "cow that stole Christmas," he said. Before the BSE cow, the value of beef

exports was about \$150 per head, a historic high. Currently, export markets account for almost \$300 per head, Doud said. Exports are a big deal.

The biggest economic changes of the past decade are the increased buying power of consumers all over the world. He emphasized that ranchers shouldn't get hung up on the declining per capita domestic beef consumption. Ten years ago, the export market crashed, but it has been rebuilt — basically from scratch. Doud highlighted the trade situation in many areas around the world.

## Japan

Feb. 1, 2013, was a milestone date, he said. After 10 years of intense negotiations, beef trade nearly normalized in February. Japan imported nearly \$1.4 billion of U.S. beef products in 2003, and Doud projected that level will be reached at the end of 2013. Even so, the economic loss from those 10 years approaches \$10 billion, he noted.

Japan's "A40" maturity requirement limited the number of fed cattle that were eligible for the Japanese market, he recalled, but he countered that without this requirement, beef trade with Japan could have completely halted.

Additionally, Japan's 20-month-and-younger requirement catalyzed the age-and-source-verification era. While the United States has a loose traceability program in place currently, this trade

requirement really jump-started the program. The age requirement forced creativity of a variety of cuts of beef from the eligible carcasses, which, in turn, gives more potential for beef demand.

It is evident that the relationship between Japan and the United States is strong, but Doud explained that Japan's 38.5% tariff on imported beef is one of the highest in the world. This puts Japanese consumers at a disadvantage because competing countries can pay less for the same cuts of U.S. beef. Optimistically, there is an opportunity to lower, and eventually eliminate, this tariff through TPP negotiations.

## South Korea

TPPs act as a wagon wheel, Doud explained. The TPP network serves as the hub and spoke mechanisms for everyone involved, so everyone enjoys tariff-free trade. He said trade agreements generally take about three to five years to really take effect, and South Korea is a prime example. Typically, when a country enters into a trade agreement with the United States, tariffs on beef have to eventually go to zero, and the negotiations determine how long it takes to get there.

In South Korea, the United States and Australia compete head-to-head in the beef market. With the negotiation that takes off 2.67% of the tariff each year in effect, 2014 (the second year of the TPP in effect) will

have a 32% tariff on U.S. beef as opposed to the 40% tariff on beef from everyone else. This means U.S. beef will be taxed 8% less than Australian beef, and that is significant enough that the Meat & Livestock Australia (MLA) plans to close its South Korean office. This begs the question: Where will Australia focus next?

He added projections that about 70% of South Korea's beef imports will consist of U.S. beef. This is due to the continued tariff reductions from the United States-Korea Free Trade Agreement (FTA).

## China

There are other large areas of growth, but Greater China shows the most promise, he said. In 2003, China was barely a blip in the radar in terms of beef exports, but now China is emerging as a definite consumer of U.S. beef. Most of the beef trade occurs in the port of Hong Kong, which is why many data analysts include Hong Kong in the Greater China designation.

There are 1.5 billion pounds (lb.) more beef going to China/Hong Kong this year vs. last year. To put this into perspective, Wal-Mart's beef sales domestically are just more than 2 billion lb., and the United States imports about 2.2 billion lb.

During the past two years, beef prices in China have increased 83%. The retail price of beef in China is now \$4.80 per lb. It is currently \$4.95 per lb. in the United States, he noted. U.S. short ribs and chuck rolls — the staple in South Korea and Japan — used to be out of the price range for middle-class Chinese consumers. That is no longer the case, and Doud said that is one of the biggest things to happen to ranchers all around the world.

He illustrated that Chinese incomes are roughly one-sixth that of U.S. incomes, so our average price of \$4.80 per lb. translates to \$28 per lb. in China, yet demand is growing. The added value that the export markets add to a beef carcass may be in its infancy and could grow exponentially.

## Taiwan

U.S. beef sales have hit a new record in Taiwan, reaching the neighborhood of \$250 million. Doud says Taiwanese generally like American culture and the current tariff is 15¢, which doesn't negatively affect consumption.

He noted that progress has been made on the ractopamine issue and consumer acceptance. This is one of many markets where dialogue regarding science and

technology in food production must keep improving.

## Mexico

Mexico has been our most reliable trading partner during the past decade, Doud claimed. U.S. exports have been many and consistent, and the United States imports Mexican feeder cattle steadily, especially due to use of improved genetics in Mexican border states. About 40% of the cattle on feed in Texas are cattle from Mexico, he said. Additionally, dramatic changes to the Mexican processing industry have boosted Mexico's beef exports.

Doud maintains that the mature market relationship can withstand potential fallout from a country-of-origin labeling (COOL) ruling from the World Trade Organization (WTO). For more information on COOL, visit the *Angus Journal* topic website, [www.countryoforiginlabeling.info/newsroom.html](http://www.countryoforiginlabeling.info/newsroom.html).

## Russia

In 2008, Russia was a major beef importer, with meat imports reaching a high point of \$300 million. However, he explained that since Russian President Vladimir Putin took office, Russia has started to build its own domestic meat-production sector. While this provides potential for live-animal exports, the non-tariff trade barriers created to minimize imports prove frustrating for the U.S. beef export market.

Only recently have these barriers affected the beef industry, and ractopamine — in this case, Optiflex — is the culprit. In 2012, Doud explained that the United States completed the 10-year process to obtain an international maximum residue level for ractopamine. This standard is called a Codex Alimentarius ("a Codex") and is a standard in a collection of international food-safety standards put together by the Codex Alimentarius Commission, which is jointly funded by the United Nations' Food and Agriculture Organization and the World Health Organization. This should have taken care of the issue since Russia is a member of the WTO, but Russia doesn't appear interested in adhering to its WTO commitment, he noted.

## European Union

On the topic of non-tariff trade barriers, those of the European Union's (EU) to block imports are still frustrating, he said. However, the United States is actually selling in excess of a quarter of a billion dollars worth of beef to the EU, because the EU became a net beef importer rather than exporter in 2003. There are still hormone-free barriers, though.

Instead of retaliating from the WTO hormone dispute case, he explained, the United States gained duty-free access for hormone-free beef into the EU. There is

potential for a U.S.-EU free-trade agreement, though it is uncertain when and if this will happen.

Moreover, U.S. beef faces sanitary and phytosanitary issues around the world, said Doud. He made two points:

1. We are usually our own worst enemy. Other countries pay attention and once a politician says something anywhere in the world, it is hard to take back.
2. Scaring people makes for good fundraising within the activist community. He said he deals with beta-agonists and genetically modified organisms (GMOs)

currently, but emphasized that ranchers must be able to articulate the reasons for growth technology. He warned about future issues with animal welfare and antibiotics.

In the past 10 years, export markets have been rebuilt from scratch. Current international markets are diversified, and they provide new sources of revenue in addition to providing a solid foundation for current price levels. Beef exports should reach \$6 billion in 2013.

"Our ability to move to \$8 billion — or even \$10 billion — in the coming decade has much more to do with our ability to produce the beef than it does finding a plate to put it on," he said.

If the weather cooperates and the beef herd can expand again, there is much potential for a very optimistic market in this small world.



► Before the first case of bovine spongiform encephalopathy (BSE) in the United States was discovered Dec. 23, 2003, the value of beef exports was about \$150 per head, a historic high. Currently, export markets account for almost \$300 per head, Gregg Doud, president of the Commodity Markets Council, said. Exports are a big deal.

