



January 2018

U.S. Beef Exports Are Growing, but so Are Trade Risks

by Trevor Amen

Economist, Animal Protein

Inside...

Introduction.....	1
What's at Stake.....	2
Southern Hemisphere Competitors Rising.....	3
Domestic Demand Supports U.S. Beef Market.....	4
Conclusion.....	4

Key Points:

- The U.S. beef herd is expanding and so are U.S. exports.
- However, the potential for trade agreement re-shuffling poses considerable risk for U.S. beef exporters.
- The top five destinations for U.S. beef account for 83 percent of U.S. exports. Four of the five countries are at risk of trade disruption related to TPP, NAFTA and KORUS.
- Southern hemisphere competitors are also rebuilding herds, and will challenge the U.S. for export market share in the coming years.
- China is the global beef trade's prize market. The U.S. is unlikely to realize major export gains to China in the near-term, but longer-term growth may depend on meeting China's trade requirements.
- The future of U.S. trade is uncertain. But the strength of U.S. beef demand, and the relatively small share of production that is exported, will partially insulate U.S. beef from potential trade disruptions.

Introduction

Beef production in the U.S. is on the rise, and export outlets have never been more important. U.S. beef exports in 2017 exceeded industry expectations and the momentum is expected to continue through 2018 with exports forecast to increase 4-6 percent. However, market access with key partners is creating a heightened level of uncertainty. The U.S.'s retreat in early 2017 from TPP (Trans-Pacific Partnership), which would have given the U.S. greater access to the important Japanese market, has raised concerns of future trade deals impeding U.S. competitiveness overseas. The future of other U.S. trade agreements is also uncertain, including NAFTA (North American Free Trade Agreement) and KORUS (U.S.-Korea Free Trade Agreement). Meanwhile, other beef exporting competitors are successfully negotiating trade deals with major global beef importers. The Japan-Australia Economic Partnership Agreement (JAEPA) is one such example. The European Union is also negotiating new trade deals at a breakneck pace. The continued advancement of free trade agreements (FTAs) outside the U.S., and the risk of U.S. trade agreements being annulled, are casting a shadow on the industry's current success and ringing alarm bells about the future.



What's at Stake

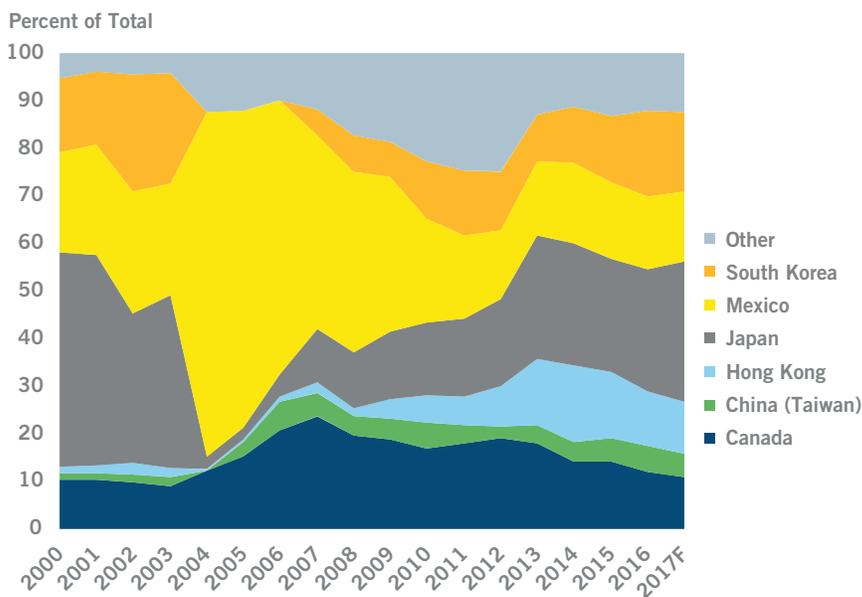
In 2017, the top five destinations for U.S. beef included Japan, South Korea, Mexico, Canada, and Hong Kong. (See Exhibit 1.) These countries represent 83 percent of total U.S. exports as well as the important demand growth that U.S. beef has enjoyed. Concerningly, however, four of the top five markets are also at risk of trade disruption due to FTA renegotiations and the authorization of TPP without the U.S.'s participation. New Zealand, Australia and Canada will soon gain an upper hand as beef exporters to fellow TPP countries, and key importers, Chile and Japan. Mexico, the second leading destination for U.S. beef, is also in discussions to enhance trade with other beef exporting countries such as Brazil, Argentina and the EU bloc. Key U.S. trade partners are positioning themselves for other options should U.S. trade go south.

And if the top five destinations listed above are about protecting current U.S. trade, China is the focus of future trade growth. Beef imports into China have more than doubled in the last four years, making China the fastest growing beef importer in the world. Steady growth in urban population and income make China the target market for most beef exporters. A weakening dollar, a reliable supply of preferred corn-fed beef, and efficient export channels makes the U.S. a prime candidate to supply the Chinese market.

However, while China's market was recently opened to U.S. exports, trade volumes are still small and could

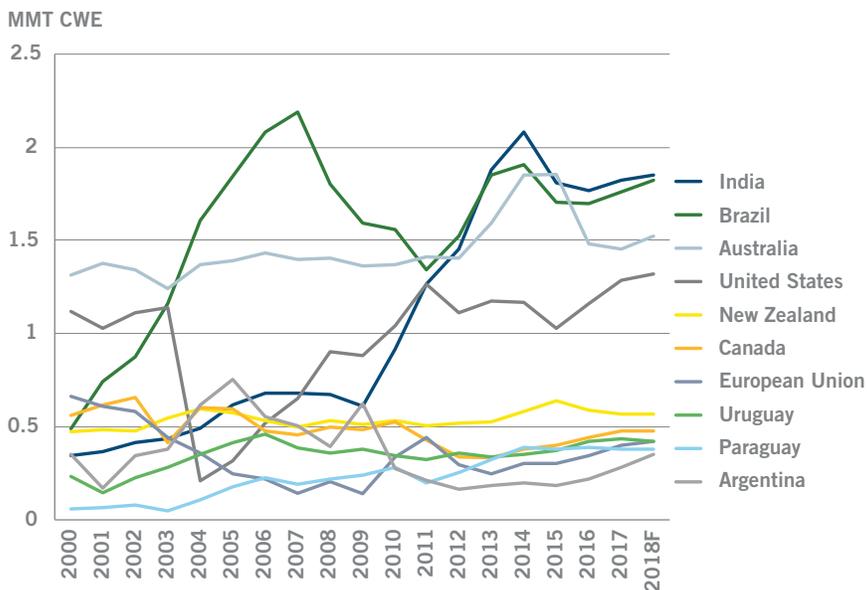
remain relatively small for the next few years. Due to China's trade requirements, including traceability and a ban on specific feed additives, the U.S. has a relatively small pool of supply that qualifies for shipment to China. To produce eligible cattle that meet all trade requirements

Exhibit 1: Annual U.S. Beef Exports



Source: USDA-ERS, Livestock Marketing Information Center

Exhibit 2: Global Beef Exports



Source: USDA-FAS

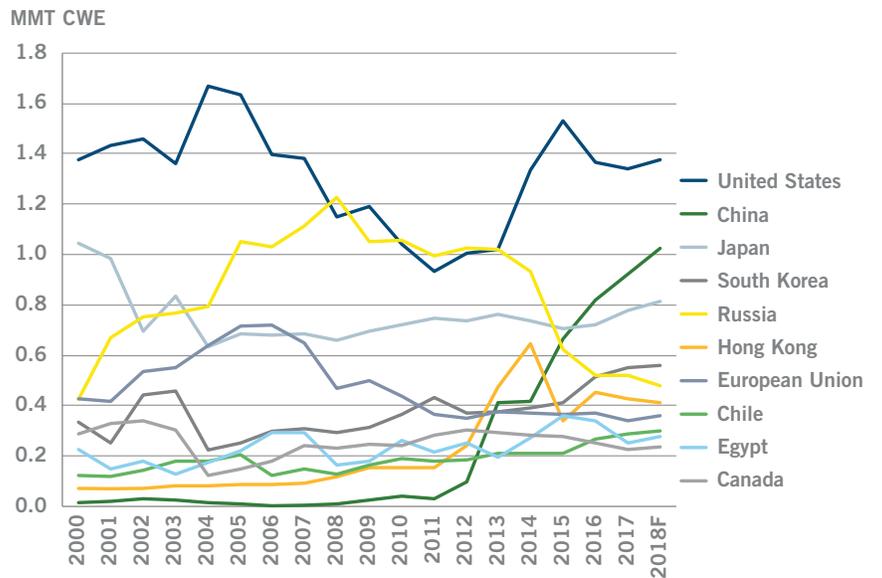


costs the U.S. supply chain an additional \$200-250 per head, due to lost efficiencies in the absence of growth promoting technologies. Given this economic hurdle and the resulting limitation on supply, the Chinese market is expected to develop slowly in the near term, but is promising over the long term. Recently imposed U.S. tariffs on Chinese washing machines and solar panels could also aggravate agricultural trade between the two countries.

Southern Hemisphere Competitors Rising

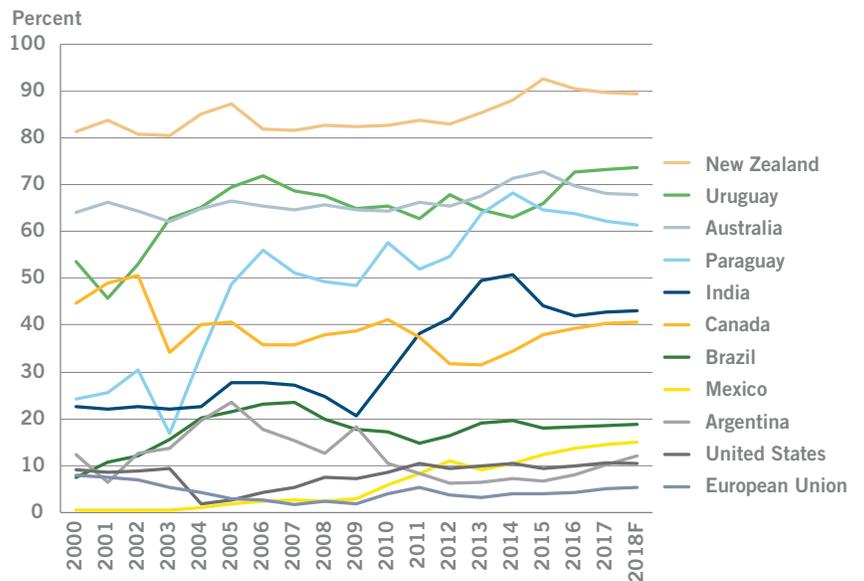
The U.S. is the world's leading producer of beef, but trails India, Brazil and Australia in the export market. (See Exhibit 2.) The U.S. has grown export volume from 2015 to present, corresponding with the ongoing herd expansion and increased availability of exportable supplies. Export competition, though, is building in the southern hemisphere. Brazil, the number-two exporter, is increasing production and processing capacity, but is hampered by higher transportation costs to key Asian markets. Australia, which holds the number-three spot in global exports, is now entering a rebuilding phase after suffering drought-induced herd liquidation in 2015-16 and will compete directly with the U.S. in neighboring Asian countries, including China, in coming years. Argentina has also been rebuilding its cattle herd since President Macri removed export restrictions in early 2016. Argentine exports have been growing steadily since then, and the industry plans to reclaim the prominent place it once held in global

Exhibit 3: Global Beef Imports



Source: USDA-FAS

Exhibit 4: Percent of Beef Production Exported



Source: USDA-FAS

beef trade. Australia, Brazil and Argentina all have their sights set on China while they expand production, but the U.S. still holds the advantage on product quality: U.S. grain-fed beef commands a premium over grass-fed beef among wealthier consumers.



Domestic Demand Supports U.S. Beef Market

Interestingly, the U.S. is not only the world's largest producer of beef – it is also the world's leading importer. (See Exhibit 3.) To satisfy demand for ground beef here at home, lean beef trimmings are imported and blended with domestic beef that has a higher fat content. Because of the strong domestic demand, the U.S. exports only 11 percent of its beef production, far less than most competitors. (See Exhibit 4.) Although this number has increased over the years, the domestic market still provides a certain amount of insulation from trade risks. U.S. beef is much less dependent on trade than some other ag commodities, including pork (22% of production), soybeans (49%), and wheat (56%).

However, the uncertain future of trade pacts could have a significant impact on the competitive market for beef trade. U.S. exporters are likely to lose some market share in Asia now that the TPP is moving forward without the U.S.'s participation. Beef importing and exporting nations are also actively engaged in discussions that could expand trade access between them, but exclude the U.S. Foreign beef exporters, therefore, are well positioned should the U.S. pull back from NAFTA or KORUS. China represents the biggest prize for beef trade growth in the future. But the recent imposition of U.S. tariffs on Chinese goods could lead to more trade challenges with China in 2018 and beyond. ■

Conclusion

The U.S. beef industry is well positioned to take advantage of increasing global beef demand. The U.S. cattle herd is expanding and near-term exports are slated for a healthy uptick in 2018. Asia's appetite for reliable, high quality grain-fed beef is expected to grow for several years, and an expected weaker U.S. dollar, in comparison to the two previous years, will aid U.S. shipments.

**CoBank's Knowledge Exchange Division welcomes readers' comments and suggestions.
Please send them to KEDRESEARCH@cobank.com.**

Disclaimer: *The information provided in this report is not intended to be investment, tax, or legal advice and should not be relied upon by recipients for such purposes. The information contained in this report has been compiled from what CoBank regards as reliable sources. However, CoBank does not make any representation or warranty regarding the content, and disclaims any responsibility for the information, materials, third-party opinions, and data included in this report. In no event will CoBank be liable for any decision made or actions taken by any person or persons relying on the information contained in this report.*