

Living in a Global Market

Dr. Brandi B. Karisch – Extension Beef Cattle Specialist, Mississippi State University

In recent months beef trade has been a hot topic. As much as most of us do not feel impacted by global markets on a day to day basis, the beef market these days' functions on a global scale. Many of us remember “the cow that stole Christmas”, the case of BSE found in the U.S., in 2003. This case caused the shuttering of many of our relied upon global export markets, particularly in Asia. To put that into perspective, in 2003, U.S. beef exports totaled \$3 billion (0.9 million tons) to 112 countries, but in 2004 exports fell to \$1.1 billion (0.3 million tons). Thankfully, beef exports have continued to rise since that time, and we reached pre-BSE export levels by 2011. In fact, even with a decline in the size of the U.S. cow herd, the U.S. has exported 2.295 billion pounds of beef in 2016, up 10.93% from 2015.

This discussion of the value of exports is important in the talk of a global economy. Global beef demand is at record highs, and as a country's wealth increases we also see an increase in their demand for beef. U.S. beef is in high demand in foreign markets because of its reputation for high quality beef. Let's discuss a few facts about trade on a global scale.

Fact: U.S. beef has a good reputation for quality globally.

Beef produced in the U.S. has a reputation globally for its high quality and good taste. There is tremendous potential for high-quality grain-fed beef according to Elam (2003). While there are other countries that have large beef herds, most don't have sufficient grain to feed them, lack a significant domestic market for fed beef, and lack the infrastructure to import beef. This makes the low production cost of high quality beef in the U.S. pretty formidable, and barrier to export continue to open thanks in part to hard work by the USDA and U.S. Meat Export Federation.

Fact: Exports give us a market for the products we don't use, and add value to every animal harvested.

In the U.S, when we think of beef, we think of sitting down to a juicy steak, but in other countries the delicacy might be liver, tongue, heart, or even intestine. These offal meats, as we call them, are prized in the international market. In fact, from January to November of 2016 those variety meats were worth over \$8 million to the U.S. beef industry according to the U.S. Meat Export Federation. In 2012, beef offal represented 12.8% of beef exports in value, and 28.4% of the total volume of beef exports. Also, virtually 100% of the U.S. beef herd is represented in this export market!

Market access plays a big role in the export of variety meats. If a country closes access to U.S. beef due to market or trade restrictions or even just civil unrest, this can have a huge impact on prices. Beef livers are a great example of this. There are 2 prime markets for U.S. beef livers: Russia and Egypt. In 2012, Russia stepped up enforcement of its zero-tolerance policy for the beta-agonist ractopamine, which effectively closed the market. This led to liver prices dropping from about \$0.64/lb to \$0.39/lb. This equated to a loss of around \$3.50/head just for one cut of variety meat.

Fact: Trade is governed by international organizations, and follows trade agreements

The World Trade Organization (WTO) simply put deals with the rules of trade between nations on a global level. The WTO provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. A big part of what the WTO does is negotiating the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.). Trade agreements are put in place to benefit both parties. Beef trade falls under the authority of the WTO, and is governed by the trade agreements put in place by the WTO.

Fact: American beef producers produce a high quality product. This is great when our primary market is ribeyes, but not great when marketing to a lower priced ground beef and lower priced cuts.

Many beef consumers are health and price conscious. Often, to get beef on the plate, consumers turn to ground beef or other lower priced cuts. Ground beef is typically described as a % lean to % fat ratio, and often consumers are searching for 80% lean or above. The U.S. beef industry however, in striving to meet consumer demand for high quality beef has increased production of 50's (50% lean) and reduced production of 90's (90% lean).

In recent years we've seen a trend toward herd rebuilding in the U.S., this means producers are retaining more replacement heifers, and even that the number of cull cows and bulls sent to market has declined with decreasing herd size. This means less domestic supply of lean trimmings to make the 80% ground beef that many consumers prefer. Typically, the beef that we import fills this need at a lower cost than domestic beef. The vast majority of the beef we import consists of lean trim (90+%) that is then blended with our domestic 50's to meet consumer demand for lean ground beef. Trade allows beef producers to focus their attention on filling the demand for higher quality beef.

For more information about beef cattle production, contact an office of the Mississippi State University Extension Service, and visit extension.msstate.edu/beef.

References:

Elam, T.E. 2003. The U.S. Ground Beef Market: Why Imports Help." Hudson Institute White Paper

Has beef export market recovered from BSE impacts of 2003?

<http://www.farmfutures.com/story-has-beef-export-market-recovered-bse-impacts-2003-10-145814> Accessed January 16, 2017

U.S. Beef Exports by Country (Year-to-Date). <http://beef2live.com/story-beef-exports-country-year-date-0-109756> Accessed January 16, 2017

Leading Markets for U.S. Beef Variety Meat Exports.

<https://www.usmef.org/downloads/statistics/2016-11-beef-variety.pdf> Accessed January 16, 2017

Market Access Triggers Swings in Beef Variety Meat Values. <https://www.usmef.org/news-statistics/press-releases/market-access-triggers-swings-in-beef-variety-meat-values/> Accessed January 16, 2017

Overview: World Trade Organization.

https://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm. Accessed January 16, 2017