

Executive Summary

International Cattle and Beef Trade Issues

by

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Benefits of Livestock and Meat Trade

International trade in beef and beef products is big business, amounting to \$2.7 billion dollars in 1999, the year of most current data. Imports of beef and beef products is big business as well. The total in 1999 amounted to \$2.1 billion, and about \$1.5 billion came from three countries--Canada, Australia and New Zealand.

The benefits of open trade are often debated, but U.S. markets are mature, and like the fast food, automobile, technology and other industries, entrepreneurs are constantly seeking new markets. Fundamental to all of this is the fact that as consumer's income rise, they tend to spend proportionately less on food. Another issues lies in the fact that the sedentary life styles of American consumers cause a large segment to shop for foods with fewer calories and fat. Traditionalists have historically regarded our market as limitless and foreign markets as irrelevant, but all that has changed in recent years.

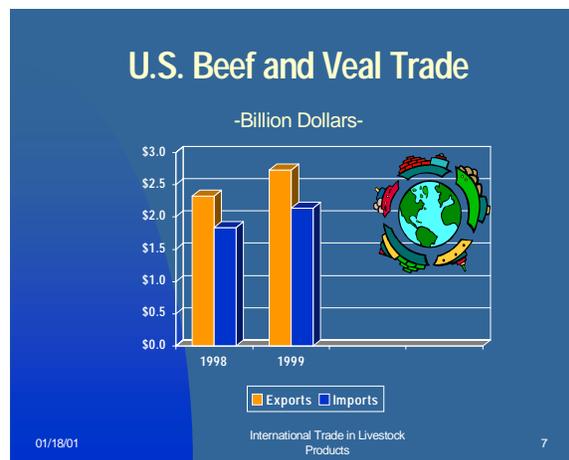
Who are the Participants?

Livestock products in general and beef and veal products flow in and out of the United States from more than 40 countries, but of the importers, three are dominant--Australia, New Zealand and Canada. Our export markets are gradually growing, as processors awaken to the fact market potential lies in Latin America, Asia and particular European countries. These markets are in their infancy, but as respective countries' incomes rise, these markets will become

more relevant; thus the domestic industry should be ready to capitalize on targets of opportunity as they arise.

Winners and Losers?

Trade is often thought of as a game of "winners and losers". We have traditionally viewed ourselves as the premier market, and as such, the target of other countries with lower production costs. To an extent this is true, but rising incomes



and affluence in many of these countries, Japan in particular, have made this adage less true than in the past. In fact, trade and trade issues are part of a tangled web of mercantilist, protectionist, consumer protection, environmental, worker safety and a myriad of other political and philosophical issues.

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- Japan continues to muddle along, little improvement in economic well being means limited beef market expansion
 - Weakening of dollar against Canadian dollar will diminish flows of both beef and cattle to the U.S. in 2001
 - Limited cattle inventory buildup signals another healthy year for Western cow calf industry
 - Incoming administration will likely take a harder line on trade issues with Canada
 - In an overall sense, Bush administration will adhere to NAFTA and CFTA philosophy
 - Mexico, Korea and Taiwan offer case studies and gateways to larger trade possibilities in Latin America and Asia

Both the Clinton and incoming Bush administration favor "free trade". Historically, periods of free trade have caused participating economies to flourish. Deregulation is always controversial and in the short term involves individual industrial winners and losers.

Ricardian Theory of Trade

- David Ricardo challenged the ideas of mercantilism, ideas still prevalent today in Japan
- Comparative advantage is based on two basic ideas: (1) greatest technical advantage and (2) least technical disadvantage
- Technical advantage alludes to the concept of being able to operate at lower cost, largely due to technical efficiencies
- Least technical disadvantage relies on the idea of enterprise or commodity specialization based on the greatest technical advantage of those available
- Ricardo went on to prove that a country with a technical advantage should specialize and trade with a country with a least technical disadvantage, even though the former might have a lower cost of production in commodities produced by the latter country
- These ideas manifest themselves in a series of international discussions,

forums and round tables designed to lessen trade tariffs, restrictions and barriers

- Historically they have been referred to as "rounds" as in the Kennedy, Uruguay and Tokyo rounds.
- More recently the process has been formalized into a series of World Trade Organization meetings within which discussions continue
- The U.S. has also conducted discussion and deliberation lessening trade restrictions with Canada under the Canadian-U.S. Trade Agreement (CFTA) and with Latin American countries under the North American Free Trade Agreement (NAFTA)

Life After CFTA and NAFTA

- Canada exempted from the Meat Import Law
- Cattle tariffs eliminated
- Mexico has specific company related "anti dumping" tariffs on particular cuts, but most tariffs eliminated
- U.S.-Canadian fresh and frozen beef tariffs eliminated

Some Continuing Questions

- With continuing emphasis on trade liberalization, will the Meat Import Law continue in its present form?
- What will be the impact of further consolidation and internationalization of the beef, pork and poultry industries?
- How will California producers capitalize on growing internationalization of growing, feeding and slaughtering of cattle?
- Will the Tyson's of the World be able to tailor market specific products to Asian and Mexican markets?
- How will comparative advantage shape the future of California livestock and grain industries?
- How is California's competitive advantage in livestock and grain affected by changes now occurring in other western states and in Canada?

- Trade between U.S. and Canada now more a function of weather, geographic location and exchange rates

Magnitude and Direction of Trade

- The U.S. runs a positive trade balance in agricultural products--about \$15 billion of grain exports and \$10 billion of livestock and meat products, including hides and skins for a total of \$53 billion projected for 2001
- Agricultural imports will amount to about \$40 billion, including \$14 billion in live animal and meat products and \$16 billion in horticultural products
- U.S. exported 786 million metric tons of beef and veal in 1999, of which 359.5 million metric tons went to Japan and 459 million metric tons went to all of Asia
- Beef exports were adversely affected by the Asian melt down in 1997, but are gradually increasing again.
- Trade with Mexico looks promising, about 157 million metric tons of beef and veal were shipped in 1999

The Exchange Rate "Problem"

- Current Canadian export strength due to the respective weakness of its currency

against the U.S. dollar--about 60% of the value of the U.S. dollar

- Exchange rate relationships and other factors have resulted in U.S. participations in the Canadian slaughter industry with resulting shipment of Canadian beef to Western U.S.
- The Japanese government also maintains the Yen at a price subordinate to the dollar in order to enhance their export policies
- Such policies provide export incentives, but must be measured against the effects such policies have on the longer term economic health of the respective economies--inflation, unemployment, interest rates and relative efficiency
- Canadian dollar weakness has resulted from economic weakness and lack of longer term faith in the Canadian economy, separatist issues are also of concern
- Japan has her own set of problems, including massive, uncollectible debt held by banks, rising unemployment and lack of faith in the government's ability to do anything about institutionalized problems
- The dollar has had an extraordinary run against other currencies, but recent evidence suggests it will weaken in 2001

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- The most immediate impact of a weaker dollar against the Canadian dollar will be to diminish the flow of beef from Canada to U.S.
 - Strong demand for "no roll" cattle exists in Canada since USDA grading systems do not dominate the marketing system

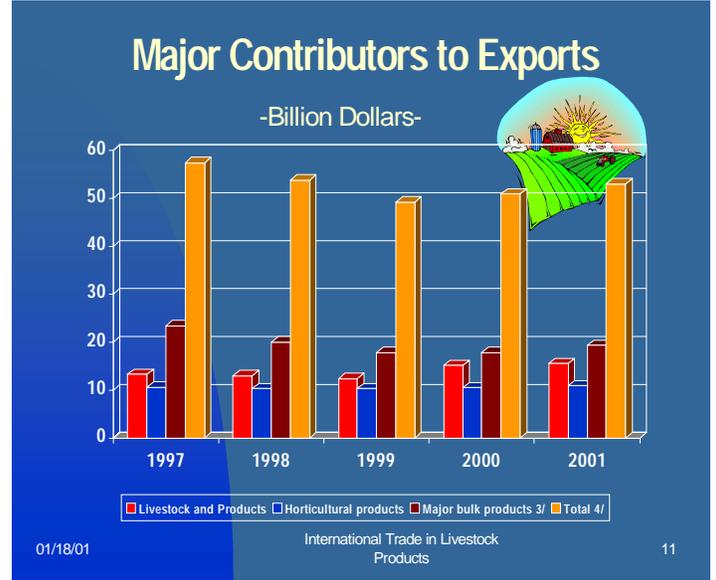
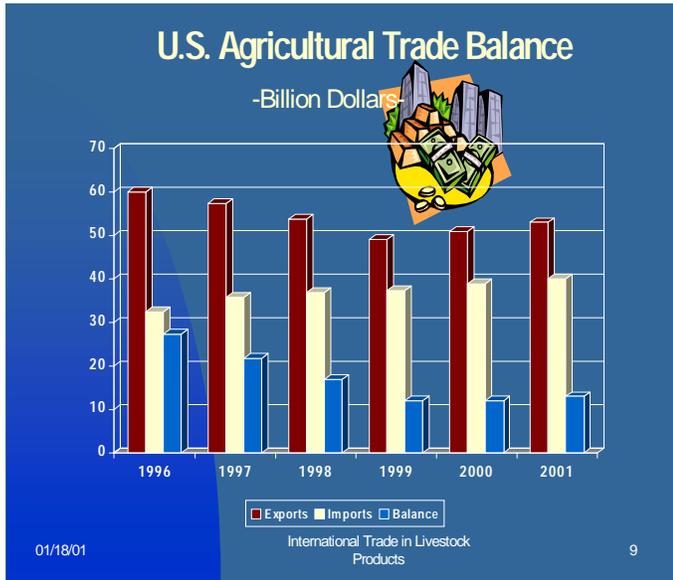
International Beef Market Expansion

- Trade status evolving into trading blocks
- Envision a "Western Trading Block" of North and South America, a European trading block, with Eastern and Western Europe participating and an Asian Trading Block "up for grabs"
- Great potential lies in South America but the situation is iffy and based on the continuance of democratic market oriented reforms
- A new experiment in Mexico under the leadership of Vicente Fox
- South Korea snapped back from the Asian depression more quickly than Japan because of their willingness to deal with insolvent firms

- Hong Kong provides an entre into Mainland China
- Taiwan also will be an active market and another mainland gateway

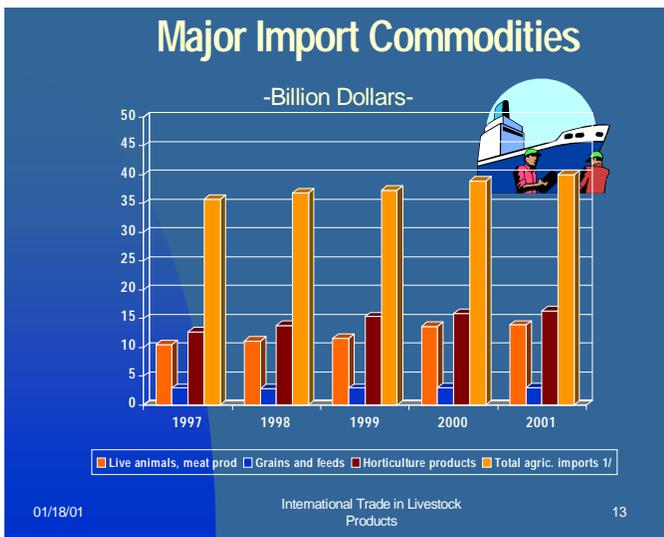
Summary and Conclusions

- Dollar will decline against the Euro and Canadian dollar, to a lesser extent against the Yen
- Asian economies should continue to improve providing increased potential in Korea and Taiwan particularly, and to a lesser extent in Japan
- Mexico is a wild card, but if the reforms talked about by Vicente Fox can be implemented, Mexico could be a sleeping giant as a market for higher quality beef
- As a result of changes in exchange rates, red meat and cattle imports will slow from Canada
- Most immediate trade problem lies with Canada--cattlemen should keep an eye on this one

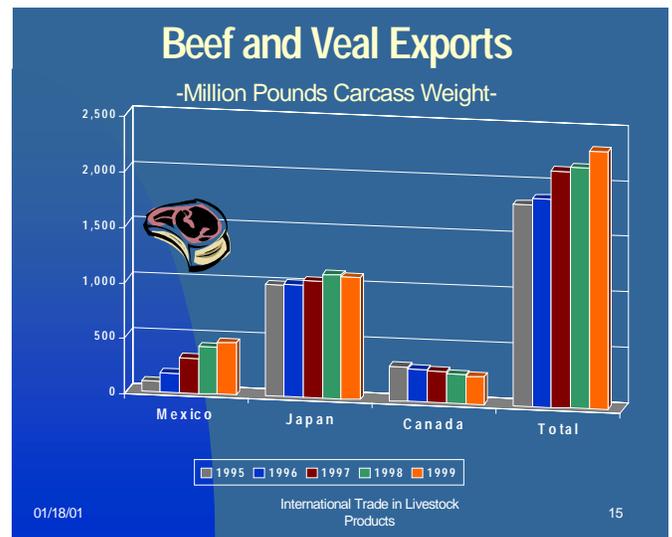


Exports and imports are both growing after slowing dramatically with the 1997 Asian depression

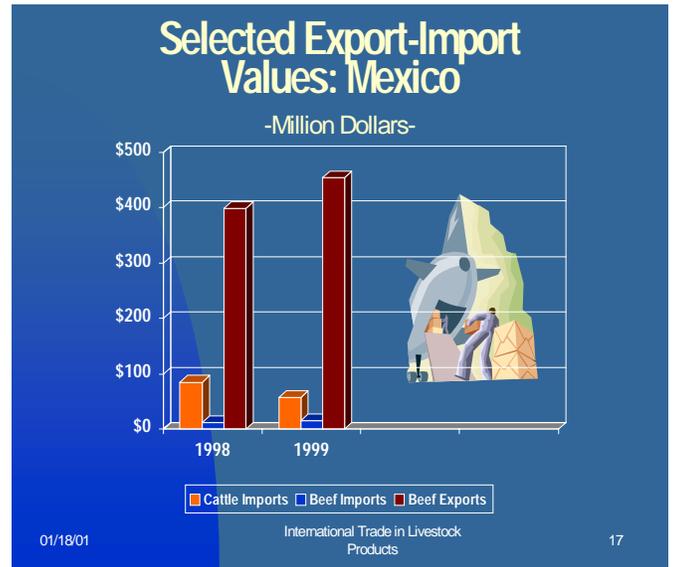
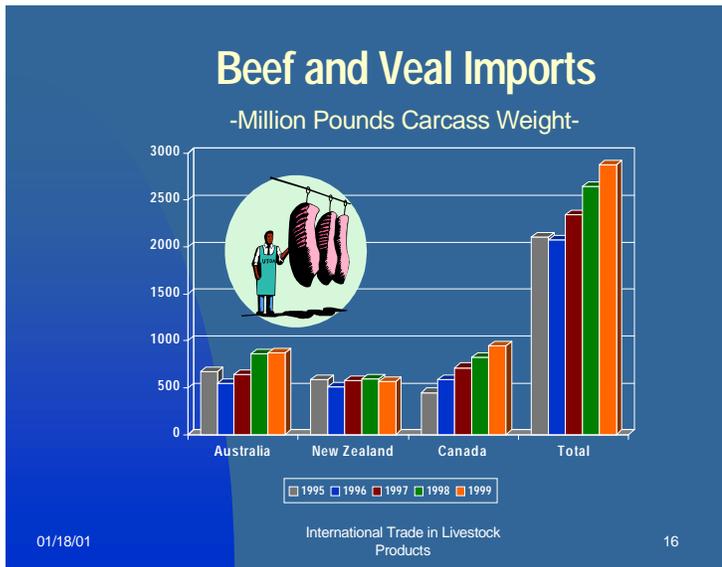
"Bulk (all cereal) Products" are our most important export, but livestock products are second



Horticultural products are the largest import commodity, followed closely by livestock products



Beef and veal exports to Mexico are rising and should continue to improve with NAFTA



Imports from Canada are not subject to terms of the Meat Import Act

Great potential exists for beef exporting to Mexico and other Latin American countries



Nations With Trade Potential

- Industrialized nation's potential capped
- Engel's Law
- Rising Economic Well Being
 - ◆ Growing industries
 - ◆ Rising consumer incomes
 - ◆ Appetite for "all things western"

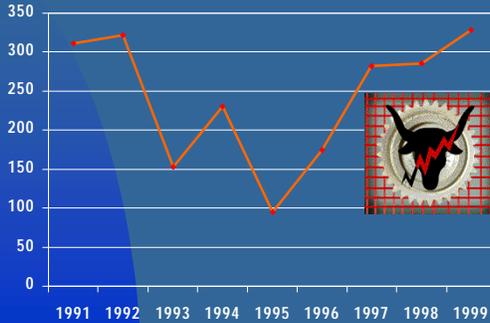
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The U.S. currently runs a negative beef and cattle trade balance with Canada--largely due to exchange rate differences

The future of the industry lies in export markets, particularly in countries with rising income and an appetite for beef

Cattle Exports: 1990-99

-Thousand Head-



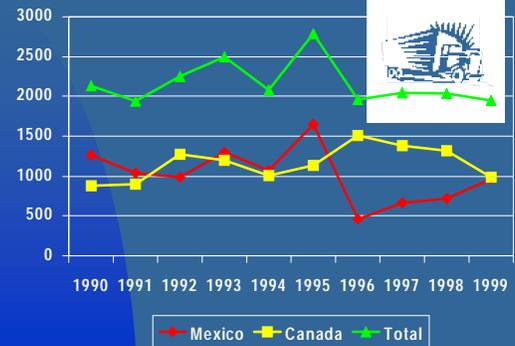
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21

Cattle Imports: 1990-99

-Thousand Head-



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24

More than 220 thousand of our total exports went to Canada, another 100 thousand to Mexico

Nearly 1 million cattle came into the U.S. in 1999 from Canada, most of these were slaughter animals

Selected Beef Export Values: Asian Countries

-Million Dollars-



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20

Magnitude and Direction of Trade: Total



- Export-Import balance positive
- Expected to amount to \$53 Billion in 2001
- Imports are growing as well--\$40 Billion in 2001

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7

Of the Asian markets, Taiwan, Korea and Japan are the largest, but other targets countries exist

Export and imports are both growing, an easing dollar will help enhance trade

Exchange Rates and Trade



- Trade expected to grow 3-3.5 percent in 2001
- Forecasts based on continuing strong dollar
- Euro currently strengthening
- Weakening dollar will improve sales in Europe, Canada and Asia
- 16% dollar appreciation since 1996

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8

Livestock: Contribution to Trade



- Corn, wheat and other bulk products will contribute 19.3 billion in 2001
- Livestock and products will amount to 15.5 billion
- Horticultural products will contribute 10.9 billion

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10

Our major short run trading problem with Canada is that of exchange rates

Three major commodity groups account for the lion's share of U.S. exports

Major Commodity Imports



- Animals and products will total \$8.2 billion in 2001
- Grains and feeds will total about \$3 billion
- Horticultural products will amount to \$16.2 billion

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12



Summary and Conclusions

- Dollar will decline against Euro, Yen and perhaps the peso
- Asian economies should continue to improve
- Mexico a wild card
- Growth prospects for overall U.S. beef exports favorable
- Red meat imports will slow in 2001

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25

U.S. agricultural trade balances will continue positive in 2001, easing of the dollar will help

Exports are forecast to rise slightly over 3 percent in 2001, depending on world economies' improvement