ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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INTERNATIONAL TRADE: EXPORT VERSUS IMPORT VALUES IN THE U.S. CATTLE/BEEF COMPLEX

International trade has been an often-discussed topic among cattle producers and in the overall meat industry for decades. In recent years, the role of international trade in influencing U.S. beef and cattle prices has become even more significant. Overall, trade between countries is the result of complex economic, political and historical relationships. But, often times the rather simple economic bottom line that is the annual net dollar value of exports versus imports for the U.S. cattle/beef production industry tends to be overlooked.

Interpretations of the benefits of international trade rely on where the boundaries of the analysis are placed. When the boundaries are set at the world level and include both consumers and producers of all products, net economic benefits are apparent in economic theory. From a U.S. perspective, even without considering potential benefits (or costs) of international beef trade to consumers, any benefits to international trade depend on how the sector is defined. For example, whether just the number of head of feeder cattle that flow across one international border is measured in terms of benefits/costs or whether cattle and all the products collected from cattle are both considered.

From the mid 1990's through 2003, it was evident that the U.S. had exported more dollars worth of cattle, beef and other products than it had imported. However, on a tonnage basis, the U.S. typically imported more beef than it exported. But, those were "normal" years and since 2004, the market situation has been anything but normal given the BSE related dilemmas and now recently the economic disruptions to U.S. exports of beef and many byproducts.

In 2004, on a dollar value basis, the U.S. became a net importer for the first time in many years as beef imports well exceeded the value of beef and variety meat products exported. Although, the U.S. has regained access to most major trading nations, which has increased the amount of beef exported each year, the types of product allowed for shipment continues to be restricted in many markets (e.g. boneless beef from animals under 21 months of age to Japan).

In 2008, the U.S. finally regained its status as a net exporter on a dollar basis as the value of U.S. cattle/beef exports was greater than the value of imported products. In fact, the net value of those exports exceeded imports by over $900 million in 2008. The ability of the U.S. to return to a pre-BSE net exporter on a value basis was due to a number of reasons, including the reopening of the Korean market, favorable economic conditions that benefited U.S. beef exports during the first part of the year, as well as some spillover from the oil and feedstuff markets. However, trade restrictions (age limits, etc.) as well as global economic conditions will carry on in 2009 and continue to weigh on industry efforts to return to more normal trade levels seen prior to 2004.

Background

This analysis assumes a rather broad, but often overlooked straightforward value approach to cattle and beef product trade between the U.S. and the rest of the world. That estimation is based on summing-up the dollar values of both U.S. exports and imports as identified in the trade statistical summaries published by USDA's Foreign Agriculture Service (FAS). All categories of cattle imported and exported (feeder cattle, slaughter steers and heifers, slaughter cows and bulls, and breeding stock) are included in this analysis. Unlike live animal trade, identifying cattle and beef products is rather challenging. The major category tends to be beef, however, many other cattle products are sold to foreign markets including hides, internal organs, tallow, and tongues. Furthermore, many of these items obtain premium prices in foreign markets compared to the domestic market.

Internationally traded items are categorized by standardized commodity category codes defined in the Harmonized Tariff System (HTS). There are several levels of codes utilized and those codes are often adjusted over time to reflect actual products being traded internationally. In the U.S., export codes referred to as Schedule B codes, are administered by the U.S. Census Bureau, whereas the U.S. International Trade Commission administers import codes. Of all the types of trade codes utilized, the most detailed codes are the 10-digit level HTS codes.

Determining cattle products is tricky due to the number of products that are derived and/or directly obtained from cattle. In addition, a number of beef and veal products that are exported and imported can include beef as well as some pork and/or poultry depending on the HTS code classification. To effectively capture the quantity and value of U.S. beef exports and imports, HTS trade category level codes for the major categories for beef and beef byproducts were reviewed and combined into the following categories: 1) Beef and Veal, which includes fresh and frozen bone-in, boneless, carcass beef, corned beef, beef sausages, and salted beef; 2) Variety Meats, consisting of all edible offal (hearts, tongues) and meat extracts; 3) Beef Tallow and Greases; and 4) Hides and Skins. This is a rather diverse list and numerous countries are involved with purchasing products from and selling products to the U.S. USDA's FAS reports export values for each category in the monthly Dairy, Livestock and Poultry: U.S. Trade and Prospects report. However, import values for each of the trade categories were obtained from the values of 24 HTS codes: two 4-digit HTS codes, twelve 6-digit level HTS codes and eight 10-digit level HTS codes.

U.S. Exports and Imports

For more than two decades (1982 through 2008), the common trend has been that the dollar value of U.S. beef industry exports and imports have both increased. Twenty-five years ago the U.S. total export value was below $2 billion (see Figures below). The chief component in value terms was hides and skins and the second largest component was tallow and greases. By 2003, U.S. exports of all items amounted to just below $6 billion and the largest dollar component was beef and veal (over $3 billion).

In 2004 due to BSE related trade restrictions, the total dollar value of U.S. beef industry exports declined to just $2.6 billion with hides and skins surpassing beef and veal for the largest component. In fact, the value of beef and veal exports plummeted to about $550 million, a value not seen since the early 1980's. Since then, the value of beef and veal exports has increased and by 2006 it had recaptured its place as the largest contributor to total export value. In 2008, the total export value rebounded to just over $5.6 billion, with beef and veal exports accounting for half of the total value at under $3 billion followed by hides and skins at $1.3 billion. This was the largest total dollar export value since 2003 and the second largest total export value in the series (dates back to late 1970's). Of note, export dollar values for all the categories increased from 2007 to 2008, except for hides and skins, which actually fell to a value level not seen since 2000. In fact, hides and skins which accounted for over half of the total export value in 2004 has returned to its pre-BSE share level accounting for only 23 percent last year.

Conversely, total U.S. import values which was less than $2 billion in 1982 has steadily increased reaching over $4 billion in 2001 and 2002 before declining to about $3.5 billion in 2003. Following 2004, import values grew rather drastically and exceeded the $5 billion mark in 2007 but declined to $4.8 billion in 2008 as import values for live cattle along with beef and veal declined. The two key categories that historically account for the largest share of total import value are beef and live cattle. Of note, in 2002 live cattle imports totaled over $1 billion but due to BSE restrictions the total value declined to just under $900 million in 2003 and again to $500 million in 2004. By 2007 the value of live cattle imports reached a record of just under $2 billion, but fell slightly to about $1.8 billion in 2008 due to a variety of factors including a decline in the number of cattle imported along with market factors (value of the U.S. dollar). The value of beef and veal imports was nearly $3 billion in 2008 that was the smallest import value posted since 2003 (the record was in 2005 at $3.4 billion). The decline in the value of imported beef can be attributed to a decline in the amount of beef product imported, a result exchange rates as well as larger domestic cow slaughter in 2008.

Looking back at 2003, the category with the largest export value was beef and veal, followed by hides and skins, variety meats, beef tallow and greases, and live cattle. In 2005, hides and skins was the largest category, followed by beef and veal, variety meats, beef tallow and greases and live cattle. In 2008, the ranking returned to that of 2003 with the beef and veal category at the top, followed by hides and skins, variety meats, beef tallow and greases, and live cattle. On the import side, in 2003 and subsequent years through 2008 the largest category was beef and veal, followed by live cattle, variety meats, hides and skins, and beef tallow.

Value of Net Exports

Net export value is essentially the dollar difference between total exports and imports. For the U.S., if net exports were positive then the dollar value of exports was greater than that of imports and vice versa. Since the early 1980's, the U.S. cattle/beef industry consistently exported more value than was imported and on an annual basis from 1984 through 2003 the trend in net export value was upward. As an aside, this general trend is evident in the figures below, however unlike the export and import value graphs, the net export graph includes a new category of "other" which is simply the grouping of variety meats with beef tallow and greases.

Among the categories defined in this analysis, the U.S. steadily imported more value than was exported in only one category, live cattle and calves. At the same time, the value of net exports for the hides and skins and the other categories have each been positive for the U.S. On a dollar value basis, beef and veal has progressed from a net import to mainly a net export status. However, in 2004 this trend reversed and the U.S. became a net importer of beef and veal products and continued to do so until 2008.

In 2008, the U.S. cattle/beef industry returned to being a net exporter as it exported more value than was imported for all categories, except live cattle utilized in this analysis. When all categories are accounted for, after posting a net export value of positive $2.2 billion in 2003, and a negative net export value of nearly $200 million in 2007, net export value was positive by over $900 million in 2008. Although, the net export value of beef and veal products in 2008 was not as large as seen in pre-BSE years, the ability of the U.S. cattle/beef industry to return to a positive net exporter on a value basis was largely due to the continued efforts of the government and industry to regain access to key foreign markets.

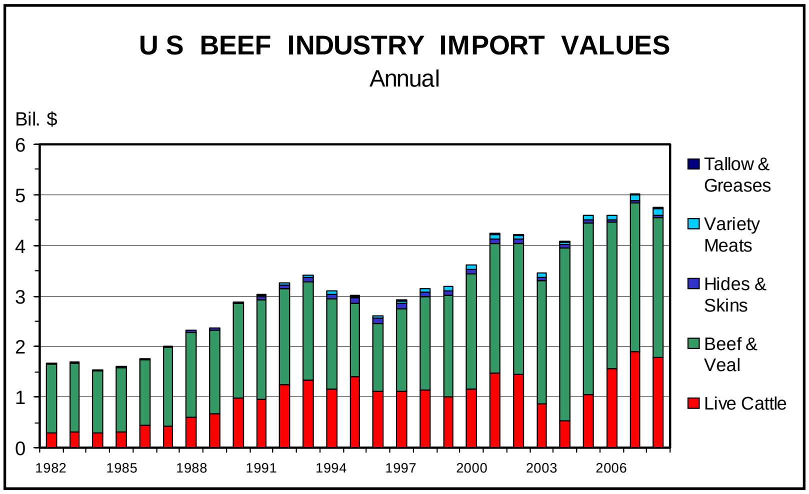
Some Comments

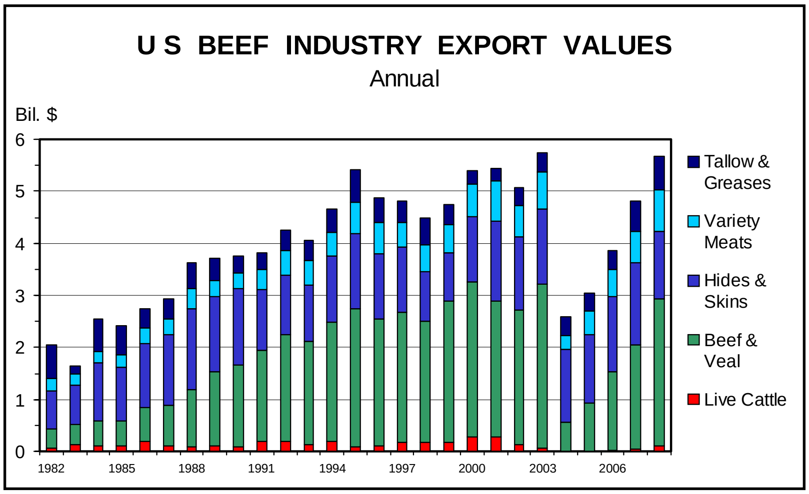
A number of countries are involved with purchasing products gathered from U.S. cattle and many countries sell cattle and their beef products to the U.S. Additionally, some countries will purchase products from the U.S. and sell similar products back to the U.S. (including Canada and Mexico). Aggregating cattle, beef, and byproduct trade across countries in dollar terms masks the complicated interrelationships involved, but does offer a helpful broad picture of the trade sector.

It is useful to note that prior to 2003, the import value of live cattle imports by the U.S. was over $1 billion and nearly $2 billion in 2008. On a value basis, the U.S. has over the same period of years annually exported over $1 billion of beef hides. Hence, from an industry wide perspective, the net value of cattle imported by the U.S. is essentially counterbalanced by the net value of hide exports.

For the most part, overall beef industry exports have resulted in a net flow of dollars into the U.S. But those were “normal” years and since 2004, the cattle/beef industry has been anything but normal given the BSE related disruptions to U.S. exports of beef and many byproduct items. However, in 2008 the U.S. cattle/beef industry returned to more “normal” trade levels with smaller beef imports, larger beef exports, and larger variety meat exports last year achieving net exporter status, the first time since 2004.

Looking ahead into 2009, the global economic contraction will impact international trade. In particular, how much the value of many non-meat items (e.g. hides) rebound in 2009 after a dramatic decline in late 2008, will be a key to the overall dollar value of exports in 2009.


U S BEEF INDUSTRY IMPORT VALUES
Annual
Bil. $
6
5
4
3
2
1
0
1982
1985
1988
1991
1994
1997
2000
2003
2006
Tallow & Greases
Variety Meats
Hides & Skins
Beef & Veal
Live Cattle


U S BEEF INDUSTRY EXPORT VALUES
Annual
Bil. $
6
5
4
3
2
1
0
1982
1985
1988
1991
1994
1997
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Tallow & Greases
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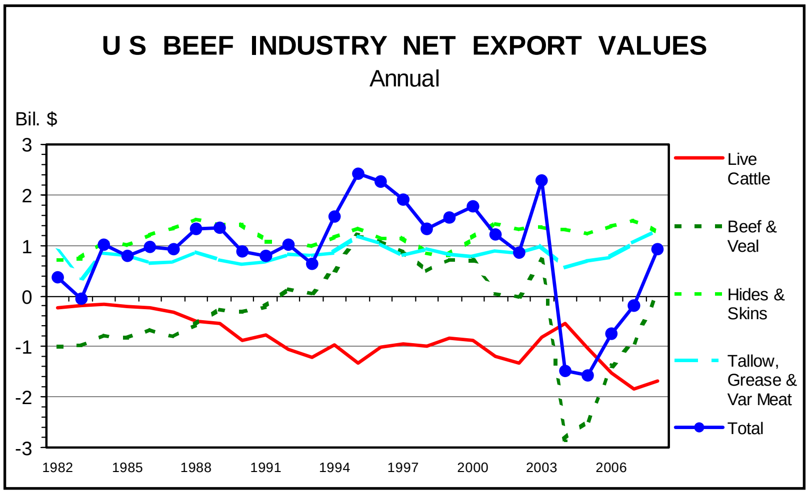
U S BEEF INDUSTRY NET EXPORT VALUES
Annual
Bil. $
3
2
1
0
-1
-2
-3
1982
1985
1988
1991
1994
1997
2000
2003
2006
Live Cattle
Beef & Veal
Hides & Skins
Tallow, Grease & Var Meat
Total