

Opportunities and Challenges for U.S. Beef Exports

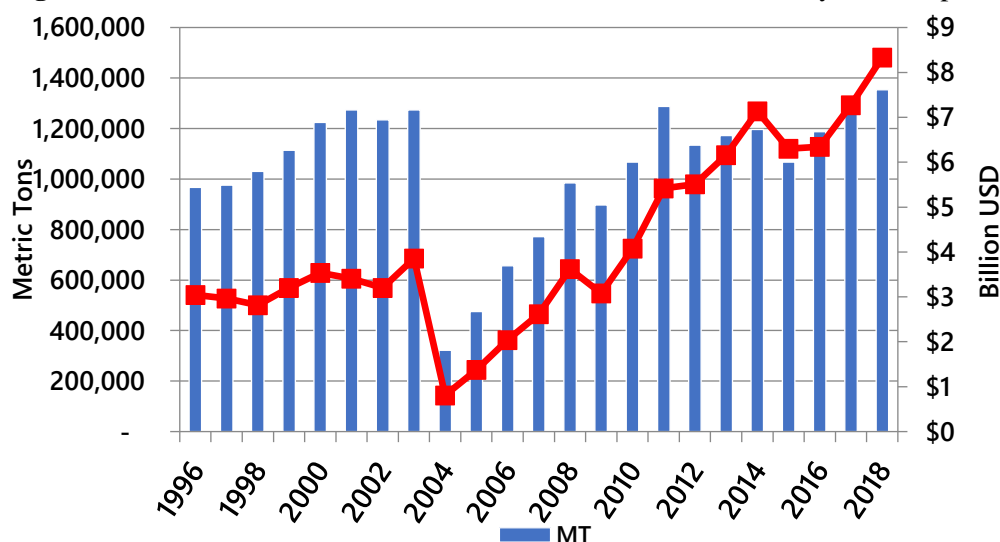
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Export markets for U.S. beef products have grown in importance for the bottom line of the beef industry over the past several decades. While exports of beef only represent 13.5 percent of the total volume of beef produced in the U.S., export markets are critical for adding value to various cuts across the beef carcass as well as offal and by-products.

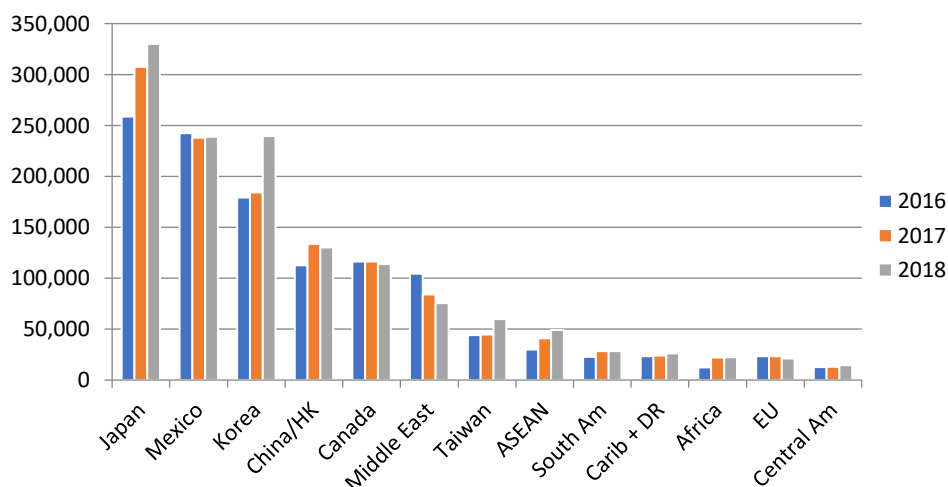
In 2018, beef exports set both value and volume records never seen before in the industry, valued at \$8.332 billion and totaling over 2.982 billion pounds (1.353 million metric tons); an increase of 15 and 7 percent over 2017 levels, respectively (Figure 1).

Figure 1. Historical Volume and Value of U.S. Beef and Beef Variety Meat Exports



Japan was a primary driver of both volume and value for U.S. beef exports, and was followed by Mexico, South Korea, China/Hong Kong, and Canada as the top 5 export markets (Figure 2). South Korea finished 2018 as a banner market for U.S. beef, with growth of over 30 percent from 2017 and finishing as the second largest value market for U.S. beef globally.

Figure 2. Top Markets for U.S. Beef and Beef Variety Meat Exports



While only 13.5 percent of the total volume of beef and beef variety meats are exported, certain cuts from the beef carcasses are destined for exports at a much higher rate. For example, over 70 percent of beef short ribs and short plates are exported to markets like Japan, Korea, Taiwan, and Hong Kong; while offal products like livers, hearts, and kidneys are exported at a rate in excess of 90 percent to regions like the Middle East and South America. In total, essentially one piece from every animal will find its way to an export market and underscores the importance of how exports add value to the entire carcass complex.

As the industry moves forward in 2019, there are several factors that could provide tremendous opportunities for the beef industry, but also could stand as hurdles to future success. The political landscape and pending trade agreements with major trade partners loom large over the industry and will have significant impacts on the beef industry's trade potential in the near future.

The beef industry stands to gain from a trade agreement with China that resolves the many sanitary and phytosanitary (SPS) issues that restrict U.S. beef exports today. The current beef agreement with China requires additional cattle traceability and for beef to be free from synthetic hormones and beta agonist residues, which has capped expansion of U.S. beef exports to the largest beef importing country in the world. In addition to the requirements that places U.S. beef at an extreme cost disadvantage to its competitors (Australia, Brazil, Uruguay, etc.), beef products from the U.S. are also sold with an additional 25 percent retaliatory tariff stemming from the U.S.'s 301 investigation on Chinese forced technology transfer and intellectual property issues. These SPS requirements combined with the 25 percent additional tariff (37 percent in total) have greatly restricted the U.S.'s access to the Chinese market and a resolution within the broader trade discussions could stand to greatly benefit U.S. beef exports.

The U.S. beef industry was also poised to improve their position in the Japanese market via the Trans-Pacific Partnership until the U.S. withdrew from the agreement in 2016. Since that time, all major beef export competitors have moved forward with trade agreements with Japan and have already started to realize decreases in the tariff rates relative to the U.S. Beef from the U.S. continues to be successful due to its unique quality attributes and consumer preference for well-marbled beef; however, as beef from Australia, Canada, Mexico, and New Zealand continues to become more competitive with reduced tariff rates, it has and will continue to erode the U.S.'s majority market share. Thus, negotiating and finalizing a bilateral trade agreement between the U.S. and Japan has to be a top trade priority for the beef industry in 2019 to maintain our competitive position in the Japanese market.

In addition to trade agreement and tariff barriers, technical regulations and SPS barriers have hindered U.S. beef exports in markets around the world. Countries continue to exercise the European Union's precautionary principle as it relates to new technologies and veterinary drugs, which has restricted U.S. beef access in various markets around the world. While the restrictions in the EU and China are well publicized, importing countries like Egypt, Thailand, and Singapore have restricted beef exports from issues ranging from vet drug residues to the use of food safety interventions. The U.S. must continue to be a champion for science-based standard setting around the world not only to maintain the U.S.'s ability to export to these countries, but also uphold the role of science and technology innovation in production agriculture.

U.S. beef exports face tremendous opportunity for continued growth. Beef production continues to expand in the U.S., largely from strong export demand. Global economic expansion will continue to create opportunities for U.S. beef both in our larger established markets (i.e. Mexico, Japan, Korea) and create more opportunities in developing markets (i.e. Central America, Southeast Asia). Growing incomes and increases in middle class population in developing countries will help drive global consumers towards upgraded food choices; a trend which U.S. beef is poised to take advantage of. The superior taste and quality of U.S. beef will be a defining factor in differentiating it from our global competition and provide further opportunities for the U.S. export business to grow.