

April 17, 2017

In The Cattle Markets

Josh Maples, Assistant Professor

Department of Agricultural Economics, Mississippi State University

Export Protocol Negotiation Will Decide the Timeline for U.S. Beef in China

It was reported last week that China has agreed to allow beef imports from the U.S. for the first time since 2003. This announcement follows a very similar announcement made in September of 2016, though no actual trade has occurred yet. Gaining access to the most populated country in the world would be a very positive development for the U.S. beef industry. China represents a multibillion-dollar market and has the greatest growth potential for beef consumption of any country in the world. China has a large and growing middle class and has experienced steady increases in beef consumption. China and Hong Kong combined to be the largest beef importers in the world in 2016. While the U.S. already exports to Hong Kong, 87 percent of China's 2016 beef imports were from Brazil, Uruguay, Australia, and New Zealand.

If the U.S. is going to be able to export beef to China, a bilateral agreement over trade specifications must be reached by both countries. The three step process for resuming trade was discussed in a USDA Foreign Agriculture Service report last September (available here). The first step was lifting the ban on U.S. beef. The second and third steps involve negotiating export protocol conditions and an audit of these protocols. The report also pointed toward the discussion of traceability requirements as part of the protocol negotiation. The announcement made last week should be viewed more of a repeat of the first step.

We can look to the process Canadian beef followed to re-enter the Chinese market as a reference. China also closed the door on Canadian beef in 2003 as a response to bovine spongiform encephalopathy (BSE). In June of 2010, China announced it would reopen imports of Canadian beef in stages. The first stage was boneless frozen beef from cattle under 30 months of age which began shipment in May of 2011. China agreed to allow Canadian bone-in frozen beef from cattle under 30 months old in September of 2016. The specifications for Canadian boneless beef and the proposed requirements for bone-in beef are available here. With regards to traceability, the cattle from which the beef is harvested must meet the requirement that "each animal has a unique identity, the farm of origin (place of birth) can be traced, and the cattle should be slaughtered less than 30 months of age." The process to begin shipment of U.S. will not necessarily have to follow the same staged process or take the same amount of time. However, this is a good example of the type of protocols and regulatory hurdles that must be negotiated.

It is important to note that if and when we finally start exporting beef to China, much work will need to establish market share of U.S. beef in China. Per capita consumption of beef is much lower in China (forecasted 12.7 lbs. per person in 2017) as compared to the U.S. (forecasted 56.2 lbs. per person in 2017). While this shows enormous room for growth, the

growth will likely be throttled by household income. Average per capita income in China was \$8,028 (USD) in 2015 – significantly lower than the U.S. average of \$56,116. This leads many Chinese consumers to be very price sensitive. Further, the beef produced in the U.S. is overwhelmingly grain-fed as compared to the predominantly grass-fed beef produced by most of China’s current trading partners. However, the population of China leads even gaining a small share of the per capita consumption totals to have a large impact on U.S. exports.

While the possibility of exporting to China should assuredly be viewed as very positive for U.S. beef producers, we have not yet reached the finish line. The resurgence of the topic in media stories last week is more of a reminder of how important beef exports to China could be to our industry than a new development.

The Markets

Cattle prices were up in most markets last week as compared to the week before. Fed cattle prices were up 3 to 4 percent. As compared to the previous week, fed steer prices were up \$3.68 and \$7.29 for live and dressed steers, respectively. Feeder prices were up a few dollars per cwt. Choice cutout finished the week at essentially the same level as the week before. The choice-select spread increased to \$11.33, up from \$9.99 a week ago due to slightly lower select cutout value.

<i>Data Source: USDA-AMS Market News</i>		Week of 4/14/17	Week of 4/7/17	Week of 4/15/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$128.01	\$124.33	\$133.99
	all grades, dressed weight, \$/cwt	\$205.30	\$198.01	\$213.98
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$209.94	\$209.99	\$221.51
	Choice-Select Spread, \$/cwt	\$11.33	\$9.99	\$9.55
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$143.18	\$133.36	\$156.45
	Nebraska 7-market, \$/cwt	\$148.50	\$146.00	\$163.48
	Oklahoma 8-market, \$/cwt	\$139.70	\$135.61	\$157.39
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$175.63	\$169.31	\$185.86
	Nebraska 7-market, \$/cwt	\$184.52	\$177.30	\$190.05
	Oklahoma 8-market, \$/cwt	\$164.26	\$160.89	\$182.70
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.39	\$3.26	\$3.58
	DDGS, Nebraska, \$/ton	\$103.75	\$100.50	\$125.00