

In The Cattle Markets

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Tariffs and Beef Trade

Wherever you get your news, you likely couldn't avoid hearing a particular T word last week: tariffs. On the heels of the announcement that the U.S. will impose a 25 percent tariff on steel imports and a 10 percent tariff on aluminum imports, many prognosticators were taking sides on the impact the tariffs would have on businesses and consumers. Don't worry, this article is not about metals and I'm no forecaster of those industries. However, tariffs are something that those in the beef industry have been talking about for a long time. Also released last week were the latest monthly U.S. beef trade data that show continued impressive growth of U.S. beef exports. So while we have a tariff example fresh in the news and a report of strong beef exports, perhaps it's a good time to touch on some of the tariffs facing U.S. beef entering other countries.

Beef exports were up 9 percent on a tonnage basis and 21 percent in value year-over-year during January 2018 according to a recent report by USMEF and data from USDA. These are impressive totals, especially since January 2017 had relatively large export totals, too. Exports to Asian markets continue to be strong for U.S. beef. However, this strength is certainly influenced by tariffs both in absolute terms and in relation to lower tariffs faced by other exporting countries.

A quick, simplified, definition of a tariff is that it is a tax on foreign goods to enter a country. Using the U.S. steel example, if someone wants to import \$100 of steel from a foreign country that is subject to the tariff, they will have to also pay the government \$25. Of course, this effectively raises the price of that foreign steel and makes domestic production relatively more competitive. So if U.S. beef faces a tariff to enter another country, that beef becomes more expensive for consumers in that country.

The tariff on frozen U.S. beef entering Japan (the most valuable U.S. beef export market) is *normally* 38.5 percent. However, the rate has been 50 percent since last August due to a triggered safeguard tariff that will revert back to 38.5 on April 1, 2018. Meanwhile, the tariff for Australian frozen beef to enter Japan is only 27.2 percent and is scheduled to continue to decline. The major difference: Australia has a trade agreement with Japan. While U.S. beef is at a disadvantage in Japan, a bilateral trade agreement with nearby South Korea is reducing the tariff on U.S. beef. It is currently at 21.3 percent and is set to gradually reduce to zero over the next eight years. This tariff on U.S. beef is lower than the 26.6 percent faced by Australian beef entering South Korea and is scheduled to remain about 5 percent lower over the next decade as both countries tariffs are gradually reduced to zero.

U.S. beef exports continue to be a bright spot for the beef industry. The exceptional growth of exports in 2017 is credited as a primary reason for the strength of cattle markets. However, a

snapshot of the different tariff situations for U.S. beef entering Japan and South Korea shows the impact that trade agreements can have on the export environment. Scheduled tariff reductions are leading U.S. beef to become relatively cheaper for consumers in South Korea while frozen U.S. beef entering Japan remains subject to a high tariff as competitors' beef becomes relatively cheaper. U.S. beef exports to Japan have been undoubtedly strong, but they would likely be even stronger at tariff levels similar to those of competing export countries. So while everyone continues to discuss tariffs on steel and aluminum, take the opportunity to consider and discuss how tariffs impact the beef industry and cattle markets.

The Markets

<i>Data Source: USDA-AMS Market News</i>		Week of 3/9/18	Week of 3/2/18	Week of 3/10/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$126.79	\$126.76	\$125.23
	all grades, dressed weight, \$/cwt	\$203.88	\$204.21	\$201.56
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$223.63	\$221.18	\$214.12
	Choice-Select Spread, \$/cwt	\$7.78	\$6.21	\$6.86
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$149.54	\$152.75	\$128.72
	Nebraska 7-market, \$/cwt	\$156.69	\$156.40	\$137.65
	Oklahoma 8-market, \$/cwt	\$148.13	\$148.84	\$130.99
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$187.20	\$194.46	\$161.32
	Nebraska 7-market, \$/cwt	\$190.60	\$195.64	\$165.53
	Oklahoma 8-market, \$/cwt	\$181.37	\$179.75	\$157.99
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.68	\$3.60	\$3.23
	DDGS, Nebraska, \$/ton	\$150.83	\$144.00	\$97.00