

Beef Exports

While bouncing back from a poor showing in 2001, U.S. beef exports of 2.45 billion pounds in 2002 fell short of the record level achieved in 2000. Weighing on the market in 2002 was a 23-percent decline in exports to Japan, the largest U.S. market, because of consumer concerns about Bovine Spongiform Encephalopathy (BSE). Exports to Mexico continued the strong upward trend of recent years, increasing by 18 percent, while exports to Canada increased a little over 3 percent. Exports to South Korea surged by 73 percent in 2002, albeit from a relatively weak level the previous year, to put exports to that country back on their strong upward trend of recent years. Exports to the category of "other" countries increased by over one-third, helped by expanding markets in the rest of Asia, but particularly China. Exports to Russia more than doubled, as that country continued recovery from its economic downturn of recent years. Only the Caribbean market showed no significant growth.

The decline in Japan's beef imports began in late 2001 as a result of the discovery that three Japanese dairy cows were infected with BSE. By the month following confirmation of the first case on September 10, 2001, Japan's beef consumption had plummeted nearly 60 percent compared with levels earlier in the year. U.S. beef exports to Japan, which had averaged nearly 90 million pounds a month (carcass weight) the first 10 months of 2001, dropped to 62 million pounds in November. Exports then ranged from 56 million to 68 million pounds per month until they began to increase sometime in the summer of 2002. Later-year exports were encouraged by a sustained increase in Japanese consumption and the decline in stocks that began late in the winter of 2002. By the end of 2002, stocks had returned to pre-BSE levels while consumption had returned to 85 percent of pre-BSE levels.

U.S. exports of beef to Japan are expected to increase in 2003 as Japanese consumption slowly increases towards its pre-BSE levels. However, due to the sharp drop in imports in 2001/02 because of BSE, any substantial recovery in imports is likely to exceed the trigger level on Japan's safeguard system for beef in the second

calendar quarter of 2003. If beef imports surpass the trigger, Japan may invoke its right under the safeguard system to temporarily raise beef import tariffs from its currently applied 38.5 percent to a maximum 50 percent bound rate agreed to under the 1994 Uruguay Round (UR) trade agreement. The United States and Australia are attempting to convince the Japanese government not to impose the safeguard. While the effect of such higher tariffs on Japanese imports of U.S. beef are difficult to quantify, they are likely to combine with other factors to limit the increase in U.S. beef exports in 2003.

Total U.S. beef exports are expected to be up 4-5 percent in 2003 as demand shifts outward in most major U.S. markets--most importantly, Japan--continue. However, this increased demand is expected to combine with a 4-percent decline in U.S. beef production to substantially increase U.S. beef prices this year. These higher prices are expected to be the major factor limiting demand growth. For example, the Nebraska Choice steer price is expected to average nearly \$76 per cwt, compared with slightly over \$67 last year, an increase of over 13 percent. These higher prices may be exacerbated in Japan by the higher safeguard tariffs and in Mexico by a weak peso. Shifts in demand are expected to be much weaker in Korea this year as that country continues to experience an economic slowdown that began late last year.

Beef Imports

Beef imports were 3.2 billion pounds in 2002, up 1.7 percent over the previous year and the smallest percentage increase since 1996. U.S. beef imports have exhibited an upward trend for the last several years, largely to compensate for lower amounts of lean processing beef available from cyclically decreased cow slaughter. Between 1996 and 2002, cow slaughter declined from 7.27 million to 5.76 million, or by 21 percent, with the larger declines occurring earlier in the cycle. Consequently, imports have increased by smaller increments in the last several years of this cattle cycle than in the earlier years. Over the past two years, the increase in beef imports was limited because more cows were slaughtered than otherwise would have been

the case as a result of drought conditions in parts of the United States.

Of the three major suppliers of beef to the United States, only Canada supplied more beef in 2002 than in the previous year. Imports from Canada increased by nearly 11 percent last year because Canada also suffered from drought, which forced both the slaughter of cows and earlier-than-normal slaughter of animals from feedlots because of drought-limited forage and feed grain supplies. Large amounts of both middle cuts, as well as processing beef were imported from Canada.

Imports from Australia and New Zealand in 2002 were down 1 percent and 5 percent, respectively, from the previous year. It is not possible to verify that Australia filled its tariff-rate import quota (TRQ) last year, since the last posting of within-quota imports by the Customs Service for 2002 was December 23rd. Complicating this calculation is that in both years, some Australian product was declared in the "over-quota" tariff codes before yearend. Australia did fill its TRQ in 2001, however, suggesting that a slight shortfall may have occurred last year. New Zealand clearly fell about 5 percent short of its TRQ in 2003, however. Exports from both countries were adversely effected by appreciation in their currencies against the U.S. dollar, as well as lower-than-expected demand in the United States, both as a result of drought-related cow slaughter and a weaker-than-expected fast food industry in the United States.

Beef imports are expected to increase nearly 3 percent in 2003, to 3.3 million pounds, largely as a result of a 4-percent decline in cow slaughter. Most of the additional imports will flow from New Zealand, which has larger supplies available following herd rebuilding. Beef supplied to Canada from New Zealand last year will be freed up for export to the United States by New Zealand this year, as a result of Canada again allowing imports of fresh/chilled and frozen product from Uruguay and possibly Argentina. Product from Argentina and Uruguay had been barred from North America since late-2001 because of outbreaks of foot-and-mouth disease (FMD) in those countries. While the United States is not expected to allow imports of fresh/chilled or frozen product from Argentina this year a review is under

way that may open the market for these products from Uruguay by yearend.

The absence of South American processing beef from the U.S. market until at least late this year is likely to add to upward pressure on the prices of lean processing beef, as grazing conditions improve and cow slaughter declines in the second half of 2003. The price of domestic 90-percent lean trimmings is likely to exceed the levels reached last year by amounts sufficient to draw in needed supplies. In spite of Australia having less beef available as a result of last year's drought-induced slaughter, higher U.S. prices may draw Australian product away from other markets. Higher prices may also draw in additional supplies of Canadian-processing beef, freed up by the renewed availability of South American supplies to Canada.

Live Cattle Trade

The United States increased its net imports of live cattle in 2002 by 270,000 head, or by 14 percent, to 2.26 million over the level in 2001. This was the third straight year of increased net imports of live cattle and the largest level since the record 2.69 million recorded in 1995. Contributing to increased net imports was a 56 percent drop in live cattle exports to Canada and a 41-percent increase in imports of live cattle from Canada. The increase in net imports of live cattle would have been even greater last year had it not been for a 28-percent decline in imports of cattle from Mexico.

Drought in western Canada was the major driving force behind live cattle trade in 2002, as the year began with drier-than-normal conditions in western Canada and limited feed grain carry-over from a 2001 drought. Consequently, 2002 began with lower feeder cattle exports from the northern United States than in the previous year, and higher imports of feeder cattle from Canada. By late last summer it had become evident that drought in western Canada would significantly reduce feed grain supplies. The decline in U.S. feeder cattle exports accelerated from being down 38 percent in the first half of the year to down 68 percent during the second half of 2002 compared with the same period a year earlier. Imports of cattle from Canada were up 18 percent in the first half of 2002

and 39 percent during the last half. Imports from Canada also included large numbers of slaughter animals.

The decline in cattle imports from Mexico occurred because of declining cattle inventories in Mexico, lower feeder cattle prices in the United States, better pasture conditions in Mexico and higher health standards imposed on imported Mexican feeder cattle to protect U.S. herds from tuberculosis (TB). The Mexican cattle inventory dropped from 22.5 million to 21.3 million animals between the beginning of 2001 and the beginning of 2003, suggesting that fewer young animals were available for export in 2002. Meanwhile, U.S. feeder cattle prices that had exceeded \$90 per cwt in the third quarter of 2001 averaged only \$80 in 2002. Furthermore, rain in Mexico last year provided enough forage to encourage Mexican ranchers to

graze more of their reduced numbers of animals rather than send them north. Finally, new rules from USDA's veterinary services required a higher level of proof that imported cattle originate from herds that had recently been tested for TB.

Much of what happens to live cattle trade in 2003 will again be weather-driven. Assuming normal weather in North America this year, net cattle imports are expected to be marginally above last year. Net imports from Canada are expected to decrease later this year if it becomes apparent that country will have near-average feed grain crops and grazing conditions. Imports from Mexico are expected to increase in response to substantially higher U.S. feeder cattle prices, particularly in the second half of the year, in spite of limited inventories. Mexican ranchers are expected to satisfy the new rule on TB testing.

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