

Center for Agricultural Policy and Trade Studies North Dakota State University

NEWSLETTER

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Potential Effects on U.S. Cattle and Beef Prices from Reopening the Borders

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U.S. trade of beef and live cattle has declined substantially the last two years because of discoveries of bovine spongiform encephalopathy (BSE), commonly referred to as mad-cow disease. Japan and Korea, the largest importers of U.S. beef, and a number of other countries banned imports of U.S. beef following the U.S. discovery of BSE in December 2003. U.S. beef exports declined 83 percent in 2004, and exports were at 24 percent of the 2003 level through the first half of 2005. On the other hand, the United States banned imports of beef and live cattle from Canada following the discovery of BSE in that country in May 2003. Beef imports from Canada resumed after a few months, but live cattle imports were not permitted until July 2005. The lifting of trade restrictions affects cattle and beef prices.

In the decade prior to the BSE ban, Canadian live cattle exports to the United States averaged 1.25 million animals per year, and they had reached a high of 1.7 million animals in 2002. According to the results of our model, if net imports from Canada increase from zero to 1.5 million animals per year, the slaughter steer, feeder steer, and retail beef prices would decrease \$4.65/cwt, \$5.31/cwt, and 6.55 cents/lb, respectively (Table 1). These price decreases would represent declines of approximately 5.5 percent for the slaughter steer price, 4.2 percent for the feeder steer price, and 1.8 percent for the retail beef price. However, keeping the ban in place may mean that boxed beef imports from Canada could have increased significantly and the beef from some of these animals would have eventually entered the United States regardless of the ban, which also would have a negative impact on prices (Table 2).

Table 1. Impact of Live Cattle Imports from Canada on Prices

Annual Live Cattle Imports*	Price Changes					
	Slaughter steer price		Feeder steer price		Retail beef price	
	\$/cwt	%	\$/cwt	%	cents/lb	%
0.5 million	-1.55	-1.8	-1.77	-1.4	-2.18	-0.6
1 million	-3.10	-3.6	-3.54	-2.8	-4.36	-1.2
1.5 million	-4.65	-5.5	-5.31	-4.2	-6.55	-1.8

* Annual live cattle imports from Canada ranged from 1 million to 1.7 million in the decade before the BSE ban, and net cattle imports ranged from 0.6 million to 1.6 million.

Table 2. Impact of Increased Beef Imports from Canada on Prices

Percentage Increase in Imports*	Price Changes					
	Slaughter steer price		Feeder steer price		Retail beef price	
	\$/cwt	(%)	\$/cwt	(%)	(cents/lb)	(%)
10%	-0.58	-0.7	-0.67	-0.5	-0.93	-0.3
25%	-1.46	-1.7	-1.67	-1.3	-2.32	-0.6
50%	-2.92	-3.4	-3.34	-2.7	-4.63	-1.3
75%	-4.38	-5.2	-5.00	-4.0	-6.95	-1.9

* Percentage increases based on the 2004 level of imports, which averaged 270 million pounds per quarter.

The drop in prices from increased Canadian imports would be more than negated if U.S. beef exports returned to near previous levels. Results show that if beef exports increased to 100 percent of the 2003 export level, slaughter steer, feeder steer, and retail beef prices could increase by \$7.83/cwt, \$8.95/cwt, and 16.0 cents/lb, respectively (Table 3). These price increases would be approximately 9.2 percent for the slaughter steer price, 7.2 percent for the feeder steer price, and 4.4 percent for the retail beef price.

It is unknown, however, if trade will return immediately to previous levels once the bans are removed. Some trade restrictions may remain in place and could restrict trade flows. Changes in the Canadian beef industry, driven partly

Table 3. Impact of Increased Beef Exports on Prices

Beef Exports as a Percentage of 2003 Level*	Price Changes					
	Slaughter steer price		Feeder steer price		Retail beef price	
	(\$/cwt)	(%)	(\$/cwt)	(%)	(cents/lb)	(%)
50%	2.65	3.1	3.03	2.4	5.42	1.5
75%	5.24	6.2	5.99	4.8	10.71	3.0
100%	7.83	9.2	8.95	7.2	16.00	4.4

*Price changes are based on increases from the current level of exports, which are at 24 percent of the 2003 level.

by its loss of export markets, could have long-term effects on trade. Increases in Canada's slaughter capacity could mean the country could export fewer live cattle to the United States, but they could export more beef to the United States and could be more competitive in foreign markets, which would also have a negative impact on U.S. prices. It is also uncertain how Japanese and Korean consumers will respond once the bans on U.S. beef are eventually lifted. Results show, however, that even if exports return to just 75 percent of the 2003 level, it would still more than negate the harmful effect on prices from live cattle imports from Canada.

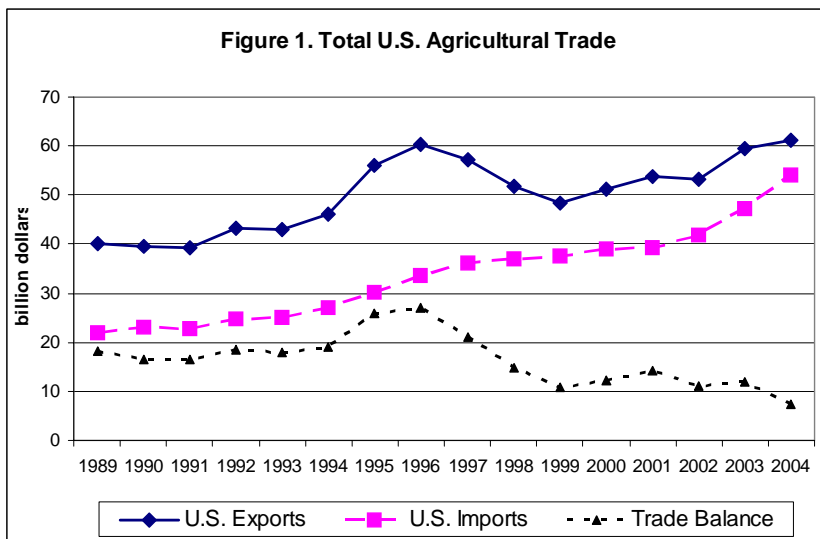
For more details, see Agribusiness & Applied Economics Report No. 573.

Characteristics of the Declining U.S. Agricultural Trade Surplus

Jeremy W. Mattson and Won W. Koo

Due to rising imports and stagnant exports, the U.S. agricultural trade surplus declined from \$26.9 billion in 1996 to \$7.3 billion in 2004 (Figure 1). During the first six months of 2005, U.S. imports are up 9.0 percent to \$29.6 billion while U.S. exports are unchanged from 2004 at \$30.6 billion, resulting in a trade surplus that is shrinking even further. Much of the increase in imports consists of consumer-ready and horticultural products, including processed foods, beverages, and fresh or processed fruits and vegetables (Figure 2). U.S. agricultural exports peaked in 1996 and declined for a few years before rebounding in 2003 and 2004. Much of this decline can be accounted for by a drop in exports to important East Asian and European markets.

While imports from Canada and Mexico have increased substantially under NAFTA, exports to those countries have also increased. Since 1995, U.S. imports and exports with Canada and Mexico have been increasing at nearly the same rate. Trade with the European Union (EU) accounts for a large share of the declining trade surplus. Imports from the EU have risen steadily, and exports to the member countries have decreased. Most of the increase in imports from Europe consists of consumer-oriented products. The increase in imports from other regions such as Australia, New Zealand, South America, and East Asia, and the significant drop in exports to East Asian countries in the late 1990s, have also contributed to the decline in the agricultural trade surplus.



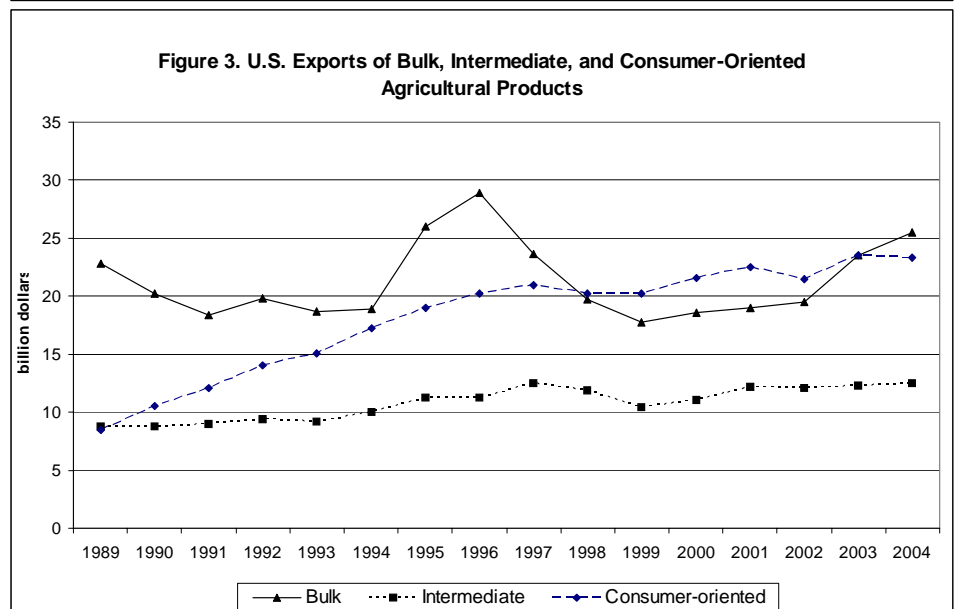
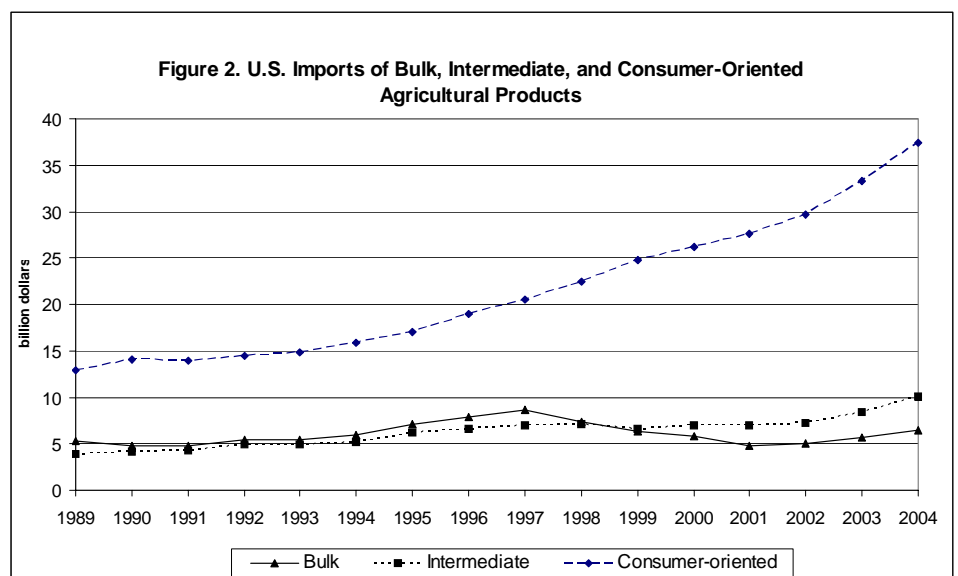
An increase in U.S. disposable income and the implementation of free trade agreements have contributed significantly to the increase in imports of consumer-oriented products. U.S. exports are found to be significantly influenced by per capita income in importing countries. Some of the decline in exports to East Asian markets in the late 1990s could be attributed to declining or stagnant income in these countries during the Asian financial crisis. An appreciating U.S. dollar is found to have had a negative impact on the value of exports of consumer-oriented products.

Free trade agreements are found to have had a positive impact on exports of bulk products and imports of consumer-oriented products. Trade liberalization could also have an indirect positive

effect on trade flows by increasing purchasing power in importing countries. Trade agreements often result in increased economic activity and income, which leads to increased demand for imports. Much of the increase in exports to Mexico under NAFTA, for example, could be explained by the increase in per capita income in the country, which has led to increased demand for U.S. products.

U.S. exports of bulk and intermediate products have been following a downward trend after income, exchange rates, and free trade agreements have been accounted for, while exports of consumer-oriented products and imports of intermediate and consumer-oriented products have been trending upward. These trends could be due to changes in consumer preferences, changes in export competitiveness of other countries, or other factors. The upward trend in imports of consumer-oriented products could be partly due to increased demand for ethnic foods caused by an influx of immigrants and a diversification of consumer tastes.

The increase in the trade deficit for consumer-oriented products can be explained by gradual income growth in the United States, slower income growth in Japan and Europe, free trade agreements, and other possible factors such as changes in U.S. consumer preferences or increased competitiveness of other exporting countries. Although bulk commodity exports have benefitted from free trade agreements, they have stagnated or declined to countries with which the United States does not have free trade agreements. This could be due to slower income growth in foreign markets or a downward trend over time that could be caused by increased competitiveness from other exporting countries, or other factors.



U.S. imports of consumer-oriented products are likely to continue increasing as the economy continues to grow and demand for these products remains strong. U.S. exports could increase if foreign economies grow and populations in export markets increase. Growth in developing markets could provide an opportunity for increased exports. The largest increases in population are likely to occur in developing countries in Africa, Asia, and Latin America, while populations in major traditional foreign markets in Europe and Japan are projected to remain steady or even decline. Increased trade liberalization could lead to increased exports. U.S. exporters, however, are facing increased competition from other exporting countries.

For more details, see *Agribusiness & Applied Economics Report No. 572*.

Recent Publications

Impact of the Recent Surge in Energy Prices on Farm Income, Revisited, Agricultural Policy Brief No. 10, August 2005, by Richard D. Taylor and Won W. Koo.

Characteristics of the Declining U.S. Agricultural Trade Surplus, Agribusiness & Applied Economics Report No. 572, November 2005, by Jeremy W. Mattson and Won W. Koo.

Potential Effects on U.S. Cattle and Beef Prices from Reopening the Borders, Agribusiness & Applied Economics Report No. 573, November 2005, by Jeremy W. Mattson and Won W. Koo.

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Director's note

U.S. Senator Kent Conrad and Dr. Won W. Koo, Director of the Center for Agricultural Policy and Trade Studies held a conference entitled "21st Century Agricultural Policy: Challenges and Opportunities" in Fargo, North Dakota, on October 30-31, 2005. The event featured discussion by nationally renowned experts on agriculture and trade, including former representative Larry Combest, who was Chairman of the House of Representatives Agricultural Committee during the 2002 Farm Bill debate. Speakers engaged conference participants in discussion on topics which included WTO negotiations, trade disputes and other international trade issues and their impacts on U.S. farm policy; the implications of the growing federal budget deficit for U.S. farm programs; and the creation of innovative farm policy to meet these challenges. Participants included 250 attendees from such diverse fields as agricultural production and industry, academia, and state and federal governments. You can find additional information on the conference, including selected speaker presentations, by visiting the Center's website (www.ag.ndsu.nodak.edu/capts) and clicking on the conference title located directly underneath the CAPTS logo.