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U.S. Animal Protein Needs Trade Negotiators Back at the Table



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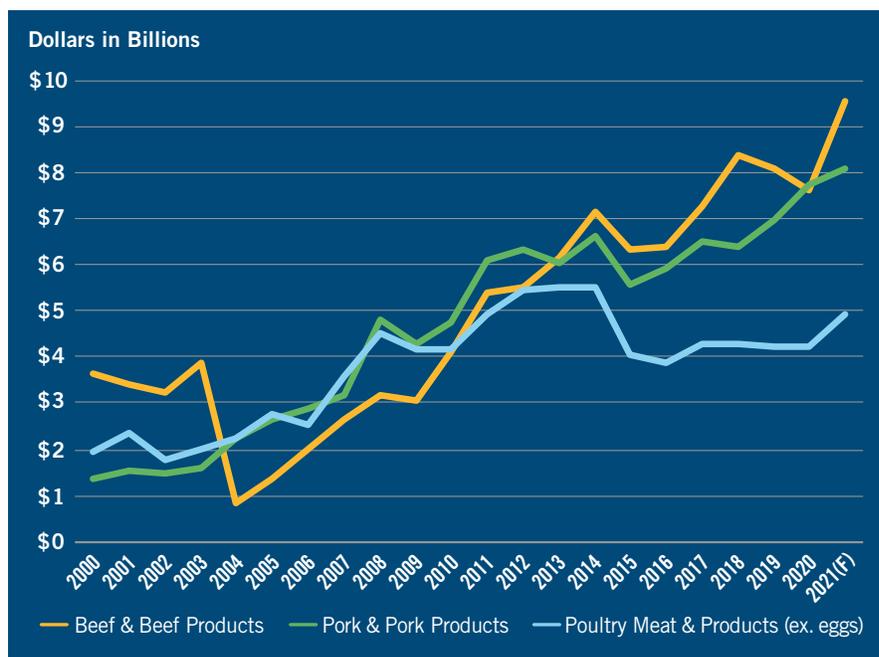
Key Points:

- In the past two decades, U.S. animal protein exports have grown from \$7.4 billion to \$20.7 billion, driven by industry marketing and government trade negotiations. Today, trade accounts for 10%-30% of U.S. animal protein production, depending on industry segment.
- The Trump administration’s harder line on trade, continued by the current administration, has led to mixed results for U.S. agriculture: Ag exports to China have flourished under the Phase One agreement, but the U.S. withdrawal from the Trans-Pacific Partnership (TPP) cost U.S. exporters some opportunities.
- From opening trade to Cuba to exporting broiler paws to China, diversification of markets and products is vital for a vibrant U.S. protein export trade.
- Successful trade also depends on maintaining commitments with long-established partners, as seen with Mexico, Canada, Japan, and others.
- Trade policy is crucial to building consistent export markets, and the U.S. needs to be at the negotiating table. The recent nomination of a chief agriculture negotiator with the Office of the U.S. Trade Representative is an important step forward but she has yet to be confirmed by the Senate.

Introduction

Since 2000, the share of U.S. meat and poultry volume exported has increased from roughly 6% to over 13% today and nearly tripled in value (*Exhibit 1*). Those gains were made on the heels of the North American Free Trade Agreement (NAFTA), the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), and the World Trade Organization (WTO) Agreement on Agriculture, and supported by U.S. administrations dating back to President Reagan. However, for more than a decade, free trade has become decidedly less popular in the U.S. Unfortunately for U.S. meat exporters, the rest of the world continues to make headway on trade agreements that threaten to put U.S. producers at a disadvantage

EXHIBIT 1: Total Value of U.S. Protein Exports



Source: USDA-FAS, U.S. Census Bureau Trade Data; forecast by CoBank.
Total export value is for each given year.

in global markets. In the near term, the Phase One trade agreement with China expires at the end of the year, and there is a fair degree of uncertainty as to how negotiations will play out in the coming months.

Recent Trade Relations with China

As recently as the 1990s, China was a relatively minor buyer of U.S. meat and poultry, at times struggling to make it into the top 10 export destinations. That quickly changed in the early 2000s: Between 2002 and 2012, China's purchases rose more than tenfold to \$26 billion, easily becoming the largest export market during 2012-16.

However, in an effort to rebalance the widening trade deficit with China, under the Trump administration the U.S. implemented tariffs on its imported goods beginning in January 2018. Initially, tariffs were imposed on solar panels and washing machines imported from China, and then expanded to steel and aluminum imports from all destinations. In a tit for tat, both Chinese and U.S.

officials began levying additional tariffs and restrictions, finally escalating to announcements of tariffs on more than \$300 billion of imports from China. Amid the larger trade war, U.S. meat and poultry exports to China collapsed to just over \$9 billion in 2018.

Washington and China ultimately signed the Phase One trade deal in January 2020, which expires at the end of 2021. The pact called for China to boost purchases of U.S. products by \$200 billion over two years – a target that Beijing is well behind in meeting. However, from an agricultural viewpoint, Phase One must be considered a moderate success: Aggregate agricultural exports to China increased 58% YoY

in 2020 and are currently at a pace to meet or exceed levels not seen since 2012-16.

The Phase One agreement created stability in what had been an unpredictable trade partnership with China. Since the agreement's implementation, China has become a top destination for U.S. protein (*Exhibit 2*). The agreement re-opened China's markets to U.S. poultry as China quickly developed an affinity for U.S. beef, becoming a top three U.S. export destination this year.

U.S. sourced beef is priced at a premium, which helps meet the Phase One financial targets. While it remains to be seen if China is willing to pay a premium for U.S. beef in the longer term, the near-term opportunity is assumed to be robust compared to pre-2016 levels. The volume for the top three destinations for U.S. beef (China, Japan, and South Korea) has accounted for 67% of all U.S. beef export volume so far in 2021 (*Exhibit 3*).

ASF in China

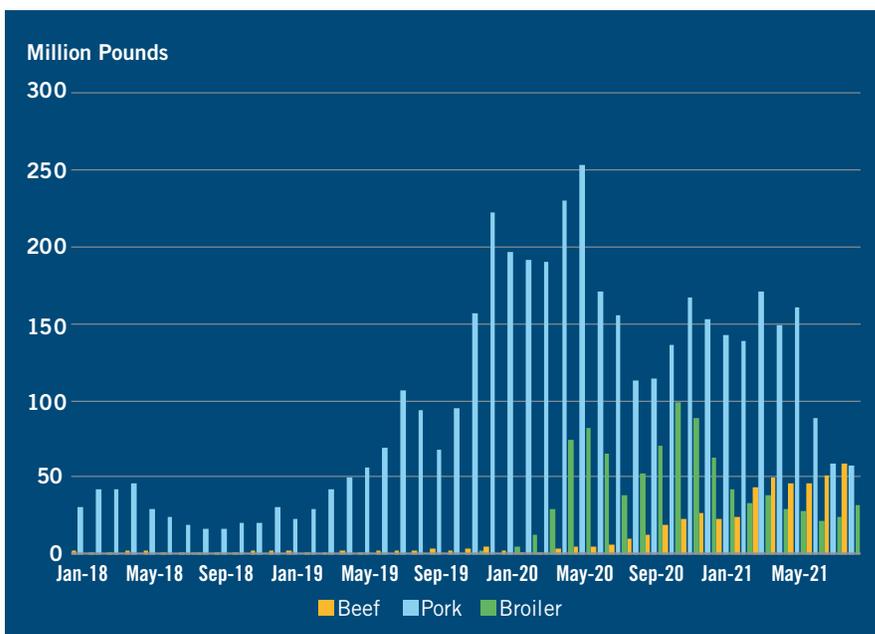
The Phase One trade deal is not the only reason for the successful growth in U.S. protein exports to China. After African swine fever (ASF) was reported in China's hog herd in 2018, Chinese government statistics reported a 40% decline in total swine inventory compared to a year earlier. USDA reports that pork production in China dropped 21% by 2019 and 32% by 2020 relative to pre-ASF levels. As a result of ASF, China's pork imports skyrocketed from 1.5 million metric tons (MMT) in 2017 to 5.3MMT in 2019, accounting for over 40% of global pork trade.

However, by 2021 China's sow herd had been rebuilt to such an extent that internal market prices collapsed by mid-year. Although China's pork production is expected to contract again in 2022, it is unlikely that its imports will come close to those in 2019-21. This may contribute to elevated global protein exports, as China's total swine herd remains more than 13% below pre-ASF levels.

Phase One appears to have given U.S. broiler exports a significant boost into China. Although shipments have slowed somewhat recently, China has imported over \$1.3 billion in U.S. broiler products since the beginning of 2020. (China had banned U.S. poultry products since 2015 due to a U.S. outbreak of avian influenza.)

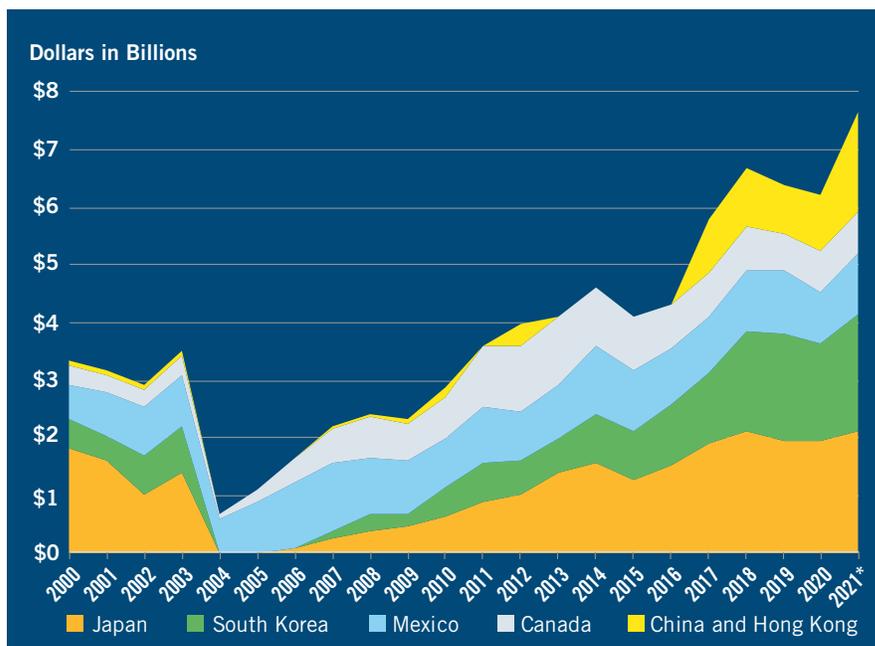
An additional force driving demand for U.S. protein is China's strong affinity for U.S. broiler paws. When direct market access to China

EXHIBIT 2: U.S. Protein Exports to China



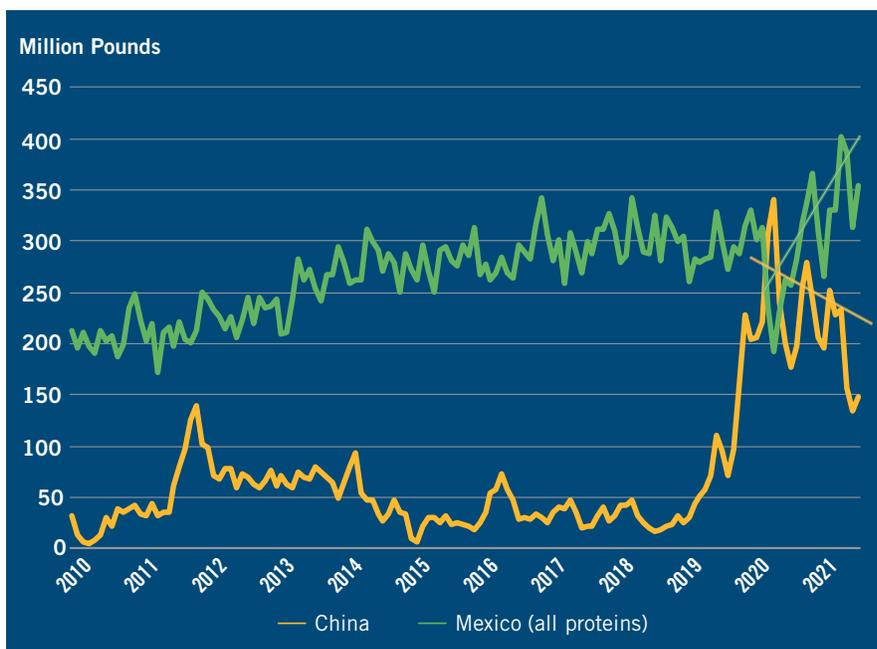
Source: USDA-FAS

EXHIBIT 3: U.S. Beef Export Value, by Destination



Source: USDA-FAS. Total export value is for each given year.

EXHIBIT 4: U.S. Beef, Pork and Broiler Export Volume



Source: USDA-ERS

returned, U.S. broiler paw prices went from rendering credit or less to over \$1/lb (landed price) in China. Through August, the 2021 cumulative export total is over 180,000 metric tons, valued at \$438 million. In comparison, in the first eight months of 2014, exports of paws to China totaled about 49,000 metric tons with a value of \$60 million.

Interestingly, when combined with Hong Kong, total U.S. broiler paw exports for 2021 YTD are down roughly 8,000 metric tons from the same time frame in 2014, but up \$170 million in value. One takeaway is that U.S. broiler producers received value for this part only through direct access to the Chinese market. But inflation, tariffs, and supply chain inefficiencies as a result of the COVID-19 pandemic have contributed to the higher values, as well.

While U.S. protein exporters have found much success in China since Phase One and ASF, the question remains: How much should U.S. protein exporters depend on China in the future? Declining pork and poultry shipments in recent months suggest that the country truly has gotten a handle on ASF, meaning that the best market opportunities may already be behind us.

Long-Time Trade Partners Continue to Support U.S. Meat and Poultry Exports

As U.S. beef and pork had already enjoyed duty-free access to partners under NAFTA, 2020's U.S.-Mexico-Canada Agreement (USMCA) had minimal (if any) impact. However, revising a commitment with the U.S.' first- and third-largest food and agricultural export markets calmed participants as policy makers sought to rebalance trade at the time.

Mexico continues to be a top destination for U.S. poultry and pork (*Exhibit 4*). U.S. broiler meat exported to Mexico reached records on several occasions over the last 12 months and have accounted for over one-

quarter of all shipments this year. As export volume to China has eroded recently, a healthy trade relationship with Mexico is critical. The current bottlenecks at seaports further raises the strategic importance of trade with Mexico and Canada.

Access to diverse markets remains vital for U.S. meat exports, however. For example, USDA Economic Research Service (ERS) trade data show that the U.S. exported 650 million pounds of broiler meat to 111 destinations in August. While nearly 65% went to the top three destinations (Mexico, China, and Cuba), 20 destinations claimed at least 1% of U.S.' broiler meat exports.

As exports to East Asia and North America have expanded, European markets have eroded for U.S. protein exporters (*Exhibit 5*). Nations outside of those top two regions make up nearly one-third of all U.S. protein export volume. Many of these countries are directly involved in multilateral trade deals, or are destinations for exporters who are involved in multilateral trade deals such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). At

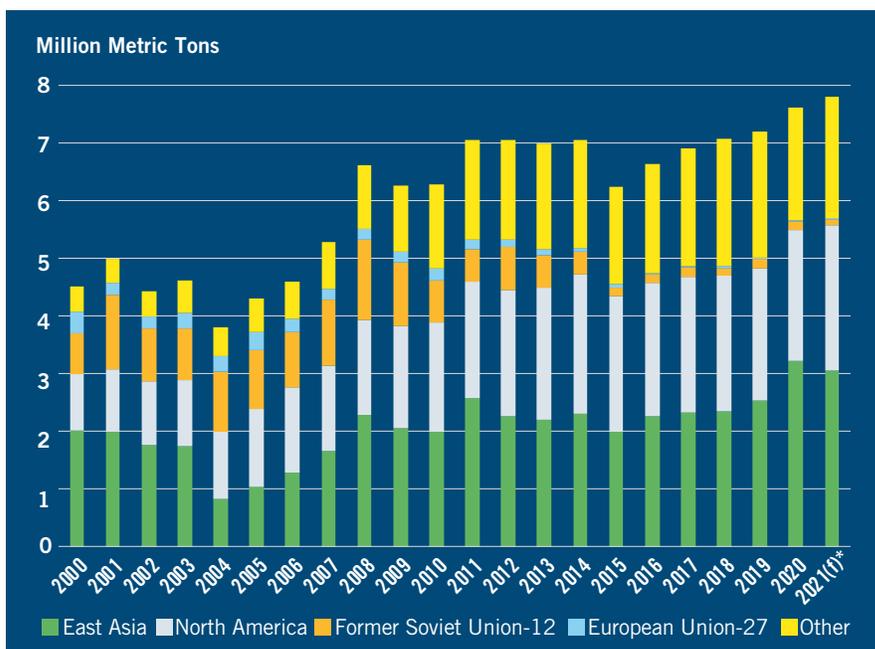
a minimum, the U.S.' lack of participation in evolving global trade partnerships in recent years has put its export success at risk.

Should U.S. Revisit Multilateral Trade Deals?

President Trump campaigned on a platform of "America First," focusing on trade flows that affected the U.S. economy with changes implemented almost immediately upon inauguration. Although the Biden administration was expected to pursue more international trade policy, it is off to a very slow start: It took eight months for the president to nominate Elaine Trevino to the position of chief agriculture negotiator in the Office of the U.S. Trade Representative and she still awaits Senate confirmation.

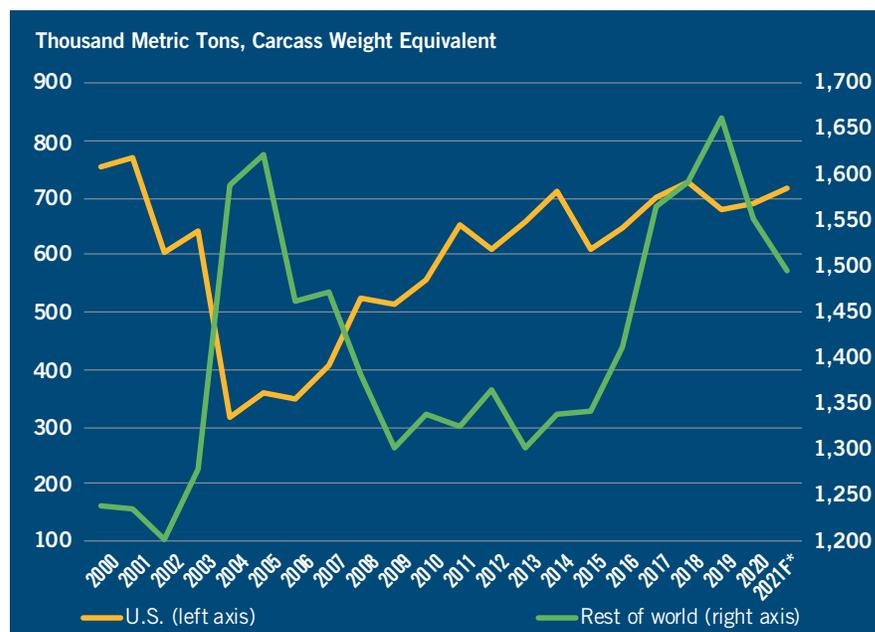
In early October, for the first time in the Biden presidency, U.S. Trade Representative Katherine Tai outlined the administration's stance on China. She provided few details, but made it clear that existing tariffs on Chinese goods will remain in place and that the U.S. will enforce China's purchasing obligations under the Phase One deal. Tai recently stated at the National Chicken Council's annual conference, "I think the main challenge we face is: How do we take down the temperature in this trade relationship. The temperature has gotten to the point where I feel like the entire relationship feels kind of like a pile of dry tinder and a stray remark or misunderstanding ... is likely to spark

EXHIBIT 5: U.S. Protein Exports by Destination, 2000-2020



Source: USDA-ERS

EXHIBIT 6: Japan Imports of Pork, Beef and Veal



Source: USDA-FAS

just a giant fire with really drastic implications for all of us.” Given that statement, the U.S. meat industry’s successes from the Phase One agreement are not at all certain to continue into 2022 and beyond.

U.S. TPP Withdrawal and CPTPP

With more than half of all global protein trade headed to East Asia, fair and open access to the markets of the region is a significant opportunity for protein exports. The U.S. withdrawal from the proposed Trans-Pacific Partnership (TPP) in 2018 (and absence from the subsequent CPTPP) put the U.S. at a disadvantage versus its main protein export competitors to destinations like Japan and Vietnam. Indeed, the 2018-20 beef, veal, and pork export volume to Japan from the U.S. declined as other other countries’ volumes increased (*Exhibit 6*).

Because U.S. trade representatives of the previous administration preferred exclusive trade agreements to large multilateral agreements, they suggested and secured a bilateral U.S.-Japan trade agreement. As a result, effective April 1, 2021, duties on U.S. beef exported into Japan dropped from 38.5% to 25%, and are to be phased down to 9% by 2033. Additional details of the agreement benefit U.S. pork, where duties were reduced from 4.3% to 1.4%.

Closer to home, Cuba has become a major destination for U.S. poultry exports over the past decade. It consistently ranks in the top five export destinations for U.S. broiler

meat, and broiler meat consistently accounts for the vast majority of U.S. agricultural exports to the island. Through August, 9% of U.S. broiler meat was shipped to Cuba, making it the second-largest export destination for U.S. broiler meat in volume.

Cuba’s market access was opened and facilitated during the Obama administration when the U.S. broiler industry needed a new market for excess meat after both Russia and China restricted U.S. poultry access to their markets in 2014. As noted, while China has returned as a buyer of U.S. poultry, its staying power remains in question. Given its proximity and need for meat imports, Cuba should remain a steady market for U.S. leg quarters for years to come.

Conclusion

Healthy trade relationships remain crucial to the U.S. animal protein industry. In recent years, meat exporters’ opportunity in China has grown, but domestic supplies are continuing to recover from the severe depopulation during the peak of ASF. It is increasingly important for U.S. meat exports to seek more global opportunity. This is especially true if top protein exporting nations join CPTPP and the U.S. is not a member. As competitors look to bolster their export volume, the U.S. must be at the negotiating table. ■

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