



## **What Might Happen When US Exports of Beef to China Takes Place?**

By Chris Lehner (June 14)

From the day it was announced in May that US will resume sales of beef to mainland China, the cattle industry has been hoping it will occur like a child waiting to open a long awaited gift.

Grain producers know what it means when China buys quantiles of corn and soybeans. They also know when China stops buying in large quantities. Ask a corn producer.

So, when and if China begins to buy US beef, cattle producers know it will be price positive. Many cattle feeders are already looking for cattle prices to zoom up to \$170.00 or more for live cattle.

But will China buying US beef cause a big price increase other than an initial emotional and psychological jump.

Before China buys beef, there are regulations that need to be agreed upon. Presently, July 16<sup>th</sup> is the date kicked around when agreements will be made.

Below are the regulations that need to be settled upon.

- US cattle producers and packers will be required to track the locations of where cattle are born, raised and slaughtered to be exported to China.
- The beef exported to China must be free from any and all residue of beta-agonists.
- Beef exported to China has to be from cattle under 30 months of age.
- Tariffs and taxes of beef into China and chicken into the US have yet to be worked out
- Chinese chicken to the US must pass all inspections from Chinese chicken plants.
- US chicken producers want bans on US chicken to China lifted and to have China buy more chicken from the US.
- Then there are issues with increasing natural gas exports from the US to China.

Most likely when export regulations are met, modified or changed between the US and China, it will be looked upon as friendly to the cattle market but it will take quite a lot of time before sizable exports occur. It could also affect exports already taking place to Viet Nam and Hong Kong where “grey market” beef from those countries that was bought from the US already is sold to Mainland China.

With regulations needing to be met to export beef to China, unless they are modified from present demands, it will take some time before there will be significant tonnage exported. Currently, US cattle that fit the guidelines will be pure bred or known crossbreds, cattle that are bred and/or fed from local regions, sold direct farm to farm as feeders, farm direct to packers

and not through auction barns unless they are specific sales of cattle from known sources for both feeders and fats.

Presently, cattle such as Angus, Herefords or cross bred black and red white faces likely fit. Cattle grouped together at sale barns or video sales of mixed breeds and from several cow/calf producers at this time probably won't meet the specifications. Cattle that might have started out from Mexico or Canada and mixed with cattle in feedlots in the US unless they can be positively verified to the exact farm of birth likely won't work. Also, packers will need to separate the finished cattle that fit regulations, have specific times of slaughter and specific space in coolers to guard against mixing cattle and carcasses.

For the packers that already kill specific breeds such as Angus and Herefords, it could increase sales but a price premium will be attached to cattle meeting guidelines and higher costs could put them at too high of premiums plus initial costs.

Over time, selling beef to China certainly will be price positive but to think big beef exports will take off as soon as agreements are met is hopeful anticipation more than reality. When agreements are met and announced, there will likely be a jump on the futures. Cattle producers and speculators should seriously consider using the emotional move higher as a selling opportunity.

There will be cattle producers and packers that will benefit, but beef exports to China in the near future likely could see premiums added for the feedlots in Nebraska, Kansas and Iowa that already are breed and location specific.

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Give me a call at 312 242 7940 or email me at [chris.lehner@archerfinancials.com](mailto:chris.lehner@archerfinancials.com). I look forward to hearing from you.

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