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Is Imported Beef a Complement or a Substitute for Domestic Beef?

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Is Imported Beef a Complement or a Substitute for Domestic Beef?

United States beef imports have been a controversial issue since 1958, which marked the beginning of major U.S. imports of beef from Australia. From the onset, U.S. beef producers have always been concerned with unrestricted beef imports fearing they would depress prices in the domestic market. In response to these fears, the U.S. Congress enacted the 1964 Meat Import law (P.L. 88-482) limiting red meat imports to approximately 7% of the then current domestic red meat production. This system was replaced by a beef Tariff Rate Quota (TRQ). Historically, TRQ countries rarely fill their quotas. The table on the next page provides the most recent year-to-date data on beef exports to the U.S. by country and a brief explanation of how TRQs work.

The claim that beef imports depress domestic beef prices implies that domestic beef and imported beef are substitutes and as such that imported beef would reduce the use of domestic beef due to its lower price.

However, historical data on U.S. beef imports indicate that the primary product imported as beef consists of grass fed lean beef trimmings (mainly 90 per cent lean trimmings, known as 90s). These 90s are imported primarily from Australia and New Zealand, and mixed with fat trimmings from U.S. domestic grain fed beef to mitigate fat content of the final product, ground beef. Given this fact, it is plausible that imported beef and domestic beef are complements rather than substitutes. If that is the case, then a decline in the price of imported beef would be associated with an increase in the use of both imported and domestic beef. So which is it – is imported beef a complement or a substitute for domestic beef?

We addressed the question at the processing level of the beef supply chain and the results we report here

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are from a peer-reviewed article forthcoming in the journal *Agribusiness Letters*. We found that, on average, a one percent decrease in the price of imported beef leads to a decline in the use of domestic carcass beef of about 150 million pounds and a decrease in the use of cull cow beef of about 92 million pounds. This indicates that imported beef is a substitute for beef and cull cow carcasses. The decline represents a very small decline of 0.09% and 0.29% relative to the mean use of the respective domestic meats during the sample period (January 2009 – December 2014).

This relationship translates into an average decline of 0.20% in the price of carcass beef and 0.67% in the price of cull cow beef for every 1% decline in the price of imported beef.

The main takeaways are:

- Imported beef is competitive with U.S. produced beef.
- A decline in the price of imported beef reduces the use of both carcass and cull cow beef and conversely a price increase would increase the use of both.
- During the sample period, a decline (increase) in the price of cull cow beef due to beef imports was more than three times the decline (increase) in the price of carcass beef.

### Year-to-Date Imports Under the WTO, Fresh, Chilled and Frozen

Updated: 9/3/2015

<table>
<thead>
<tr>
<th>YTD imports under WTO:</th>
<th>9/1/2014</th>
<th>8/31/2015</th>
<th>Tarrif Rate Quota (TRQ)</th>
<th>Imports as% of Quota</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Metric Ton Product Weight</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>122,893</td>
<td>128,077</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Mexico</td>
<td>69,432</td>
<td>92,591</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>TRQ countries</td>
<td>372,207</td>
<td>493,499</td>
<td>696,421</td>
<td>70.86</td>
</tr>
<tr>
<td>Australia</td>
<td>181,031</td>
<td>279,677</td>
<td>378,214</td>
<td>73.95</td>
</tr>
<tr>
<td>New Zealand</td>
<td>148,255</td>
<td>169,367</td>
<td>213,402</td>
<td>79.37</td>
</tr>
<tr>
<td>Argentina</td>
<td>-</td>
<td>-</td>
<td>20,000</td>
<td>0.00</td>
</tr>
<tr>
<td>Uruguay</td>
<td>12,803</td>
<td>12,870</td>
<td>20,000</td>
<td>64.35</td>
</tr>
<tr>
<td>Other</td>
<td>30,118</td>
<td>31,585</td>
<td>64,805</td>
<td>48.74</td>
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<tr>
<td>Total</td>
<td>564,532</td>
<td>714,167</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

NA = Not applicable

1 Under rules agreed to in the World Trade Organization (WTO), a quantity of imports within the limits of a Tariff Rate Quota (TRQ) enter at minimal tariff. A larger tariff is charged on imports above that limit. Imports from Canada and Mexico are exempt from the TRQ under the rules of the North American Free Trade Agreement (NAFTA).

Source: http://www.ers.usda.gov/datafiles/Livestock__Meat_International_Trade_Data/Beef_fresh_chilled_and_frozen_YearToDate_imports_under_various_trade_agreements/customs_service.xls