

The Global Meat Economy: Outlook and Issues for the Beef and Pork Industries

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The global livestock economy over the past decade has been characterized by one of the fastest consumption and trade growth of all major agricultural commodities. Growing numbers of quality-conscious urban consumers in developing countries have spurred global demand for meat and dairy products which, increasingly, has shifted from bulk meat trade to more specific value-added products and specialised cuts. Much of this demand has been met by increased output in developing countries themselves, where relatively low feed prices, technology transfers, and increasing vertical integration and concentration have combined to keep prices relatively low for consumers.

Among the major factors that have influenced the global livestock sector over the past few decades, the following were of particular relevance. Many of these factors are expected to continue to shape and influence markets over the next decade.

- Structural changes in the livestock industries, including improved genetics, animal housing, and enhanced management: In part these changes are a result of growing cross-border technology and investment flows into meat industries around the globe, particularly in strong growth markets or low-cost production regions. This trend is likely to continue in the future, leading to changing cost structures in industries in developing countries.
- Changes in policy environment: Implementation of WTO provisions for meat products have led to a reduction in the use of export subsidies and expanding access to various markets. These developments have stimulated trade flows and led to increasing participation of developing countries in international markets as exporters. Continued progress toward freer trade on international markets is projected over the next decade, assuming continuation of existing or announced national agricultural policies affecting these sectors.
- Increased instability in global meat markets as a result of animal disease outbreaks and escalating human health concerns related to BSE and antibiotics in feed. World-wide import bans on meat from infected areas and heightened border inspections and testing have had distorting effects on the patterns of livestock and meat trade, inducing trade diversion and shifting relative prices among meats. Human and animal health issues, as well as those related to product quality, are expected to increase in complexity over the next decade and influence consumption patterns.

This presentation will review the general trends underpinning growth in the global livestock sector, identify some of the factors affecting the global meat outlook for 2004, take a look at the issue of trade and animal diseases, and finally, summarize some of the challenges which face livestock producers, traders, researchers, consumers, and certainly policy makers.

The Livestock Revolution

The rapid growth in livestock production and trade over the past decade has been characterised as a revolution. Certainly growing incomes, urbanisation and changing life styles and consumption choices have prompted strong demand for meat products, mainly in developing countries. In fact, nearly three-quarters of the growth in global meat production and consumption over the past decade has been housed in developing countries. Consumer preferences and the changing cost structures of livestock production and processing industries have led to strong production gains for poultry and pork products, both of which are lower-priced than beef cuts. These changes in industry structure, lower prices and a evolving international policy environment which, through the World Trade Organisation (WTO), has increased market access, has led to a trade gains of over 7 percent annually in meat trade over the 1990s. Both health and economic factors, such as lower relative prices, have benefitted poultry share of global meat trade, which rose from 22 percent in 1990 to over 41 percent by 2003.

The total value of livestock and meat trade in 2002 is estimated at US\$54 billion, or 12 percent of total agricultural trade. The Western Hemisphere, exporting 10.4 million tonnes of meat products in 2002, accounted for over 50 percent of world meat trade. The total aggregate value of meat and live animals from the region is estimated at US\$ 13.5 billion and US\$ 2.6 billion respectively.

The list of major issues on concern to market participants in the livestock sector continues to grow as markets become more complex and integrated. Disease outbreak and food safety concerns predominant in 2004 but policy developments influence markets as do structural change/competitiveness in industries due to new technologies, improved management, environment regulations, animal welfare concerns. All of these, including policy developments/liberalisation prospects as a result of WTO and regional trade agreements, will influence long term market prospects for livestock market participants.

The Meat Outlook for 2004

Animal disease outbreak have been disrupting international markets periodically over the past three years. The impact of alternating disease outbreaks and recovery results in rapid increases in exportable meat supplies and considerably increase price volatility at international levels. In 2004, animal disease outbreaks are substantially affecting the outlook for the global meat market with approximately one-third of global meat exports, or 6 million tonnes, being presently affected by outbreaks of avian flu or by identified cases of BSE. While bans on imports may be temporary, global meat trade, originally forecast to rise in 2004, is likely to slide four percent. Import bans on poultry and beef exports from disease-affected markets are leading to higher international meat prices for product originated from disease-free zones as well as putting upward pressure on other animal protein product prices. Considerably trade diversion is expected to occur, with importers turning to disease-free meat suppliers, particularly those in Latin America and Oceania, to supply their markets.

The Beef Sector: Limited supplies and high prices depress bovine meat trade prospects

Global bovine meat production is forecast to reach 61.9 million tonnes in 2004, up marginally from the previous year. Low cattle inventories in Oceania, BSE concerns in North America, and reduced sector support in the EU are constraining slaughtering, leading to an expected 2 percent drop in bovine meat production in developed countries. By contrast, output in developing regions is anticipated to rise by 3 percent, with continued strong gains foreseen in China, India, the Republic of Korea, and Mexico. Per capita beef consumption in both developed and developing regions is set to drop by 1 percent to 22.7 and 6.4 kg/caput, respectively.

Higher prices and import bans on product originating from North America are expected to drop global beef trade by 8 percent to 5.6 million tons. North American exports, totalling 1.5 million tonnes in 2003 and valued at US\$ 4 billion, are expected to plummet by 50 percent. While exports from Canada will recover as the US lifts import restrictions on Canadian product, US exports are estimated to decline 82 percent. Meanwhile, as demand for beef from disease-free suppliers surges, shipments from South America might expand by 17 percent, with Brazil's share of global beef shipments rising to 22 percent. However, the gap left by beef trade restrictions on North American product is unlikely to be filled by product from South American or Oceania. Consequently, purchases by the major importing countries of Japan, Mexico, and the Republic of Korea are projected to fall by 35 percent, 30 percent, and 40 percent respectively. While Indian beef exports are likely to rise 14 percent, a marginal decline in Australian shipments is anticipated, on account of limited inventories and an appreciating currency. Meanwhile, the EU is set to register their second year as a net beef importer as exports decline for the fifth consecutive year.

The Pigmeat Sector: Despite limited pigmeat output gains and higher prices, trade expected to expand

Low returns to hog producers in the context of higher feed prices in 2004 are expected to limit pigmeat output to 97.7 million tones, up less than 2 percent from 2003. In many countries, production costs are exceeding market prices as international maize and soybean meal prices have soared 20 percent and 65 percent respectively compared with last year. Lower profitability facing many of the producers in Europe and Brazil, combined with reduced prospects for imports by Russia, are dampening major

exporters' production outlook. By contrast, in the United States, output is expected to rise by 3 percent supported by strong consumer demand. US producer and retail pigmeat prices remain unusually high given the glut of meat available in the context of export restrictions facing the beef and poultry sector. Overall, however, developed countries are set to experience a slight decline in pigmeat production this year. Meanwhile in Asia, which accounts for 56 percent of global output, and where the AI has bolstered pigmeat prices, output is set to increase by 3 percent. While per capita consumption is moving up in Asia and developing countries by 2 percent in 2004 to nearly 15.0 kg/caput and 11.8 respectively, it remains significantly below the level in developed countries, where consumption is expected to drop 1 percent to 29.2 kg/caput.

Trade prospects for pigmeat in 2004 are stronger than for poultry and bovine meats, with exports estimated at 4.3 million tonnes, or 2 percent higher than last year. Much of the increase is expected to be sourced in North America, which typically exports high valued cuts to lucrative Asian markets. Shipments by other traditional exporters are expected to be hampered by trade restrictions in Russia, which was the world's largest meat importer until its imposition of tariff rate quotas in 2003. Limited access to the Russian market, where imports are forecast down 12 percent, is set to reduce Brazilian shipments by 40 percent while the elimination of EU export subsidies early this year is forecast to reduce EC exports by 4 percent. By contrast, shipments from Mexico and Chile are anticipated to rise as a result of a trade agreement with Japan where strong consumer demand is bringing about an estimated 12 percent rise in imports, a new record. This is despite expectations that the strong import pace might retrigger the pigmeat safeguard, leading to higher tariffs in August.

Meat Price Implications: International meat prices are surging in 2004, as animal disease outbreaks in major meat exporting countries and bans on imports from disease afflicted areas are reducing exportable supplies. Expectations of higher prices for meat from disease-free zones in 2004 come on the heels of rising prices during the previous year. In 2003, the FAO trade-weighted meat price index rose 16 percent, as limited meat production gains lifted price by 42 percent for poultry, 19 percent for beef and 8 percent for pigmeat.

Policy Issues of Concern in 2004:

The accession of 10 new countries into the EU raises a element of uncertainty into the outlook. It is generally felt, however, that accession will only have a limited impact on global meat trade flows. Certainly, accession offers an opportunity to all countries involved to increase trade. The immediate impact will be likely increased product flow, both pork and high quality beef cuts, moving into the acceding countries. Similar to the US and Canada, hogs may move from Poland and other countries into Germany, be slaughtered and exported back as products. In the long term, increased investment flows into Eastern European countries and improved hygiene standards in existing plants will generate a more equitably flow of trade.

Trade policy developments in 2004 included reduced its use of export subsidies by the EU for both pork and beef, the continuation of restrictive TRQs in Russia, and in Japan, a reduction in the beef tariffs in April and the elimination of the pork safeguard. However, the safeguard may be reimposed by August due to the strong pace of imports. Protection for livestock industries in OECD continues to be high. OECD figures indicate that support for all agricultural products in 2003 is estimated at US\$312 billion, this compares to US\$637 billion total value of agricultural production. Estimated support to the livestock sector (excluding wool) is 104 billion, or 16 percent of the total support. The estimates for the various meats are:

Beef/Veal: 34 billion (32 percent of total support)

Sheepmeat: 5 billion (.5 percent of total support)

Pigmeat: 11 billion (10 percent of total support)

Poultry: 7 billion (7 percent of total support).

Meat Trade and Animal Diseases

Animal disease outbreaks hold high costs for economies around the globe, result in considerable market disruptions and price volatility as countries import barriers to trade and raise concern about increased cross-boundary risks of disease transmission and effective disease control.

A recent study by FAO measured the costs of selected disease outbreaks¹. These ranged from US\$ 9.2 billion for the FMD outbreak in the UK in 2001 to US\$ 6.6 billion for the FMD outbreak in Taiwan in 1997. The latter case led to significant and permanent changes in the pattern of trade, with the Republic of Korea replacing Taiwan as the major supplier of pork to Japan. The FMD outbreak in the Republic of Korea in 2000 then resulted in other suppliers filling the vacuum. Obviously FMD outbreaks were not limited to the EU in 2001; the South America countries of Argentina and Uruguay lost considerable export earnings, estimated at US\$ 440 million for Argentina and US\$ 178 million. These direct trade losses do not include the costs of public disease control measures, losses to producers and consumers through destabilized markets and fluctuating prices, and the general costs to the industry.

The increasing prevalence of policy measures imposed to ensure human and animal health are revealed by a proliferation since 1995 of notifications to the SPS committee at the WTO. Meat notifications have been rising quickly and constituted about 30 percent of total notifications. A preliminary assessment of notifications to the WTO in the first four months of 2004 reveal that the notifications have already surpassed 200, and accounted for more than 60 percent of total notifications. Certain, they are on track to considerably exceed the record level of 250 received in 2001. To-date, since 1995, out of the more than 4,700 notifications submitted to the SPS committee, 1,371 related to meat products.

The Challenges:

The complexity of the global trading system of meat products is expected to increase further in response to consumers' preoccupation about the ways in which meat is produced and sold. While long term prospects for meat industries are robust with meat demand expected to witness gains high than most other agricultural commodities, annual consumption gains are projected to slow to 2.2 percent annually through 2010. Similarly, growth in meat trade is expected to slow to 2.4 percent annually from the 7 percent gains witnessed over the 1990s. Trade growth for all meats is expected to range between 2.4-3.1 percent over the time period.

However, increased trade in meat product and greater intensification of production systems increase the risk of interantional spread of animal diseases, zoonose and food-borne infections. With greater scrutiny of meat production systems and the "hoof to plate" approach to food safety and quality, there is a risk of proliferation of divergent food standards, sanitary assurances and certification procedures. In addition, social concerns related to the environmental impact of intensive livestock production systems and the way of treating, raising livestock (animal welfare) will result in increasing legislation affecting the cost structure of industries.

It is increasingly clear that product quality and safety are passwords to success. In this increasingly complex marketplace, transparency, appropriate legislation, and greater collaboration between producers, consumers, policy makers, and international organisations is critical to enhancing participation in global livestock and meat markets.

¹ See FAO website for 2002 IGG document entitled "Animal Diseases: Implications for International Meat Trade" on <http://www.fao.org/Unfao/bodies/ccp/me/02/>.