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Future of International Markets -- Beef Cattle

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INTRODUCTION

As cattle producers are slowly working their way through the downturn in the current "infamous" cattle cycle what will the next century bring. At the turn of the last century the cattle industry was in its infancy relative to the position it currently holds in the U.S. agricultural sector. Some experts often refer to the cattle business as a mature, well established entity indicating that cattle producers, processors, and packers represent an established, stable component of the agricultural sector. However, the dynamics of this industry are anything but stable to the individual cattle producer. Thus, as we enter the 21st Century it appears to be a period of both opportunity and uncertainty for the beef industry. This brief paper attempts to identify what, where, and how the dynamics of this industry are likely to unfold given a global economy.

Rather than focus on just the domestic aspects of the beef cattle industry this article will address the international meat market and specifically where beef exports are headed.

World Meat

World production of beef, pork, and poultry was projected at 170 million metric tons (37.4 trillion pounds) in 1996 - a 25 mmt increase over 1991. Annual growth rates for these meats differ sharply - poultry at 5.6 percent, pork at 3.1 percent, and beef a mere 0.3 percent per year. The rapid growth in poultry is due to price competitiveness due to efficiency gains in production and a shift in consumer preferences. Most of this expansion will occur in China.

The following projections have been made by Food and Agricultural Policy Research Institute:[1]

- Share of beef in the meat bundle continues to decline in the Western countries and in Oceania, while that of poultry grows. Following the recent trend in the United States, per capita consumption of beef and pork are projected to remain mostly unchanged during the 1997 to 2005 period, while broiler consumption increases by 10 kg (22 pounds).

- In the Asian region on the other hand, per capita beef consumption is increasing

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[1] The FAPRI 1996 – International Agricultural Outlook. Staff Report No. 2-96. Food and Agricultural Policy Research Institute. Iowa State University and University of Missouri – Columbia. September 1996.

rapidly, partly because of the very low initial consumption levels. In Japan and Korea, beef is the preferred substitute for increasingly scarce seafood; it is becoming relatively inexpensive because of trade liberalization initiatives and is favored as a convenience food as the population adjusts to more Western style work and food habits. In China, sustained income growth will enable continued increases in total meat consumption, with rapid increases in both beef and poultry. Chinese per capita pork demand increased from 15 kg in 1985 to match the United States level of 31 kg by 1996, yet the total market share of pork declined from 86 to 70 percent in the same period. Another 10 kg increase in pork consumption is projected over the next ten years, while beef and poultry increase by 6 kg each (13.2 pounds equals 6 kg).

- Beef exports from the major exporters increase at an annual average of 1.7 percent during the projection period with most of the increase coming from Australia, Brazil, and Argentina. The United States remains a net exporter during the increasing phase of the cattle cycle. Low intervention stock and the lingering BSE scare depress EUs exports in the near term. FSU import demand is projected to soften as the economy turns around and the inventories start to grow by the year 2000. Strong import demand growth continues in Japan and Korea.

- An average annual increase of 3.3 percent is projected for pork trade. The primary demand growth in Japan and Korea will be met by increasing exportable surpluses from the United States. A near-term decline in exports is projected for EU because of continuing BSE-related substitution for beef. China continues to be a minor trading country in pork, despite its continuing role as the world's largest producer.

- Poultry trade is projected to grow at 5 percent annually, with import demand growing in Japan, Korea, Hong Kong, and China. Following the trend of the recent past, U.S. exports are projected to expand rapidly. Others expanding exports are the EU, Brazil, and Thailand, although in the near term export surpluses in the EU are trimmed due to BSE-related substitution in the consumption bundle.

World Beef

This section addresses beef specifically. In particular the major beef producing countries or regions are highlighted.

- The U.S. cattle cycle peaks (herd size) in 1996/97 with herd liquidation accelerated by the high grain prices of 1996, enabling world price to recover thereafter, reversing the steady decline since 1993. Rapid increases in U.S. exports in 1994-95 were attributable to the increasing phase of the beef cycle, demand growth for high-quality beef in Asia, and drought induced supply reduction in Australia, the U.S.'s major competitor. Despite a recession-related decline in exports to Mexico, the United States increased its total exports by 17 percent in 1995. US imports declined, mainly because of competitive manufacturing grade prices in the United States that discouraged Australian exports. The United States is projected to retain its recently

gained net exporter status through the year 2000.

- Chinese beef production and consumption are expanding rapidly, benefitting from substantial productivity gains in the sector. This trend in per animal productivity, along with potential inventory gains, will enable rapid expansion in Chinese production to meet domestic demand--increases brought about by income growth. Consequently, only marginal increases in imports are anticipated.

- The historical decline in EU's beef production is projected to continue, accelerated in the near term by the BSE-related liquidation in Britain. Britain accounts for almost 14 percent of the EU cattle inventory and the anticipated liquidation is nearly 4 million animals over a five-year period. Consumer demand, both within and outside of Britain, is expected to recover within two years. Per capita consumption that has been declining at 1.2 percent in the last five years is projected to fall by 6 percent between 1995 to 1997, before realigning to the original trend. As consumption picks up by 1998, exports are projected to drop, and then recover as herd buildup comes online.

- Japan and South Korea will experience declines in beef production because of import commitments and cutback of domestic support for beef and dairy. At the same time, demand for beef continues to rise with income growth and changing work and food habits. Japanese imports are projected to increase by 350 thousand metric tons (tmt) over the next ten years, while Koreans add 250 tmt to their imports.

- Australia continues its recovery from drought in 1997, with a near-term stagnation in beef output as herd rebuilding is undertaken. This will be followed by a gradual increase in production specifically targeted to the demand growth in high-income Asia. Production is projected to expand at 1.5 to 2 percent annually, with an average of 20 to 30 tmt additional exports every year.

- Canadian production continues to increase at a slightly faster rate than demand, enabling it to strengthen its net export position attained in 1996. Canadian herd size continues to grow and with the loss of transportation subsidies, it is very likely more cattle will be fed and finished in the western provinces.

- The turnaround in the FSU economy, led by Russia, will help the recovery of the beef industry. Near-term herd building requirements increase import demand temporarily

- The downward trend in profitability of beef production worsened in Argentina as the U.S. cattle cycle peaked. affecting world market prices. Despite favorable foot and mouth disease-free recognition, and recovery of U. S.-led prices, net exports remain relatively stable at less than half a million tons per year. Keep in mind though that the vast majority of Argentina's cattle herd are of English descent.

- Beef production in Brazil benefits from better productivity (more cattle placed in feedlots) as well as strong domestic demand growth. Hence, projections are continued

expansion of the industry and gradual increases in exportable surplus, with a total gain of 150 tmt in exports over the outlook period. Brazil has 122 million head of cattle of which 90 million are Nelore, a Bas indicus breed originating from India.

Summary

There are a number of very positive aspects to the U.S. beef industry. We have finally achieved a position of being a net exporter in 1996 - the first occurrence since the end of World War II. However, the amount exported amounted to only 6 percent of the total beef produced. Beef continues to be the preferred meat by the vast majority of consumers worldwide. However, beef s nutrition "image" has slipped - we have let the nutritional value be defined in terms of fat content. The U.S. beef industry is continuing to increase efficiency and most of our competition problems are economic. Can we make improvements? Certainly and most of our leading cattle producers are already low-cost producers. Thus, by focusing on costs and quality we will continue to be the desired protein food source. In terms of per capita consumption beef continues to lead the other meats and likewise the vast majority of each dollar spent on meat domestically is spent on beef.

The industry is taking small steps to improve quality and the end result is the industry will become product oriented rather than commodity oriented. Branded products, market orientation by producers (both domestic and foreign) and promotion of quality are all examples of the direction the market is moving. As world markets develop and expand, the beef cattle industry must be in a position to take advantage of supplying these markets with products that conform to the preference and orientation of the consumer who is paying the price for the product. For example, China's expected increase in beef consumption is 6 kilograms per person over the next ten years. This translates into about 13.2 lbs of beef per person which does not sound like very much but with a population of over one billion people this is 13,200,000,000 lbs. of beef. If a steer yields 700 lbs. of finished product this correlates to approximately 18.9 million head of cattle per year by 2005. Given that the U.S. slaughtered some 26 billion lbs. of beef in 1996 this number represents half of our total production.

In closing, there is a bright future for American beef cattle producers. This does not mean there will be not lingering problems or market fluctuations or environmental issues or consumer issues and concerns, or trade issues. However, if the beef industry takes a proactive approach rather than reactive stance, the U.S. will continue its reputation as the major world supplier of a high quality, safe and plentiful product.

Table 1. Population Projections

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
					(Percentage Change From Previous Year)						
World	1.55	1.53	1.50	1.47	1.44	1.41	1.39	1.37	1.35	1.33	1.31
Developed	0.72	0.69	0.67	0.65	0.64	0.62	0.60	0.58	0.56	0.54	0.52
Former Centrally Planned	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.45	0.46	0.46	0.46
Developing	1.83	1.80	1.77	1.73	1.69	1.66	1.63	1.60	1.57	1.55	1.52
Asia	1.58	1.55	1.51	1.48	1.44	1.39	1.35	1.32	1.29	1.26	1.24
Latin America	1.61	1.57	1.53	1.49	1.45	1.40	1.37	1.34	1.32	1.29	1.36
Africa	2.84	2.83	2.77	2.72	2.69	3.66	2.64	2.61	2.59	2.56	2.53

Table 2. Real GDP Projections

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
				(Percentage Change From Previous Year)							
World	2.6	3.0	3.6	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Developed	2.5	2.4	2.7	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Former Centrally Planned	-4.7	2. 1	6.4	5.6	5.4	4.7	4.7	4.7	4.7	4.7	4.7
Developing	4.8	5.7	6.4	6.4	6.3	6.2	6.2	6.2	6.2	6.2	6.2
Asia	7.7	7.5	7.6	7.5	7.1	7.3	7.3	7.3	7.3	7.3	7.3
Latin America	3.0	3.9	4.9	5.2	5.0	4.6	4.6	4.6	4.6	4.6	4.6
Africa	2.5	3.0	3.0	2.9	3.2	3.2	3.2	3.2	3.2	3.2	3.2

Table 3. Top Four Export Markets for U.S. Agricultural Products, 1991

Country	Billions on dollars
Japan	7.74
Canada	4.41
Mexico	2.88
S. Korea	2.16

Source: The above tables are located in The FAPRI 1996 - International Agricultural Outlook, Staff Report No. 2-96, Food and Agricultural Policy Research Institute, Iowa State University and University of Missouri – Columbia, September 1996.

Table 4. Production, Exports, and Imports of Selected Commodities 1990-1991.

Production		Export		Import	
Country /commodity	Percent of world production	Country	Percent of world exports	Country	Percent of world imports
Corn					
U.S.	42	U.S.	77	Japan	28
China	20	China	12	U.S.S.R.*	18
Brazil	5	Argentina	6	Taiwan	9
EU	5	Canada	0.3	EU	6
Mexico	3	EU	0.2	Mexico	3
Argentina	2				
Sorghum					
U.S.	33	U.S.	73	Japan	45
India	17	Argentina	17	Mexico	38
China	8	Australia	3	Taiwan	1
Mexico	5				
Argentina	3				
Australia	2				
Wheat					
U.S.S.R.*	18	U.S.	31	Other	42
China	17	Canada	22	U.S.S.R.*	16
EU	14	EU	22	China	10
U.S.	13	Australia	13	Japan	6
India	8	Argentina	5	Brazil	3
Canada	6				
Australia	3				
Oilseeds					
U.S.	28	U.S.	47	EU	37
China	15	Argentina	15	Japan	19
Brazil	8	E U	10	Mexico	6
Argentina	8	Canada	8		
EU	5	Brazil	6		
Canada	3				
Beef and Veal					
U.S.	22	EU	24	U.S.	31
U.S.S.R.*	18	Australia	22	Japan	15
EU	17	U.S.	12	EU	13
Brazil	7	New Zealand	9	U.S.S.R.*	8
Argentina	5	Argentina	8	Canada	6
Dairy Products**					
EU	42	EU	45	U.S.S.R.*	20
U.S.	19	New Zealand	20	Japan	19
U.S.S.R.*	11	Australia	11	EU	13
New Zealand	3	U.S.	6	U.S.	10
Australia	2	U.S.S.R.*	1	Australia	2

Former U.S.S.R.

** Dairy Products include butter, cheese, and nonfat dehydrated milk.

Table 5. Beef Cattle--Where are they?

	(million head)
India	194.5
Brazil	156.5
U.S.	103.2
China	101.0
European Union	80.0
Argentina	53.5
Russian Federation	40.0
Mexico	30.2
Canada	29.5
Columbia	26.0
Australia	17.8