

Perspective of a U.S. Packer Processor

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Unlike the previous speaker, I am optimistic about the export of meat in world trade. As the V.P. for International Sales, I must be optimistic. I think there is a great future in exporting meat. For those of us involved in foreign sales, we ask only for market access. Then let us see what we can do. This is a "customer-driven" operation. Tell me what the customer wants to buy, let me see if I can make it, let me see if I can export it to him at a price he is willing to pay and a price at which I can make a living.

I am optimistic about the opportunities in export sales. However, we haven't been "expert" in our exporting of meat to the rest of the world in the past. We make an excuse that the United States has really not grown up as an exporting country. When our founders came to this country, they imported everything because they had no industry. Little by little, as our country grew, our major industry became (and the welfare of the United States) agriculture. We've developed through the years the ability to grow more grain and raise more cattle and hogs economically than any other country. It's now important that we are a part of the export market. Up until the beginning of World War II, it was not necessary for us to export much grain or meat. We were busy just trying to produce enough to take care of our domestic population. Through technology, we now have the ability to grow probably three or four times what we can consume domestically. Risking stagnation, our agricultural industry, not only in meat but agriculture as a whole, needs to be in the export market. U.S. agriculture must have the ability to grow.

In 1988, beef exports contributed to the average value of fed cattle by an estimated \$2.83 per hundredweight, or \$30.00 per head. (If you include hides and variety meats, this increases to about \$74.00 per head.) \$74.00 per head off of the cattle sold in 1988 is a lot of cattle producers going out of business, and that means your business also goes downhill. In 1988, pork exports amounted to about \$2.25 a head; over 383 million dollars for the industry in total. Beef and beef by-product exports totaled over \$3.5 billion in 1988. Meat exported overseas in 1988 was produced from 72 million bushels of corn valued at \$164 million, and 3.1 million bushels of soybean meal at a value of over \$22 million. It is more profitable to run corn and meal through cattle and hogs than it is to subsidize grains and sell overseas.

These are my perspectives, so you may take some of the things I say as opinions. I understand that very few of you have 'hands-on' experience with exporting meat overseas. However, I've met many people here already, like Dave

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Hallet of the USDA, Jim Hodges for the AMI, among others, who are truly knowledgeable of meat exporting, so I have to stay pretty much on the straight and narrow.

Why Export Meat?

Speaking primarily of private industry, I know a little about agriculture and why we export, but most of the remarks are going to be related directly to exporting meat. Why do we export? Simply, it's profitable! I work for a meat packing company in the United States, and all of us have to stay in business. Exportation of meat, with value-added products, is today a profitable operation. As a meat packer, if we buy live hogs and cattle, slaughter, break them and sell the pieces on the yellow sheet prices we could go broke in about a week. To stay profitable in meat packing, you have to sell value-added product.

The United States meat packing industry is not the most efficient industry in the world. The packing industry seems to be behind in modern innovations. It's a low-profit industry. A few years ago, if you could make one-half cent on the sales dollar, you did very well. As most of you know, in the past few years some meat packers have not made a half-cent on the sales dollar. Many meat packing companies have changed hands, many mergers have taken place; and yet today we have the ability to kill twice as many hogs and cattle as we did 10 years ago. One of the problems our industry has is that we are over-capacitated. Every day we compete on the open market for live hogs and live cattle, because we must have a minimum slaughter on a daily basis to maintain operations. If you kill less, you lose money. On the other hand, if you kill more than the market can absorb, you lose more money.

Value-Added Products

To survive, the industry must have value-added products. Exportation of meat forced us to a value-added product. The overseas customers have dictated the kind of products they want to buy. So, as a meat packer, I am compelled to make the kind of product they demand, and thus, I add value to that product.

Exportation is a profitable operation; but it's not a big part of our business. Our corporation has sales approximating a billion and a half dollars a year. Our export sales are only 100 to 125 million dollars a year, but they are growing and they are profitable, because they are all value-added sales. Secondly, it's essential to a healthy and growing agricultural industry in the United States that we export agricultural products. To share Don Sharell's quote to the Agricultural Rural Development and Related Agencies, of the Sub-Committee on Appropriations to the U.S. Senate a few weeks ago: "U.S. agricultural exports are of major economic benefit to the United States. They generate foreign exchange to decrease the U.S. trade deficit. U.S. agriculture had a 14.7

billion dollar trade surplus in 1988. Agriculture products being exported out of the United States are one of the things we have as a surplus. That is one thing we do very well of all the balance of trade back and forth between the U.S. producing sector. Since every dollar of farm income turns over several times in the U.S. economy, that improves the living standards of all Americans and provides jobs. Every one billion dollars of farm export is directly linked to 25,000 non-farm jobs. It also helps people in other countries to enjoy a richer, healthier and more affordable diet, under better living conditions."

I guess that's another reason to be optimistic. I feel good about working in exports. I think the one thing we look toward, world peace, requires that we must be able to feed and nourish all the people in the world. It sometimes bothers me that all over the world we subsidize over-production, and then dump it, while we have millions of people in the world who are starving. If we are smart enough to go to the moon, we should be smart enough to share this food. Countries who have the ability to grow food must connect with the people who need it and want to buy it. That may be far-fetched, but I think it is a goal to which we have to look. "America's wealth cannot be separated from the bounty of the land. If agriculture prospers, the nation will prosper, and agriculture's well-being depends on being able to use its productive resources to sell into the global market. Promoting export sales is among USDA's most important jobs." This statement was made to the Sub-Committee on Agriculture Appropriations last year.

The Global Market

Meat is in the global market place. Exports affect our daily commodity prices. Product prices are affected every day by the export market. It is no longer a regional market. The price of hogs and cattle today, and their by-products, is affected by that global market. If I am not in the global market, I'm an uninformed person. I might as well be in there because if I'm not, somebody else's sales are going to affect my market. Ultimately, world trade is essential for world peace. Somehow the countries of the world have to be cooperative, and trade is one way we can learn to do that.

After spending 15 months in the Pacific and Japan back in 1945 and 1946, I've returned to Japan 93 times to develop our business. I've learned that the "ugly American" syndrome is not always accurate. In fact, that has been one of the deterrents of selling overseas by American companies. Our American perception dictates that we must have the best products, and therefore, you should buy them. That was the first mistake that Americans made when we tried to start exporting meat. Anything we had that was surplus, that we wanted to get rid of, we exported. We got the world-wide reputation of selling crap that we wanted to move out of the United States. In many countries today American meat, that you and I think is the best in the world, is difficult to sell because the customer had bad experiences in the past with American meat. You must go back to that customer, and ask what he wants to buy, and the way he wants it packaged. Then make that kind of product and sell it to him.

Packaging the Product

Meat packing, as most of you know, is an old industry in the U.S. Some 17th-century plants are still operating. It's easy for a production foreman, who is responsible for yields and production, to be unchanging. That's the easy way. For export, my responsibility is to get him to make a new product, and in most cases, make a product that's better. More closely trimmed, a better grade, packaged better and packaged in the way the overseas customer wants to buy it. This might be a quite different product than he is making for our domestic market. Why do we do it? Because foreign customers are willing to pay for it. As long as the customer's willing to pay for it, then we're going to make it that way. Our exporting of meats has forced us to make better products domestically now than in the past.

Traditionally, in the meat packing industry, we take a perfect finished product and disassemble it into pieces, and then try to sell the individual pieces and parts. As I said, if you do that on a daily basis, you are going to go broke. So we must have added value, we must do something to the product to increase its value. We are a "customer-driven" industry, especially in export. We've got to learn what that customer wants and make it to his satisfaction. This is not necessarily an easy task.

Exporting Problems

What are some of the problems in exporting? I am not going to dwell on the trade barriers, duties, variable levies, gate prices, subsidies, quotas, documentation and certification requirements as to health and product safety. Those I think have been mentioned previously today. With these I must comply, and can do very little to change them.

You have the language barrier, but that can be overcome. In Japan, I have a six-staff office, all of whom are bilingual. They are Japanese and there is no language problem. However, in dealing with contracts you should always use English because it's easier for both parties to understand. Nevertheless, I have made many deals with no written contract at all. Some of these sales have run into millions of dollars, and when we agreed, we shook hands...that's it, "we go". You must hold up your end of the bargain with that Japanese customer *because he trusts you*. I don't know whether this is true all over the world, but in Japan you may have many contracts by verbal agreement only. First you have to be accepted. The individual who goes over to sell to the Japanese has to be accepted personally...they have to trust you. After he starts to trust you, you have a responsibility to see that both parties' interests are protected; both his and yours. After you have established trust, then he studies your company. How strong is it? Are you going to be a reliable supplier? Not only does he want exact specs on the product, but he wants it produced and packaged in a very exact way. You must be a reliable supplier to get repeat business.

After some 93 trips to Japan and 10 to 12 trips to Europe, Moscow and the mid-East, if there is one thing I have learned, it's that each time I return I find that I didn't know as much as I thought I knew when I started. Again, this gets

back to our American way of thinking that anything American, and the way we make it, is almost perfect, so everyone should accept that. That's a hurdle we have to overcome. We have to look and see what that customer really wants to buy, and analyze what it's going to take to make it. It may be a different or better product than we are making here. Doing this, we've developed a lot of new packages in the U.S. because of what the customer overseas wants. In so doing, our packaging has improved significantly in the past 10 years.

Packaging is much different, for most export sales than it is in the United States. For instance, in Japan products are sold by the gram...so many yen per gram. One hundred grams is a little bit less than a quarter of a pound. A 200-300 gram package is about standard. When you see packages of processed meats in the United States, you buy a pound or two, or if you want a real deal, you buy a five-pound package. The Japanese consumer shops every day for food. She is interested in buying 100, 200 or 300 grams. At most she will take home 3/4 pound of meat. It may be pork, beef, chicken or fish. She will be back shopping again the next day, looking for the very freshest products available.

As an exporter, I have a tough time producing product in the midwest, shipping it to the west coast, transporting it to Japan, clearing it through their customs and getting it into the supermarket, then competing on a fresh basis with domestic products. Your organization is one that is going to contribute in the future in helping to improve the safety and shelf-life factors so that we can compete world-wide. Australia, probably Argentina, some of the European companies in Denmark and Holland, do a better job in those areas than we do in the U.S. We need basic R & D in the meat packing industry

to address some of our export problems. My company two months ago opened a 5.5 million-dollar R & D center. Some of the projects that we are working on are projects that require developing new packaging and longer shelf life. It also involves taking a product that is in excess in the U.S., and converting it to something that will sell overseas. This research will start to pay off with new customers and sales in the future.

For the past 2½ years, we've been working with individual customers to ship "chilled pork" and "chilled beef" to Japan instead of frozen. These are all boneless cuts and vacuum packaged. This product goes to Japan both by air and by ship. The product going by ship arrives in Japan three and a half weeks later and must be in as good condition as domestic products they're handling. Most foreign customers prefer chilled to frozen products; but to produce and ship chilled takes a lot more special handling all the way from the livestock producer through the ocean shipping to customers in Japan. The cutting, packaging and shipping must all be done with exact temperature control. All of this is adding value to the product and that makes it profitable.

The previous speaker said there are many things on the horizon that can make you very pessimistic about exports in general, but I'm still optimistic that we can continue to increase meat exports, but we must be able to export well in order to compete and increase market share from our competitors in Australia, Argentina, Taiwan, New Zealand, Denmark and all other countries. Export production will take extra time, expertise and patience but the payoff is essential to the agriculture of the United States so we must keep on exporting.