

# An Overview of International Meat Trade

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First of all, I would like to thank AMSA for providing me with an opportunity to speak to this esteemed group. It is an honor and a pleasure. However, I am awed and somewhat staggered by the enormity of the title of this presentation. To capsule an overview of the international meat market in about 30 minutes is quite a task, but I'll endeavor to do so.

To begin with, I would like to briefly describe the U.S. Meat Export Federation. The USMEF was started about 14 years ago by progressive and far-sighted U.S. meat packers and U.S. meat producers who perceived the potential for export of U.S. high-quality grain-fed meats. The USMEF is headquartered in Denver, Colorado, with a staff of 17 and 50 employees worldwide. Recognizing the tremendous export potential for U.S. high-quality beef and pork, the USMEF opened its first office in Tokyo, Japan in December 1977. Soon afterward, offices were opened in London; Hamburg, Germany; Caracas, Venezuela; Singapore; and Hong Kong. Very recently, we have hired a man who is covering Mexico and the Caribbean area where we see tremendous potential.

## USMEF Goals

The mission statement of the USMEF is to enhance the ability of the United States to export red meats through market development, trade servicing and the reduction of trade barriers. Now this encompasses many, many different activities. For example, last year in Tokyo we conducted over 3,000 promotions. The USMEF does tie-ins with various chains — restaurant chains, food service, wholesalers, all different types of restaurants or organizations purveying or retailing meat in Japan. We do this to facilitate and help the Japanese become more knowledgeable about our product and what distinguishes our product from the competition.

We also conduct research in the Japanese market. We have just completed a major research project where we looked at the Japanese consumers, Japanese trade and major organizations, trying to ascertain what is going to be the demand curve and what are the changes that will occur in Japan with the new beef agreement.

In addition to that, we work with a large number of trade teams. We invite many, many Japanese to the United States to visit our industry and see our production sector, packing sector, food service sector and on down the line. We have many different types of activities that we're doing with Japan and with many other countries.

Our former U.S. Secretary of Agriculture, Mr. Richard Lyng, was one of the founding fathers of the USMEF; the

current Secretary of Agriculture, Mr. Clayton Yeutter, was on our board of directors for a number of years and, of course, Mr. Curt Beatty who is here today is the current Chairman of the USMEF, so we've been associated with some very high-powered and highly-profiled people.

## Developments in Japan

I think when pondering the overall state of the worldwide meat trade in a macro sense, we can say that the past 12 months have been significant, but sometimes fraught with sunshine and sometimes with typhoons; but that's how international trade is. It's clear weather and it's cloudy weather. But, on the sunny side, after arduous negotiations that lasted over 14 years, the Japanese have finally agreed to open up their beef markets April 1, 1991. This market represents the most long-term growth potential of any of the advanced countries of the world.

Japan, by the way, has the lowest level of red meat or beef consumption of any advanced country in the world. On the other hand, they also have the highest buying power of any nation in the world. Japan has a population of 127 million people. Their per-capita GNP is about \$23,000 per year. When you put these two facts together, it's a formula that's very opportune for exporters on a worldwide basis who wish to export to the Japanese market.

In many respects, this argument represents one of the most exciting events of the decade because what Japan has done by opening up its beef market is to renounce 35 years of agricultural policy. This policy was severe agricultural protectionism. When their farmers had problems, the Japanese government would institute protection mechanisms and then distribute more to help farmers to try and make them more competitive. What has happened is that Japanese farmers have become very non-competitive vis-a-vis worldwide competition. So the decision that Japan made in these beef negotiations was to open up the market. Their farmers, in 1991, will compete with worldwide producers and this is going to be a tremendous benefit to Japanese consumers. As I mentioned before, this market has 127 million consumers, the highest buying power in the world and the lowest consumption rate of red meat.

## Canadian Free Trade Agreement

I think that another very significant event that occurred recently was the signing of the Canadian Free Trade Agreement. The likelihood of a similar agreement, possibly with Japan, has been discussed. I know that when Ambassador Mansfield was in Japan he talked about a special relationship with Japan. We've seen Senator Baucus from Montana talk about this, both in Japan and here in the U.S., and I think this is something that has a lot of potential. It is being studied, as is a possible similar agreement with Mexico. So I think the example that has been set by the Canadian and U.S. Free

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Trade Agreement is being closely watched.

### GATT Discussions

Another very positive step that has occurred here recently is the GATT new round discussions which concluded with both sides agreeing to what they called "phased reductions in subsidies." This is an important first step because I think all of us here firmly believe that our products should be produced and exported representative of our production costs. They shouldn't be sold representative of importing countries' production costs. So I think what we're seeing here with the GATT is that we will not have trade-distorting subsidies. This has been a major problem and the whole mark of U.S. agricultural trade policy — the theory of "comparative advantage." If we can produce a product at a cheaper price and that product can be competitive in Japan, we should be able to sell it in Japan representative of our production cost. It's a very simple theory but it's been very, very difficult to act upon.

Efforts are also underway, and this is all tied in with the new GATT round of discussions, to harmonize meat inspection standards on a worldwide basis. This is something we welcome very much. It is of little consequence to roll back tariffs and duties, quotas and other trade barriers and then be regulated out of a specific market because of differences of interpretation of what constitutes safe and wholesome meat inspection. We find this is a severe impediment.

### Storm Clouds

And of course, as with everything in this world, the sunny days are usually followed by dark and ominous storm clouds and the last 12 months in the meat industry have been no different. The darkest, most ominous cloud that we've had in this past year is the hormone ban where we were basically relegated out of the European market. The hormone ban became a reality the beginning of this year with the cessation of all meat trade from U.S. to Europe. The U.S. and the EC have set up a task force to try to resolve this dispute and there are still a lot of questions as to whether this can be solved bilaterally or multilaterally through the GATT. We don't know the answers but the U.S. is pursuing both options, both bilateral negotiations and through the GATT. An agreement has been reached and I repeat, "agreement." This is not a solution, but an agreement has been reached which would essentially allow EC officials to approve U.S. producers who raise untreated animals to export to the EC. The producer, the feeder and the packer must provide an affidavit certifying that the animals have never been treated and have been separated from other carcasses in the packing plant. In other words, there has to be an affidavit from the producer, from the cow/calf operator to the stocker to the feeder through the packing plant. And, of course, we know the Europeans currently have only five veterinarians overseas worldwide so it's going to be very difficult for them to monitor this type of thing.

The animals must also pass through an EC-approved slaughter facility. I think we have nine such in the U.S. right now that are in compliance with the EC Third Country Meat Directive to be eligible to export to the European Community. We have a long way to go. The core of this agreement is that

the EC will be doing the certifying and be responsible for enforcing their own standards. This proposal basically is not expected to move much beef and virtually no variety meats.

This agreement does not resolve the issue between the EC and the United States. It is not a solution. We can only feel that there will be a solution when we start exporting product to Europe. Under the current agreement, we will not export product. The affidavit system, for example, could take as much as 18 to 22 months. There's a long cycle and we really don't see anything that's positive to speak of. The only real solution to this ban will be when the Europeans rescind the ban and that's something I think the U.S. and other trading partners are finding it hard to reach.

### Food Safety Issues

Another thing that we're talking about when discussing clouds on the horizon are problems about which we have to be ever vigilant — food safety issues. Food safety is becoming much more of an issue worldwide. In January, for example, we had a meeting of our foreign directors and food safety was clearly identified as the primary concern. This was an issue we hardly discussed 2 to 3 years ago on a worldwide basis as far as trading meat. Today, food safety has become one of the primary issues and I think this is something that we're going to have to give much more consideration to in the future when we're promoting our products. For example, the FSIS, which is the safety system we have in the United States, is very much a well-kept secret on a worldwide basis. We need to amplify to our foreign customers the safety assurances that the United States can provide. Also the GATT and the new round of discussions focus on harmonization of meat inspection standards and these types of things. This is a welcome development and we hope that this will be successful and resolved soon because this is something that is very important.

From the USMEF side, we've also recognized food safety as an issue. Again, in Japan where we export 75% of our beef, we've been working diligently; especially since the European problem arose. We've hosted Japanese journalists, Japanese scientists, to try to elucidate to them the quality assurances that we can provide our consumers and we feel confident that Japanese science will not go the way of Europe. They will not address this thing politically or emotionally, but will let science speak and will resolve this issue. We feel that we do have a very good possibility in Japan of appreciating our sales and that the Japanese will look at this scientifically.

### Other Issues

There are other issues that are affecting us. Animal welfare and animal production practices are being questioned in Europe, the U.S., Canada and Japan. As we enter the 1990's, these issues are coming more and more into question. We're going to have to address these issues in the 1990's.

Another area that we have to be quite cognizant of would be the residue-related label claims on beef. We're seeing, for example, natural vs unnatural; and treated vs untreated beef. Residue vs. non-residue beef. As we debate and discuss all these issues openly in the U.S. and in other places in the

world, the worldwide effect is a negative for consumers. They don't really understand "treated, untreated, residue-free, residues, natural vs. unnatural." What does this mean? And so what we see is that every country we deal with has an embassy in Washington, and consulates all over. There is much news available to all these countries and these are issues that come to all of us. We've visited certain countries and they say: "We want natural beef, not unnatural beef." Now what the hell is unnatural beef? This is becoming much more manifest. I think also we're starting to see it in the U.S. Some retailers in the U.S. are even opting to have their own private testing in addition to the USDA testing. We see this as something that could be coming up in foreign markets. It's not just the FSIS or the USDA seal of approval or whatever; but will foreign markets also do likewise?

Another thing that most of the people in this room are concerned with would be microbial growth. Bacteria is probably the biggest concern of anybody in the meat business today. Well, this is also the concern overseas. I was in Japan in March and I spent much time with the Japanese government officials; and they were concerned about the USDA's attempt to streamline meat inspection. I think you're all familiar with the issue. The decision came out about a month ago, the USDA will not streamline meat inspection and, of course, this news is most welcome overseas. We will have inspectors in every plant, and plants will be checked on a daily basis.

In other areas, for example, we have a consumer affairs specialist in Tokyo. We have people who are dealing with our consumers and consumer affairs in Europe. You know the environmental thing has become much more amplified. Cholesterol, fat, diet health issues, all these things that are so prevalent here are issues that we're seeing on an overall worldwide basis. So selling meat from the U.S. is not a question of just having a high-quality product that has a lot of food safety assurances and is grain-fed or whatever, there's much more that we're selling when we're selling our meat overseas. We're selling our food safety, we're selling our whole infrastructure production. It's not just the red meat product itself.

### The World Market

Now let's look more closely at the world market. I think first let's look at North Asia since I think North Asia is definitely a market that is very dear to me. I spent almost 10 years in Japan and I'd say that recent events in China are most disturbing, because any destabilization that occurs in China basically affects the whole Pacific Rim and I think that's the case we have right here. We're all hoping that China will return to some semblance of normalcy soon because it affects tourism into Hong Kong. We didn't sell that much meat, I think Australia and New Zealand did better in China than we did. We sold maybe about 200 metric tons of high-quality beef into the hotel trade in China, which is not a lot when you compare that to Japan, but the net effect means that China has a tremendous effect in Korea, Japan, all over the face of Asia.

And, of course, the big market is Japan. Japan, as you all know, is the cornerstone of our U.S. export initiatives. It's our No. 1 market, our No. 1 beef market, pork market and offal market and they're our No. 2 lamb export market. Last year,

75% of all the beef and 65% of all the pork we exported from the United States went to Japan and that percentage is going to increase. Our exports to Japan are going at a much more accelerated rate than any other market in the world.

I think the thing that's more important about the Japanese market is that as of April 1, 1991, the market is going to be totally open. And again I think this is most significant, this is probably the biggest event that's happened in the last decade because we had a market that was so closed, so protected and the Japanese have completely reversed 35 years of their agricultural policy. This is significant. In 1989, the market will have a quota of 334,000 metric tons. This is a huge market when we compare it with Europe's quota of only 10,000 metric tons. It's a big, big difference. In 1990, Japan will increase their quota to 394,000 metric tons. So when the market is opened up, we'll be selling close to 400,000 metric tons.

### Distribution in Japan

One of the problems we have had in Japan for years is the Japanese distribution system. I think all of you are probably familiar with the complexity of the Japanese distribution system or at least you've heard about it. The meat market in Japan was no different. In fact, it probably had all the worst characteristics of the distribution system. However, in the 1984 negotiations, we identified two things that are very important in marketing that the U.S. supplier or any supplier must know—how his product is being accepted in the market and who his customer is in the market. In the Japanese market in previous years, we never knew who our customer was and we never knew how our product was being accepted. So we pushed and pushed for something that ended being called the SBS system, Simultaneous Buy-Sell System. It's where a supplier can meet with the Japanese end-user and negotiate terms, delivery dates, product specifications of their sale to Japan. We pushed for this in the current set of negotiations that we completed last year. In 1988, the SBS amount went to 30%; in 1989, the amount is 45%; and in 1990, the number will be at 60%. When the market is ultimately opened up in Japan, the majority of the meat being traded will be sold by private U.S. companies to private Japanese companies. We think this is most opportune because when once you lift the wall, once the market is opened, our packers and suppliers already have access to 60% of the market and we can just crescendo, we can just keep building on what we've already started. We think this is opportune for all suppliers to basically have more penetration in the Japanese market.

### Japanese Tariff

Also, the tariff in Japan is now at 25%. I think everyone knows that in 1991 the tariff will be increased to 70%, in 1992 it will go down to 60% and in 1993 it will go to 50%. This is very high. According to the GATT or anyone else, 50% to 70% tariff in a country as advanced as Japan is very, very high. We have calculated that the ad-valorem equivalent of all meat being traded in Japan from the time it hits the border until it hits the end-users is about 275%. Now what you're going to have is a 70% duty collected at the border, so even though 70% seems high, it's much lower than what we

actually would have encountered if we had continued with the same system. So this is a positive. Of course, we also have tariff reductions on processed meats going to the Japanese market. There are tariff reductions, for example, on beef jerky, pork, all kinds of processed products. Quotas will be going down. And quotas on jerky, processed meats, corned beef, etc., will be eliminated in 1991. We see this as very positive. I think we're all very excited about the Japanese market and we're very excited about the steps the Japanese have taken. We don't think the Japanese took these steps due only to outside pressure; there was a lot of pressure from within that generated this change and so we feel it was a very complementary agreement to both sides. Of course, we're looking forward to the prospects in that market.

### Hong Kong

I think another area that we would have to take a look at would be Hong Kong. Last year, the United States sold 2,337 metric tons of beef to Hong Kong. Hong Kong only has 5½ million people but they have 30,000 hotel rooms, which is very important. It's a big tourist trade, a lot of people go there. About five million people go in and out of Hong Kong per year. It's the entry port to China, so we see Hong Kong as a very important and growing market. Also, it's our No. 2 market in Asia as far as all of our value-added meat exports go. That's including processed meats. Hong Kong is a very small market, but an important and growing market.

### Korea

Korea is also a market that has a lot of potential. Koreans basically enjoy red meat consumption, both beef and pork. I think they're predominantly beef consumers. Our market was open in Korea until 1985, then the market closed due to some problems. Their prices were going down very dramatically. The cow herd, the cattle numbers in Korea, went down from 3 million head in 1985 to 1½ million head now. GNP rates of growth, for example, and per-capita growth in Korea have been going up at 10% per annum the last 2 to 3 years. It's continuing to accelerate and there is increased demand, increased consumption, increased buying power in Korea but much less productive capability. They're down by 50%, so what we see is a long-term potential in the Korean market. Right now, the U.S. product is a high-quality grain-fed product and we're really only appealing to about 10% of the market. Last year we sold about 5,000 metric tons of beef to Korea, but by the end of May of this year, we had sold over 10,000 metric tons. So we're seeing some dramatic increases in this market. The Korean total quota is 39,000 metric tons and it is predicted that they'll probably import close to 60,000 metric tons this year, so we see Korea as a strong potential market. So does Australia. For Australia, the U.S. is the No. 1 export market, Japan is the No. 2 export market and Korea already is their No. 3 export market; so Korea is very important to the U.S. and to Australia.

### Taiwan

I think another well-kept secret is Taiwan. Taiwan has half the population of Korea, it's only 20 million people. However, they have strong buying power and their economy is on an upsurge. They bought half the amount of meat that Korea did

last year, about 2,500 metric tons, but we see more consumption and more growth in that market. It's becoming a much more diversified market. In Japan 25 years ago, you had pretty much all Japanese-style restaurants. Now you can go to Japan and there are all kinds of steak restaurants and family-style restaurants. We're seeing a tremendous proliferation of these kinds of restaurants, steak houses, etc., in Taiwan as well, so we think the future looks bright in Taiwan. But of course, the population of only 20 million people limits it from being a big, big market like Japan.

I would say in all these markets we're very positive about North Asia. The GNP growth rates in these countries are between 6% and 10% so you're going to have increased buying power, but I think North Asia is also being followed very, very closely by Southeast Asia. That's another well-kept secret. I think economic growth in Asia is actually shifting southward as inflation, higher consumer prices and higher labor costs have become much more manifest in North Asia. South Asia appears to be in the middle of a growth cycle while North Asia could be at the end of one. I think the South Asia economy, with higher commodity earnings and cheaper currencies, is clearly benefitting from a change in the balance of regional competitive advantage in Asia. Southeast Asia now lags behind North Asia as far as U.S. imports. However, with the industrialization process underway, I think it is only a matter of time before countries in this region begin to emulate their northern neighbors as major buyers of U.S. beef. As disposable incomes continue to rise, I think meat consumption will also rise in this area. Again, Southeast Asia's ability to produce enough beef to meet this rising demand appears to be questionable at best. We at the USMEF envision that Southeast Asia, like its North Asian brothers, will continue to be a net importer of beef, especially because the demand for high-quality beef will continue to outstrip the supply in Southeast Asia.

### South America

I think we can look at South America; of course we have a gentleman here from Argentina. It's very difficult for me to be too detailed on this, but I think we do not look at South America as a competitor since we produce a different type of product. We provide a grain-fed product, their's is finished on grass. South America has been always a net exporter of beef on a worldwide basis. We understand, however, the basic prices from South America have gone up almost 40% to 50% since December. There is a worldwide shortage. They've had drought in Uruguay, and Brazil has ceased exporting products. Brazil is now a net importer of beef. We're seeing some problems down there. I'm sure the numbers will justify that they can still supply their traditional customers. We understand there is some stress in that area so we're going to be watching this. Of course, we're always watching what's going on in Brazil, Argentina, Uruguay and Venezuela. We think there might be some potential in Venezuela for our high-quality products.

### The Caribbean

I think the Caribbean is another well-kept secret. Probably most of you don't know that 51% of all the meat that's imported into the Caribbean value-wise is from the United

States. We always think of our numbers as much lower down there but we do sell a high-quality product and a high-quality processed product. The Bahamas, for example, are our fifth largest export market for beef and our fourth largest export market for pork. The numbers again are not as high as Japan or Korea or Taiwan, but they are still significant.

### Mexico

Another market that we see as very exciting is Mexico. Mexico was our No. 3 export market last year. We sold 15,000 metric tons of beef to Mexico last year. This was up 276% from 1987 figures. Our pork numbers, at 12,980 tons, were up 387% over 1987. Beef offals at 36,000 metric tons were up 60% from 1987. Pork offals at 56,000 metric tons were up 259% and lamb was up 45%. So I think Mexico really appears to be a market that's really looming. Their inflation rate two years ago was 159%. Last year, the inflation rate was at 58% and this year it's predicted to be 17% to 18%. There is no duty on beef going into Mexico. There's a 10% duty on pork and 20% duty on lamb. Their cattle numbers are down. They've exported a tremendous number of feeder cattle to the United States. We see the Mexican market as a very strong potential growth market. Also, they're diversifying their economy. Ten years ago they were heavily motivated by the oil economy. That fizzled out, as you all know, so they're re-diversifying. They're looking at tourism, agriculture, oil, many different things. There are many Japanese and Korean companies investing in Mexico and we see this as a new market, maybe a new Korea, as far as its development growth.

### Europe

I think the last market I would like to discuss is Europe. Again, I think all of you know about the European hormone ban. However, we are convinced that there is a market in Europe for U.S. high-quality beef. We recognize that we produce a high-quality grain-fed product. We know that they finish most of their product on grass. Of course the hormone ban is well known, but I think there are also other impediments to us selling in Europe. One would be the EC licensing system. One of the reasons that we know that there is demand for our product is that they have a quota in Europe of 10,000 metric tons. Europe is a much more protected market than the Japanese market ever was. The Japanese only had a beef quota. The Europeans have the hormone ban, the Third Country Meat Directive, a licensing system, a quota of 10,000 metric tons and variable levies. So they have five or six different impediments that we have to jump through to even sell our product in Europe. We know that licenses for the 10,000 metric ton quota last year were oversubscribed by 1,000%. This shows us that there is a demand for a high-quality grain-fed product in Europe. We think it's a two-tier

market. The Europeans would like us to think it's only a one-tier market but we feel there is a market for high-quality beef in Europe and there's a market for the grass-fed beef in Europe.

So these are the issues and impediments that we have to work on but I would say we've pretty much complied with their plant standards and things were going on pretty well as could be. But after we resolve the hormone ban, we still have this issue of the quota of 10,000 metric tons which pales in comparison to Japan and many other markets. We have the licensing problem and of course we have those variable levies that have been instituted in Europe since the 1950s. We look forward to trying to penetrate the world's largest consumer market; a market that will be 320 million consumers, the largest single block of consumers in the world with the tremendous buying power of the Europeans with their penchant for high quality. We feel it's a very good marriage, our meat with the European consumer, but we just have to work on resolving some of the other impediments that get in the way.

### Other Markets

I think another market, another area that is also important that we haven't worked very much from the United States standpoint, would be the Soviet Union and the Eastern Bloc countries. We're looking at these markets. We understand there are meat shortages. We understand that the Soviet Union is trying to determine if it should be importing more meat. Maybe they are thinking: "We're importing a lot of grain and finishing some pork, should we actually take a look at importing meat itself?" We'd like to work with this and pursue this but it's still very early on.

### In Conclusion

I'd like to say that although I have talked about storm clouds and I talked about the sunny days, from the standpoint of the U.S., in spite of all the problems we appear to have, we had a very good year last year. If we just look at exports 1988 over 1987, our beef exports were up 44% last year and worth well over \$1 billion. Our pork exports were up 102% last year, our beef offals were up 26% and our pork offals were up 366%. I think the export picture is bright. I think we have to be ever vigilant of what's going on in the world.

I heard a speech last week at our annual board of directors' meeting where a gentleman was talking about how we can either become the victims of circumstances or we can become the victor of circumstances. I think with all of us in this room, all dedicated to the basic approach of trying to export more product and higher-quality product and the assurances we can provide as far as safety, I think we definitely can become the victors of circumstances!

