

## Commodity Spotlight



# U.S. Red Meat & Poultry Markets In a Global Setting

As the U.S. has become a larger player in world meat export markets in the 1990's, events in other major exporting and importing countries have had a greater effect on domestic prices and production. Not only are domestic producers affected by world prices and quantities of meats traded, but they are also affected by the changing composition of the trade, i.e. the products being traded. As a result, the U.S. market outlook is now determined in larger part by the global market than was the case before the export surge of the 1990's.

After several years of rapid increases, growth in U.S. red meat and poultry trade is expected to slow in 1998. Red meat and poultry exports are expected to grow about 2 percent in 1998, compared with the double-digit rates that have prevailed until now in the 1990's. About the same rate of increase in meat exports is forecast for 1999 as for 1998. Production is expected to increase about 3 percent in 1998 and remain about the same in 1999. After generally declining in the 1990's, U.S. meat imports rose 11 percent in 1997 and are expected to rise about 10 percent in 1998 then taper off to about 3-percent growth in 1999.

During the last decade, global production (defined as output in the major producing

and trading countries as reported by USDA's Foreign Agricultural Service) of meat—beef, pork, and poultry—has increased about 3 percent annually. These gains have been led by poultry and supported by pork. Poultry meat production has expanded more than 5 percent each year on average, offsetting little or no growth in beef production since 1988. Global poultry meat production surpassed beef in 1995, and the gap has continued to widen as beef production has remained stagnant. Pork is the most widely produced meat, with China accounting for over half of the world total.

China's output has determined trends in global meat production over the last decade. China's meat production has jumped 10 percent annually since 1988. When China's production is excluded, global production of meat has risen only about one-half percent each year. Beef and pork production have actually declined, and only poultry meat shows an increase—nearly 4 percent—each year.

Poultry meat is a cheaper source of meat protein than beef, and consumption growth has been especially strong in China, Russia, and Mexico in recent years. Even in a developed market such as the U.S., consumers are buying more poultry. Lower prices relative to red

meats, the convenience of processed poultry products, and promotions of poultry products in the fast-food industry have all contributed to this trend.

As a result of the strong and growing world demand for poultry meat, global exports have advanced at a double-digit pace in the 1990's. Pork exports have increased at about 3 percent annually, while beef exports have actually declined. The U.S. supplies about 53 percent of global poultry imports.

In 1998, global production and consumption of beef, pork, and poultry meat are expected to expand about 3 percent to nearly 188 million tons. Production growth is slightly higher than in 1997. Exports from the leading meat exporting countries, with the exception of the European Union (EU), are expected to decline in 1998. U.S. red meat exports are not expected to expand in 1998, the first time since 1985, due to a 2-percent reduction in beef foreign sales.

In 1998, the U.S. meat and poultry sectors are confronted with three major hurdles: the lingering effects of food safety concerns, the Asian financial situation, and the increasingly competitive environment for meat trade.

In 1996, the bovine spongiform encephalopathy (BSE) situation in the EU contributed to a slowdown in the growth of global meat consumption and trade. The lingering effects of food safety concerns began to dissipate in 1997 and the outlook for both beef consumption and trade began to improve in the latter part of 1997. However, during the last quarter of 1997, Asian beef imports began to slow as reports of *E. coli* and listeria contamination in other Asian markets raised concerns about food safety in the beef supply. In 1998, beef consumption in Asia is expected to fall as consumers return to eating more pork.

The avian influenza outbreak in Hong Kong and subsequent slaughter of Hong Kong's poultry flock added more uncertainty in one of the largest poultry trade markets going into 1998. An outbreak of foot-and-mouth disease (FMD) in Taiwan in 1997 shut that country, one of the largest pork exporters, out of the global export market. Classical swine fever (CSF) has disrupted EU pork markets.

The Asian financial crisis hit in the last half of 1997, threatening to limit meat imports and reduce consumption growth in some major Asian markets for the U.S. The U.S. sends 40 percent by volume and 53 percent by value of its total meat exports to Asian Pacific Rim markets. In 1997, U.S. red meat—beef and pork—exports to Asia were valued at \$2.5 billion and poultry meat exports were \$680 million.

Partly as a result of the Asian financial crisis, the competition in global meat markets is probably as great or greater than ever. The bulk of the global meat trade is concentrated in a few major markets, and as consumption growth slows or shrinks in key markets, competition will intensify. The devaluations of the Thai and Korean currencies substantially boosted their competitive position in the export market for poultry and pork. The strengthening U.S. dollar against the Australian dollar is also likely to provide opportunities for expansion of the Australian share of the Asian beef market.

### ***U.S. Exports Mirror Asian Market Demand***

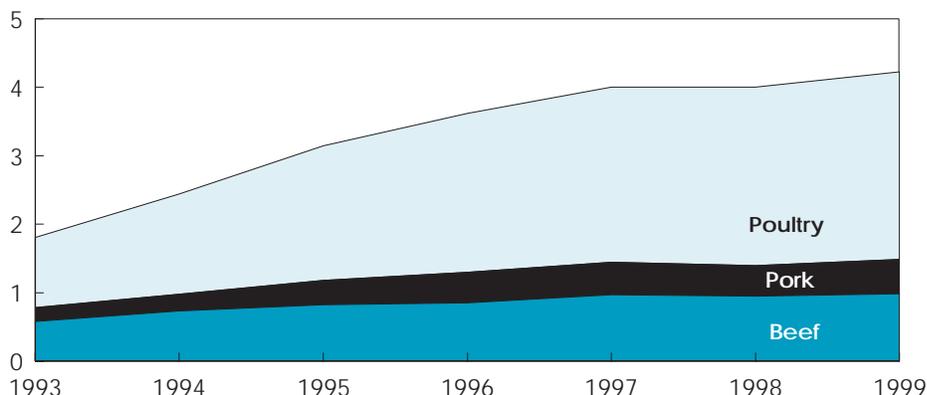
Reduced demand in Asian markets, especially Japan and Korea, will lead to significantly reduced U.S. meat exports this year. Japan's sluggish economy is likely to temper any advance in meat consumption. Pork consumption in Japan is expected to rise marginally, having declined in 1997 after food safety concerns and the FMD outbreak in Taiwan that cut off imports from Japan's leading pork supplier. Beef consumption is expected to remain the same as last year and poultry meat consumption to decline slightly.

The U.S. is also expected to face increased competition in reaching the Japanese market. Japanese trade statistics for the first quarter of 1998 indicate that Korea has nearly tripled its pork exports to Japan early in 1998. The sharp devaluation of the Korean won has substantially improved the competitive position of Korean pork. U.S. pork exports also rose early in the year, unlike last year when Japanese imports were slowed by the threat of triggering import restrictions.

Japanese beef consumption and imports are not expected to exceed 1997 levels. While Japanese beef imports picked up at

### **Poultry Leads U.S. Meat Exports**

Million tons



1998 and 1999 forecasts.

Source: Foreign Agricultural Service, USDA.

Economic Research Service, USDA

the end of 1997 and into 1998, first-quarter 1998 imports still have not returned to the level reached in 1996 prior to food safety concerns. Early indications are that Australia has increased its share of Japanese beef imports.

Korea's beef consumption had been steadily rising until 1998, when the economic crisis began cutting into consumption. Korean consumers are expected to buy less meat and substitute cheaper cuts when they do buy. As a result, beef consumption is expected to drop in 1998. Korea is also one of the world's leading beef importers. As part of its WTO commitments, Korea agreed to import 187,000 tons of beef in 1998. However, trade statistics for the first 2 months of 1998 indicate that Korean beef imports were about 80 percent below year-ago levels. In response to the Korean credit squeeze, the U.S. has provided nearly \$147 million in GSM-102 credit guarantees to facilitate beef shipments into Korea.

China, it is estimated, consumes nearly all of the beef and pork it produces, although per capita consumption of beef is low. Beef imports and exports are negligible, and pork exports have been declining. But China is the world's second-largest poultry meat importer. For the past decade, Chinese poultry meat consumption grew at a double-digit pace. Growth is expected to be slower in 1998.

China has expanded its domestic poultry meat production, partly reflecting expectations of increased exports. However, the

anticipated increases did not materialize; devaluation of the baht improved Thailand's competitive position in the Japanese import market, preempting expected Japanese demand for poultry from China. The larger supply of Chinese poultry has reduced domestic prices and limited the competitiveness of imported poultry meat. Chinese poultry meat imports in 1998 are projected to drop for the first time in 10 years.

Because Hong Kong is a major transshipment point for poultry meat to China, Hong Kong has become a leading poultry meat importer. Imports are expected to decline for the first time since 1981 as ample supplies of poultry meat in China reduce demand for re-exports.

Concerns about BSE and the discovery of *E. coli* in beef from a local slaughterhouse in March 1997 slowed Hong Kong beef consumption and imports. As a result, pork consumption rose nearly 9 percent, and is expected to increase again in 1998. After the avian influenza outbreak in December 1997, when Hong Kong destroyed its chicken inventory and banned live chicken imports from China, red meat consumption reportedly jumped 30-40 percent, as consumers substituted beef or pork for chicken. The rise in consumption was probably bigger for pork given the local preference.

Taiwan fell from its position as the world's third leading pork exporter when exports plummeted after the March 1997 outbreak of FMD. Pork consumption also

## Commodity Spotlight

plunged, while beef and poultry meat consumption rose. Taiwan's pork consumption is expected to recover in 1998 as consumer confidence returns for domestic pork, encouraged partly by lower prices. However, Taiwan's pork in any significant quantity will likely remain out of the international market until at least 2003.

### *Russian & Mexican Markets Sustain U.S. Exports in 1998*

Russia imported 2.3 million tons of meat in 1997, compared with 2.2 million tons for Japan, usually the world's leading importer of meat. In 1998, Russia is projected to increase its imports to about 2.5 million tons. A majority of Russian meat imports will be poultry meat—1.3 million tons—followed by about 750,000 tons of beef and nearly 500,000 tons of pork.

Since the collapse of the Soviet Union, meat production and consumption have steadily declined as the new governments have withdrawn financial support, and there have been localized shortages of the grains necessary to maintain previously high levels of meat production (see **Special Article**). Poultry production has dropped more than beef and pork and is expected to drop another 8 percent in 1998.

While beef and pork consumption continue to decline, poultry meat imports have allowed Russian consumption of meat to decline at a much slower rate than its falling meat production. The U.S. dominated the Russian poultry meat import market with its ample supplies of low-cost leg quarters, and is expected to continue to dominate in 1998, even as the EU aggressively targets the Russian market.

Mexico continues to be a critical expanding market for meat. Mexico's meat consumption is expected to grow faster than its production in 1998, resulting in a 15-percent increase in meat imports.

Beef consumption in Mexico grew 4 percent in 1997, reflecting strong growth in incomes as the economy continued to expand at a healthy pace. Domestic beef production in Mexico is not sufficient to meet consumer demand, and imports have continued to increase from the low of 1995 when Mexico's economy was suffering from the peso devaluation. Mexico's beef imports surged 83 percent in 1997 to 150,000 tons, and they are expected to

increase 30 percent in 1998. The U.S. supplies the vast majority of beef imports to Mexico.

Mexico's pork consumption has increased as the economy has grown. A 5-percent increase in pork consumption, to 960,000 tons, was seen in 1997 as pork supplies increased and the economy continued to strengthen. A further increase of 2 percent, to 976,000 tons, is forecast in 1998.

Pork imports increased 28 percent to 41,000 tons in 1997, much of it imported from the U.S. by Mexican sausage producers. The U.S. average share of the Mexican pork market has been 97 percent, and little or no change is expected in 1998. Total Mexican imports are forecast to increase to 47,000 tons in 1998, encouraged by lower U.S. pork prices.

### *EU Meat Production Plagued by Disease Problems*

The EU meat market is still affected by disease problems in 1998—bovine spongiform encephalopathy (BSE) in the cattle sector and classical swine fever (CSF) in the hog sector. The EU is the world's third largest meat producer and consumer, behind China and the U.S., and the world's largest pork exporter.

In 1997, EU pork production was originally expected to expand as beef demand was suppressed by the BSE outbreak in 1996. However, a severe outbreak of CSF in the Netherlands curtailed pork expansion. Through live hog trade from the Netherlands, CSF outbreaks occurred in Spain, Germany, and Belgium. As a result of these outbreaks, the Dutch government has moved to reduce the swine herd, since heavy concentration of animals is believed to propagate CSF.

The EU beef market continues its slow recovery from the BSE crisis. Despite marginal growth expected in 1998, consumption of 7.1 million tons remains lower than the pre-BSE crisis level of 7.4 million tons in 1995. Total EU beef production is expected to decline 2 percent in 1998 to 7.6 million tons, reflecting lower cattle inventories.

EU beef trade remains weakened from the crisis. Although exports are gradually improving, they are expected to remain 9 percent below the 1995 level, at 2.4 mil-

lion tons in 1998. Due to a growing number of export license requests, the EU Commission decided to cut export refunds for fresh and frozen boneless beef by 50 percent in February, the sixth time since August 1997 that refunds have been reduced. In 1998, total imports are forecast to be 13 percent lower, at 1.8 million tons, than the pre-BSE crisis level.

Another serious imbalance has developed in the EU beef market as a result of the BSE crisis, and intervention buying by the EU Commission is again necessary to relieve the market of large beef stocks, which reached 900,000 tons on January 1, 1998. The artificial incentives and resulting market distortions of the EU beef regime—made worse by the BSE crisis—have led to new proposals for a reform of the Common Agricultural Policy as it relates to the beef sector.

### *Canada Expands Meat Output*

Canada is expected to further expand meat production in 1998, led by gains in pork and poultry meat production. Cattle herd liquidation in 1996-97, which boosted beef production, is over, and cattle inventories are expected to stabilize at the 1997 level. Canada's beef imports are not expected to increase in 1998, although the U.S. share could decline again in favor of Australia. Expansion and aggressive marketing by western Canadian packers in the eastern Canadian markets are expected to compete with U.S. exports into eastern Canada. Canadian beef exports are unlikely to expand in 1998 because of the financial situation in Asia.

The U.S. has historically been the largest market for Canadian pork, but record U.S. pork supplies and lower U.S. pork prices will most likely keep more Canadian pork at home in 1998. Canada was able to expand its share of the Japanese pork market in 1997 as Taiwan's absence opened up additional opportunities. With new, modern processing facilities coming on line in the near future, Canada's exports are expected to increase further in 1998, particularly if the Canadian dollar remains weak vis-a-vis the yen and other competitor currencies.

*Joel Greene, Foreign Agricultural Service, (202) 720-6553 and Leland Southard (202) 694-5187;*

*greenej@fas.usda.gov  
southard@econ.ag.gov*

