



United States
Department
of Agriculture

LDPM-120-01
July 2004



Electronic Outlook Report from the Economic Research Service

www.ers.usda.gov

U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions

Dale Leuck, Mildred Haley, and David Harvey

Abstract

Disease outbreaks and related trade restrictions have slowed previously expected high growth for many U.S. animal-product exports, with U.S. beef exports most affected. U.S. beef exports fell significantly as Japanese consumers avoided purchasing beef following the discovery of BSE in Japan in September 2001. Exports increased after the discovery of BSE in Canada in May 2003 led to worldwide restrictions placed on Canadian beef. They declined in response to restrictions put on U.S. beef exports after the discovery of BSE in the United States in December 2003. The BSE discoveries in the United States and Canada also disrupted North American cattle trade. Export growth for poultry products has been limited over the past several years because of restrictions and culling related to Avian Influenza and Exotic Newcastle Disease. Pork, live hogs, and lamb and mutton have not been directly affected by disease-related trade restrictions, and U.S. pork exports are expected to reach a new record in 2004.

Keywords: Bovine spongiform encephalopathy, BSE, Avian Influenza, AI, Exotic Newcastle Disease, END, regionalized bans, plant inspection protocol, tariff rate quota, TRQ, Japan's pork safeguard system.

Acknowledgments

The authors wish to acknowledge the helpful comments of reviewers Sean Fox and James Mintert of the Department of Agricultural Economics, Kansas State University; Ann Seitzinger of the Animal and Plant Health Inspection Service, USDA; Shayle Shagam of the World Agricultural Outlook Board, USDA; Wendell Dennis of the Foreign Agricultural Service, USDA; and Janet Perry and Joy Harwood of the Economic Research Service, USDA. Priscilla Smith and Cynthia Ray of ERS provided excellent editorial and design assistance.

Introduction

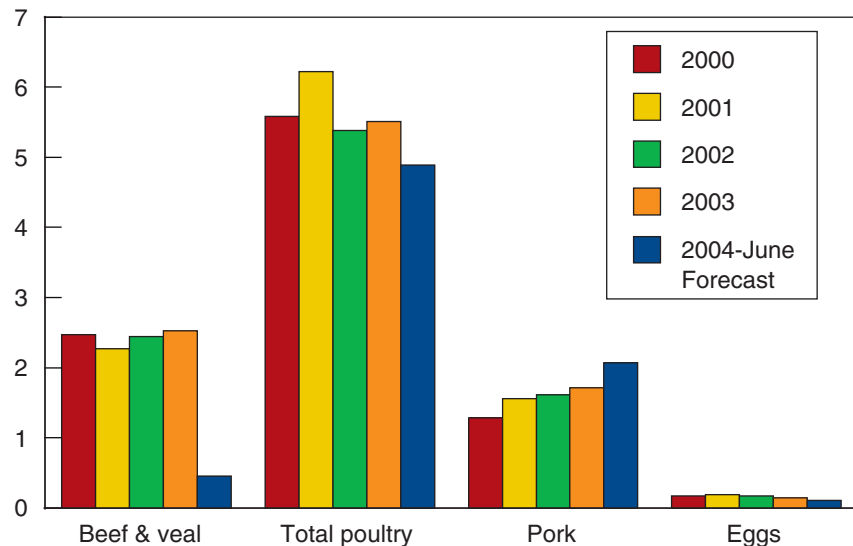
The higher export growth of U.S. meat products expected after the world financial crisis of the late 1990s has been slowed by disease outbreaks and related trade restrictions.¹ While U.S. beef exports were a record 2.5 billion pounds in 2003, they might have been higher if not for the discovery of bovine spongiform encephalopathy (BSE) in several Japanese cows since late 2001. Japanese consumers significantly reduced their beef consumption immediately following the discovery of BSE in Japan, unlike North American consumers, whose consumption of beef was largely unaffected by the discovery of two cows with BSE, one in Canada in May 2003, and one in Washington State in December 2003. However, the finding of BSE in that Canadian-born dairy cow in Washington State resulted in trade restrictions that have reduced forecast 2004 U.S. beef exports to only 451 million pounds.

Poultry meat exports from the United States totaled 5.5 billion pounds in 2003, 2 percent above 2002 levels. Continuing disease-related problems and Russian trade policy uncertainty prevented exports from being higher. Exports are expected to decline more than 11 percent in 2004 because outbreaks of Avian Influenza (AI) in early 2004 led to bans on U.S. poultry meat exports. The forecasts here assume there are no additional AI outbreaks and that current bans on U.S. poultry shipments will be regionalized (limited to selected geographical regions). Only U.S. pork exports have shown steady growth over the last several years, in spite of frequent increases in minimum import prices under Japan's pork safeguard system. U.S. pork exports are expected to reach a record 2.07 billion pounds in 2004. Pork, live hogs, and lamb and mutton have not been directly affected by disease-related trade restrictions, but pork and hogs have faced other types of trade restrictions.

¹ For a historical description of U.S. meat trade, see <http://www.ers.usda.gov/Briefing/AnimalProducts/Trade.htm>.

Figure 1
U.S. meat and egg exports, 2000 to forecast 2004

Billion pounds (billion dozen for eggs)



Source: Historical data, U.S. Department of Commerce.

Bovine Spongiform Encephalopathy Distorts U.S. Beef and Cattle Trade

BSE had little or no impact on U.S. beef or cattle markets when the disease was confined to Europe, since U.S. and European beef exports do not compete in the same markets. Historically, more than 90 percent of U.S. beef exports have gone to Japan, South Korea, Canada, and Mexico, countries where consumers prefer grain-fed beef. European beef, produced mainly from grass-fed, dual-purpose animals, primarily has been shipped to North Africa, Russia, and Eastern Europe. When imports of European beef were banned or restricted by most countries because of BSE, U.S. beef exports were largely unaffected. The European Union (EU) itself is not a large market for U.S. beef because of the EU ban on beef produced with hormones, a common practice in the United States, and because the EU's variable levy system reduces the competitiveness of imported beef by adding a substantial levy to delivered border prices.

Japanese beef demand dropped after BSE discovered there

Discoveries of 11 BSE-infected dairy cows in Japan since 2001 have reduced U.S. beef exports to Japan, despite the United States having remained free of BSE until December 2003. After announcement of the first Japanese case on September 11, 2001, beef consumption in Japan dropped by 60 percent, and ending stocks were up 41 percent at the end of that year. U.S. beef exports to Japan had averaged 90 million pounds per month during the first 10 months of 2001, but dropped 30 million pounds in November and another 8 million in December. That reduction in exports to a market that normally accounts for about 50 percent of U.S. beef exports was a major factor in the 8-percent total decline of U.S. beef exports in 2001.

Total U.S. beef exports likely would have set a record in 2002 had it not been for a 23-percent decline in U.S. beef exports to Japan. Some U.S. beef that otherwise would have been sent to Japan was sent elsewhere, but the decline in beef exports to Japan overshadowed U.S. beef export increases of 73 percent to South Korea and 18 percent to Mexico. By mid-2002, Japanese beef consumption had recovered to within 10-15 percent of its pre-BSE levels, where it remained through 2003. Prospects for U.S. beef exports brightened further after the May 20, 2003, discovery of a BSE-positive cow in Canada led to worldwide bans or restrictions on Canadian beef exports. U.S. beef filled the void in some of these markets, most notably Mexico. U.S. exports grew until late 2003, and generally were expected to continue strong into 2004. But the discovery of a BSE-infected cow in the United States on December 23, 2003, led Japan and all other major markets to immediately ban or restrict imports of U.S. beef, and the forecast for 2004 U.S. beef exports was reduced sharply.

U.S. beef exports were a record-high 2.5 billion pounds in 2003 despite weakened Japanese demand

U.S. beef exports reached 2.5 billion pounds in 2003, 2 percent above the previous record set in 2000. The 2003 record occurred in spite of higher U.S. prices induced by lower U.S. production, and exports to Japan being nearly 18

percent below the record 2000 level. U.S. beef production declined 3 percent, and the price of U.S. Choice steers, for example, averaged 26 percent higher in 2003 than in 2002. Exports to Mexico and Korea were up 10 percent and 17 percent, respectively, over the 2000 levels, while exports to Japan increased 19 percent above the low 2002 level.

Widespread bans on U.S. beef reduce 2004 export forecasts to 451 million pounds

Prior to the BSE discovery in the United States, exports were forecast to reach a record in 2004. Following the discovery of the BSE-infected cow in Washington, all major markets imposed bans on U.S. beef. Canada relaxed its ban in January 2004 to exclude only bone-in beef and beef from animals over 30 months of age, and Mexico announced similar limitations in March. In spite of these announcements, exports to Canada had only reached 6 percent of year-earlier levels in April and weekly export data (<http://www.fas.usda.gov/export-sales/esrdl.html>) suggest similarly slow movement through June. These weekly data also suggest that exports to Mexico had gradually increased to only 60 percent of pre-BSE levels by early June. Exports to both countries appear unlikely to reach pre-BSE levels before the end of 2004. Exports may total only 451 million pounds in 2004, as the bans and restrictions in place as of July 2004 are assumed to remain in place until the importing countries announce policy changes.

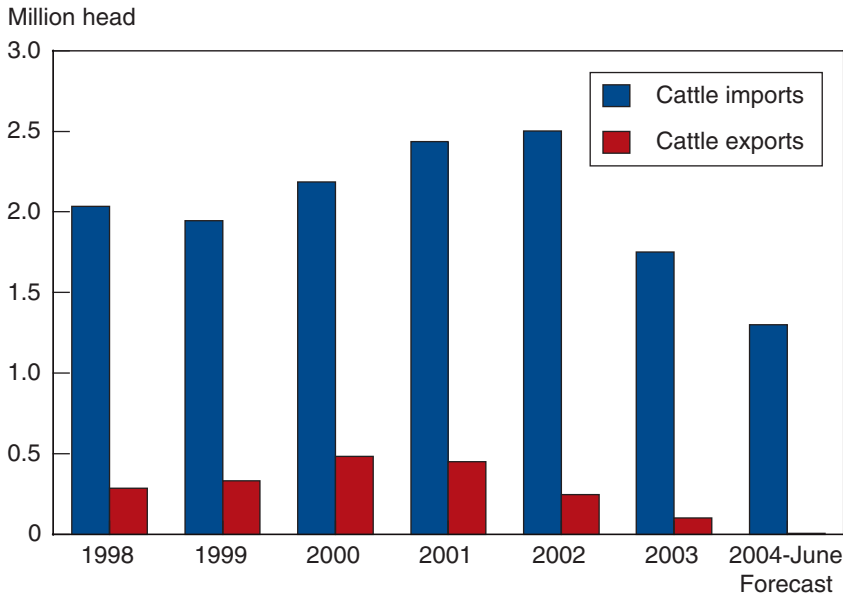
Live cattle trade remains down due to BSE-related trade restrictions

The announcement on May 20, 2003, of a single BSE-infected beef cow in Alberta, Canada, was immediately followed by a ban on imports of Canadian beef and cattle by all of that country's major markets, including the United States. On August 8, 2003, Agriculture Secretary Ann Veneman announced procedures for resuming imports of Canadian deboned beef from cattle certified less than 30 months old. Permitted Canadian beef began moving into the United States in September, but the United States has yet to lift its ban on live cattle imports from Canada. The USDA's Animal and Plant Health Inspection Service (APHIS) issued a proposed rule in November 2003 to resume cattle trade with Canada. The comment period on this rule closed in April 2004 and APHIS is reviewing the comments. When BSE was found in a Canadian-born cow in the United States on December 23, 2003, Canada instituted similar import restrictions on U.S. beef products but allowed imports of live cattle under 30 months of age for immediate slaughter.

BSE-related restrictions and bans continue to reduce U.S. trade in both beef and live animals. On balance, the effects of banned Canadian beef and, in particular, cattle on U.S. beef and cattle markets have been significant. In 2002, Canadian beef represented about a third of all U.S. beef imports and nearly 4 percent of total U.S. beef consumption. Canadian cattle imports represented about 4.6 percent of all cattle and calves slaughtered in the United States. By contrast, the United States would normally export only about 20-25 percent as much beef and live animals to Canada as it imports from Canada. Although imports of Canadian beef have resumed, live cattle imports are still banned.

Figure 2

U.S. trade in live cattle, 1998 to forecast 2004



Source: Historical data, U.S. Department of Commerce.

The most significant effect of the North American BSE discoveries was on the live cattle trade. Before the ban on imports of Canadian cattle, live cattle imports totaling over 2.5 million head had been expected in 2003, with Canada and Mexico each expected to supply about half of the animals. Nearly all imported cattle from Mexico and about a third of imported Canadian animals are typically feeder cattle. The BSE-related ban led to live cattle imports totaling only 1.75 million head for 2003 and to an expected 1.3 million in 2004, if the ban remains in place throughout 2004.

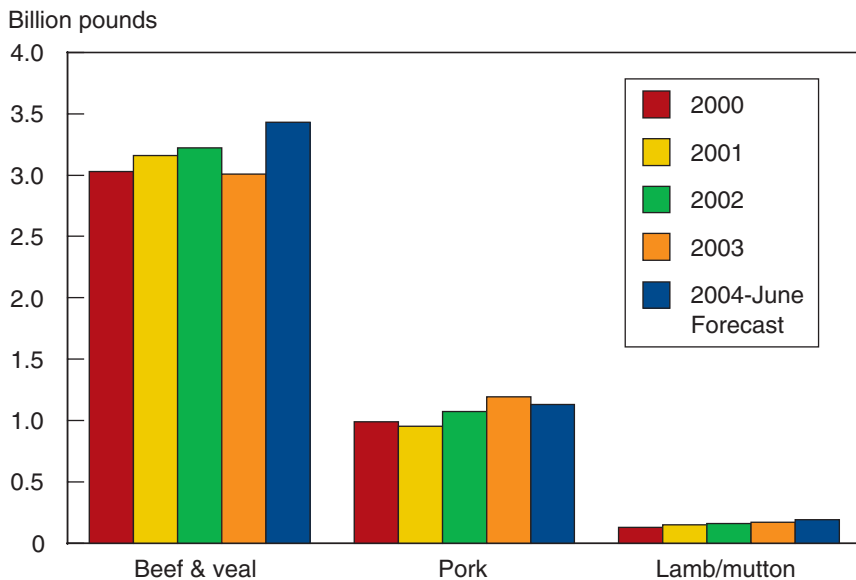
The ban on imports of Canadian animals also led to significantly reduced numbers of U.S. feeder cattle exports to Canada in 2003 because Canadian cattle could be purchased more cheaply than U.S. cattle in Canada. Cattle exports from the United States to all destinations totaled 100,270 head in 2003. Assuming the restrictions allowing only the export of U.S. live cattle under 30 months of age for immediate slaughter remain in place, negligible exports in 2004 are expected.

BSE in Canada contributed to a 6.6-percent decline in 2003 U.S. beef imports

The May 2003 ban on Canadian beef (and the easing of restrictions announced that August) was a major factor causing earlier expectations of record U.S. beef imports in 2003 to go unrealized. But other factors also contributed. High levels of imports in the first third of 2003 resulting from drought-induced slaughter in Australia had declined by early summer. A weakening U.S. dollar made imports of processing beef from Australia and New Zealand more expensive at a time when larger supplies of U.S. cow beef (a substitute for imported processing beef) became available later in 2003. Increased supplies of domestic cow beef became available because drought conditions in the United States and lower returns in the dairy sector led to increased slaughter of both beef and

Figure 3

U.S. imports of beef, pork, and lamb/mutton, 2000 to forecast 2004



Source: Historical data, U.S. Department of Commerce.

dairy cows. The demand for processing (lean) beef declined further when the declining carcass weight of U.S. fed beef reduced the supply of trimmings with which processing beef is mixed. As the demand for processing beef declined, total beef imports fell to 3.0 billion pounds in 2003, slightly below the amount in 2000.

The U.S. action to ban Canadian beef from the U.S. market was temporary. Restrictions announced August 8, 2003, allowed Canadian beef into the United States provided it is properly deboned and from cattle less than 30 months old. These requirements significantly limited the type but not the quantity of beef Canada was able to export. Between May and August, product accumulated in Canada; consequently, exports to the United States for the last quarter of 2003 were nearly 6 percent higher than a year earlier. Through April 2004, however, Canadian exports to the United States have been 9 percent less than a year earlier, at least in part because of a doubling of Canadian beef exports to Mexico, which has similar limitations on imported Canadian beef. Since Canadian beef remains banned in the major Asian markets, Canada may export more than normal amounts of beef to the United States and/or Mexico in 2004.

Expected higher 2004 U.S. beef imports partly reflect Canadian beef exports' replacing cattle exports

Since announcement of the August 8, 2003, restrictions, Canada has made significant progress in more efficiently producing and marketing boneless cuts, allowing a shift away from the bone-in product that accounted for 22 percent of U.S. beef imports from Canada in 2002. Declining prices for Canadian-produced processing beef are likely to help redirect boneless cuts from the Canadian market to the U.S. market. But most important, Canada is expected to slaughter a large number of fed cattle that would have otherwise been sent to the United States for immediate slaughter or slaughter

after feeding. Boneless cuts from these animals are expected to be exported to the United States.

Total imports of 3.43 billion pounds are expected in 2004, a 14-percent increase over imports in 2003. These imports may include some beef in excess of the U.S. tariff rate quota (TRQ) for imports of fresh/chilled or frozen beef, as permitted by the 1996 Uruguay Round Agreement on Agriculture.

Under that agreement, the United States has allocated a quota totaling 696,621 tons, product weight, to Australia (378,214), New Zealand (213,402), Argentina and Uruguay (20,000 each), Japan (200), and all other countries (64,805) that meet plant certification and phytosanitary conditions (mainly being free of foot and mouth disease) to export fresh/chilled and frozen beef to the United States.

Imports within the above TRQ limits are assessed a 4-cent-per-kilogram import tariff and imports exceeding the TRQs are assessed a 26.4-percent tariff. Exporters from the previous listed countries may declare their products as within quota or above quota anytime throughout the year. The TRQ does not apply to imports from Canada and Mexico under terms negotiated in the North American Free Trade Agreement.

Higher expected U.S. imports in 2004 also reflect an expected 14-percent decline in U.S. cow slaughter from 2003, toward a cyclical low of 5 million head. Lower U.S. cow slaughter in 2004 will increase the demand for lean processing beef from Australia, New Zealand, and Uruguay, all of which could fill their tariff-rate quotas in 2004. While beef supplies may decline significantly in Australia, lower import demand from Canada is expected to free up Australian processing beef for the U.S. market.

Disease and Sanitation-Induced Trade Restrictions Have Reduced Poultry Meat Exports Since 2002

Expectations that U.S. exports of poultry (broilers, turkeys, and other chicken) meat in 2003 would greatly exceed 2002 levels did not materialize because many of the animal health and trade restrictions that reduced poultry exports by nearly 14 percent in 2002 persisted into 2003. As a result, poultry exports in 2003 were 5.5 billion pounds, up only 2 percent from 2002. Since late 2003, the world poultry industry has been affected by outbreaks of Avian Influenza (AI) in the United States and Southeast Asia, and associated bans on poultry imports by many countries. In spite of expectations that current bans by some countries on U.S. poultry exports will be limited to selected regions of the United States, exports are expected to decline 12 percent in 2004, placing them 22 percent below the record 6.2 billion pounds achieved in 2001. Broiler meat comprises about 90 percent of U.S. poultry meat exports.

Disease and sanitation concerns had boosted poultry meat exports in 2001 above trend

The lower exports of U.S. poultry products in 2002 and 2003 followed an increase in U.S. poultry meat exports in 2001. BSE fears in Europe contributed to a shift from beef to poultry consumption, both in the EU and among its trading partners in 2001. Russia had already banned imports of EU beef in 2000 because of BSE, and Russian consumers continued to shift their meat demand toward poultry products in 2001. When EU consumers also substituted consumption of poultry meat for beef, the availability of EU poultry meat for export to Russia was reduced. As a result, Russian imports of U.S. broiler meat increased significantly in 2001, accounting for about 40 percent of U.S. broiler exports.

By contrast, 2002 began with Ukraine and Moldova banning U.S. chicken because of the use of antibiotics in broiler production and microbial rinses in U.S. processing plants. More important, Russia subsequently banned U.S. poultry products for the same reasons, in addition to concerns about *Salmonella* and plant inspections and certification. Several countries, including Japan, then banned poultry product imports from specific U.S. States (which at various times included Pennsylvania, Maine, Virginia, West Virginia, North Carolina, and Texas) because of outbreaks of low-pathogenic strains of Avian Influenza.

While world poultry meat imports grew in 2002, it was mainly Brazil, Thailand, and the EU providing the products. A rebound in beef consumption in the EU freed up more EU poultry meat for export to Russia and other world markets late in 2002. Although some growth occurred for the United States in a number of markets, reduced exports to the three largest U.S. markets (Russia, Hong Kong/China, and Mexico) dropped U.S. exports in 2002 below both 2001 and 2000 levels.

As the 2002 AI outbreak was abating, 2003 began with an outbreak of Exotic Newcastle Disease in California and parts of Arizona and Nevada, resulting in some regionalized bans on poultry products. This was followed by an outbreak of AI in Connecticut. But most important, as Russia was resolving its disease issues with negotiations for a new U.S. plant inspection protocol, the Russian Government announced a tariff rate quota (TRQ) on meat imports, effective May 1, 2003. For the months of 2003 that the TRQ was in effect, the U.S. quota allocation (75 percent of the total TRQ) limited monthly imports from the United States to about 80 percent of the record average 192 million pounds achieved in 2001.

Outbreaks of AI in early 2004 in Delaware, Maryland, New Jersey, Pennsylvania, and Texas have reduced expected poultry meat exports in 2004 to about 4.8 billion pounds. This forecast assumes that disease-related issues will abate and that importing countries will repeat their previous practices of regionalizing the bans, thus allowing the United States to export product from disease-free areas.

Assuming the bans on U.S. poultry products are limited to regions, several conditions favor U.S. poultry meat exports in 2004. Serious outbreaks of a highly pathogenic variety of AI in Southeast Asia have taken China and Thailand temporarily out of the Japanese poultry market, while a highly pathogenic AI outbreak in Canada may limit that country's exports. The inability of the EU to compete in Middle East markets, even with restitutions to reduce its high production costs, suggests that Europe may be a weak competitor on world markets this year. Brazil, however, may be in a strong position to benefit from Asian exporters' disease problems because of its low cost structure and relatively weak currency. Strikes by government inspectors in Brazil limited that country's exports early in 2004.

Egg Exports Decline in 2003 as EU Production Recovers

Nearly 75 percent of U.S. egg exports are typically destined for Canada, Belgium, Hong Kong, Japan, and Mexico. The main competitors to the United States on international egg markets are China, India, and the EU. The bans on U.S. poultry products (including eggs) by Russia, Ukraine, and Moldova, and the Avian Influenza (AI) outbreaks that reduced poultry meat exports also contributed to reducing total U.S. egg exports by 8 percent in 2002. The EU also suffered from an outbreak of AI in 2002, concentrated mainly in the Netherlands, that resulted in the culling of millions of birds and lower exports. As a result of lower U.S. and EU egg exports, India gained market share.

U.S. egg exports declined by an additional 16 percent in 2003 as concern about disease in the United States persisted and EU production increased. Exports of table eggs decreased in part due to the strong increases in U.S. egg prices, especially in the second half of 2003. Exports of hatching eggs rose, as producers in countries such as Mexico were expanding flocks. Moreover, the outbreak of Exotic Newcastle Disease (END) in southern California and parts of Arizona and Nevada led to the culling of about 1 million layers (equal to 1 percent of the U.S. laying flock), which limited the numbers of eggs available for export. Egg exports are especially sensitive to supply shifts because only 2 percent of U.S. egg production enters the export market. In 2004, continuing disease concerns and competition from China, India, and other low-cost egg-producing countries are expected to reduce U.S. egg exports about 26 percent, to only 108 million dozen.

Pork Exports Continue to Increase in Spite of Japan's Pork Safeguard and Canadian Competition

Although U.S. pork exports have increased almost 16 percent annually since 1990, export growth has slowed in recent years. In 2003, the United States exported almost 1.72 billion pounds of pork products, up 7 percent from 2002. If recent trends continue, however, pork exports are expected to increase about 21 percent in 2004, to 2.07 billion pounds. U.S. pork exports depend largely upon what happens in Japan, Mexico, and Canada, markets that typically account for about 80 percent of U.S. exports. The lower valued U.S. dollar and economic growth generally increased pork export demand last year. Both factors, along with disease-related market closures to beef and poultry, have supported an increase in pork exports in 2004.

Japan is by far the most important export market for U.S. pork, in recent years accounting for 45-50 percent of total U.S. pork exports. Last year, economic expansion and a relatively strong yen pushed Japanese pork imports from the United States higher. The same factors again favor higher Japanese imports in 2004. The closure of Japanese markets to imports of North American beef and to uncooked poultry from AI-afflicted countries (especially China and Thailand) creates opportunities for pork-exporting countries. The relatively cheap U.S. dollar will help to make U.S. pork especially attractive to Japanese buyers compared with Canadian and Danish products, the other major pork suppliers to the Japanese market. In 2003, the United States and Denmark each accounted for roughly 30 percent of Japanese pork imports, while Canada held a 21-percent share.

Pork safeguard slows growth in Japanese pork imports

U.S. pork exports to Japan increased in 2003, despite the 25-percent increase in the minimum price of imported pork that had been in place since August of 2002 and allowed under the Japanese pork safeguard system, sanctioned by the World Trade Organization. This system allows Japan to increase the minimum import price by 25 percent following any quarter in which imports exceed 119 percent of the previous 3-year average, and to maintain that level for the remainder of the Japanese fiscal year (April-March). The stated purpose of the pork safeguard is to prevent surges of imported pork from harming domestic pork producers.²

Unlike the similar beef safeguard, which has been little used, the pork safeguard has been invoked in 6 of the last 10 years, most recently in August 2003. Nevertheless, U.S. pork exports to Japan have increased in all but one of the last 10 years. Imports of frozen pork tend to surge in the period leading up to the safeguard, as stocks are increased, and in the period after it expires because stocks of frozen pork decline while the safeguard is in effect. While the safeguard is in effect, Japan imports more fresh pork products than usual. The main effect of the safeguard has been, therefore, to disrupt established seasonal import dynamics.

² For a more detailed description of the Japanese import regime, see Kakuyu, Obara, John Dyck, and Jim Stout. *Pork Policies in Japan*, LDPM 105-01, March 2003, ERS, USDA, Washington, DC, available at: <http://www.ers.usda.gov/publications/ldp/Mar03/ldpm10501>

Canadian pork imports linked to industry integration

Canada accounted for about 11 percent, or 191 million pounds, of U.S. pork exports in 2003, an increase of almost 2 percent over 2002. In 2004, U.S. exports to Canada are expected to increase on the strength of the high degree of integration between the Canadian and U.S. pork markets. This factor, together with the lower valued U.S. dollar, creates opportunities for companies to source pork products in the United States for sale in Canada.

Strong pork sales in Canada are being helped by continuing high retail beef prices in Canada despite an increased inventory of cattle related to the ban on exports of live animals from Canada. Cattle slaughter capacity in Canada has been limited and markets are robust for Canadian beef, both domestically and for permitted beef in Mexico and the United States.

U.S. exports to Mexico vary with Mexican economic growth

Mexico is the second most important market for U.S. pork, accounting for 20 percent of U.S. pork exports in 2003. In 2003, U.S. pork exports to Mexico totaled nearly 349 million pounds, up 11 percent from a year earlier. The recovering Mexican economy, closely linked to the U.S. economy, largely explains the double-digit increase in pork shipments to Mexico in 2003. Continued strong economic growth bodes well for a further increase in Mexican imports of U.S. pork products in 2004.

Pork imports continue to increase

Although the United States has been a net exporter of pork since 1995, it remains an important importer of pork products as well. In 2003, the United States imported 1.2 billion pounds of pork products, almost 11 percent more than in 2002. Nearly all U.S. pork imports were from Canada (82 percent) and Denmark (12 percent). Imports may decline slightly this year due to increased domestic pork supplies and a lower valued U.S. dollar.

Denmark supplies U.S. consumers with products not readily provided by the domestic pork industry. Baby back ribs constitute a significant share of U.S. pork imports from Denmark. American consumers' appetite for baby back ribs outstrips the U.S. pork industry's ability to supply them because of the U.S. industry's preference for larger, heavier hogs, rather than the smaller animal favored in Europe, which is better suited for baby back rib production.

In 2003, Canada accounted for more than 80 percent of U.S. pork imports, compared with only 50 percent in 1990. Most of the increase in Canada's U.S. market share has come at Denmark's expense, as Canadian production and exports increased 64 percent and 175 percent, respectively, between 1990 and 2002. In contrast, imports from Denmark fell 55 percent over the same period. Proximity to the American market has provided Canada a competitive edge over Denmark, especially in fresh product. Furthermore, firms on both sides of the U.S.-Canadian border have taken advantage of the relatively free-trade environment that exists between Canada and the United States to integrate American and Canadian pork supply chains.

Live hog imports up in 2003 and 2004 as a result of market integration and BSE in Canada

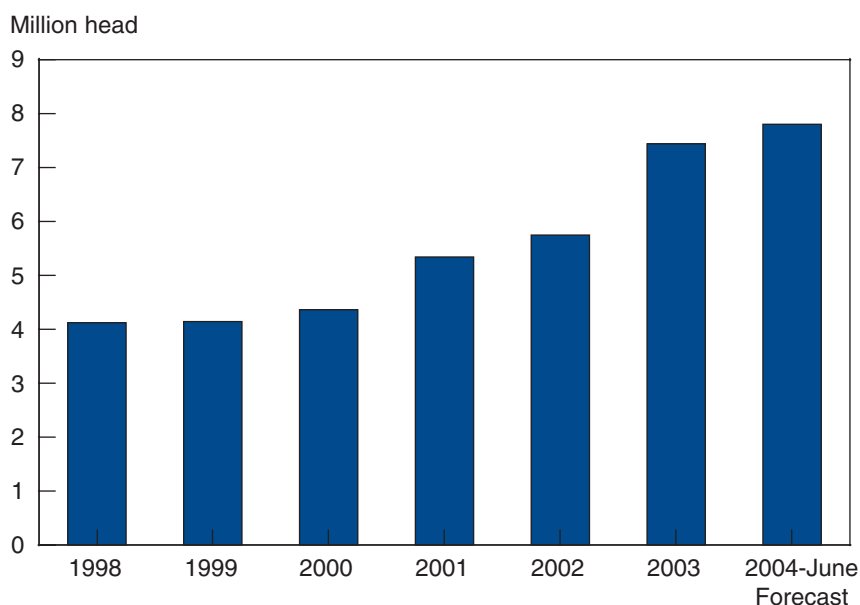
Imports of live hogs totaled 7.44 million head in 2003 and are expected to increase to around 7.8 million head in 2004. Virtually all of these hogs are from Canada. About 70 percent are typically feeder pigs and 30 percent are slaughter-ready animals. The recent dramatic growth in the number of hogs imported from Canada is a reflection of the increasing integration of complementary systems of North American hog production. Canada's hog industry remains deficit in slaughter capacity and feed grains, while the U.S. sector typically faces a surplus of both feed grains and slaughter capacity. Consequently, larger numbers of both feeder pigs and slaughter-ready animals have been sent to the United States in recent years.

In addition to the longer term issues of slaughter capacity and feed supplies, hog imports from Canada increased in 2003 because a stronger Canadian dollar made it difficult for Canada to sell pork in other foreign markets. The strong Canadian dollar made Canadian pork prices on international markets relatively more expensive than pork prices from countries with weaker currencies, including the United States. While the strong Canadian dollar also made feeder pigs exported to the United States more expensive than they otherwise would have been, the lower valued U.S. dollar made it economical to feed and market large numbers of them in the United States.

Weak slaughter margins also existed in Canada in 2003, and may have been exacerbated from late May 2003, when nearly all Canadian beef exports were banned, until beef began flowing again to the United States and Mexico in the fourth quarter. Imports of live hogs from Canada in the last half of 2003 increased 50 percent over the previous year, with nearly the same rate of growth continuing into the first quarter of 2004.

Figure 4

U.S. live hog imports, 1998 to forecast 2004



Source: Historical data, U.S. Department of Commerce.

With imported feeder pigs and slaughter animals from Canada expected to represent almost 8 percent of projected U.S. hog slaughter in 2004, the outcome of a petition filed by the National Pork Producers Council and others in March 2004 with the U.S. Commerce Department and the U.S. International Trade Commission (USITC) could have significant implications for U.S. pork production. In early May, a preliminary USITC ruling on the petition found reasonable indication of injury to U.S. pork producers from Canadian live hog imports. Final resolution of the issues raised in the petition could take as long as a year after the initial filing of the petition.

Live hog exports increase as Mexico eliminates compensatory duties

The United States exported nearly 170,000 hogs in 2003 and is expected to export around 272,000 in 2004. Mexico has accounted for about 60 percent of the U.S. live hogs exported over the last 10 years, with the balance sold to Asian countries as breeding animals. Forecasts for 2004 have been increased to reflect Mexico's elimination of compensatory duties on live slaughter hog imports from the United States. Since October 1999, U.S. live hog exports to Mexico have been subject to duties of \$0.17 per pound, in addition to an in-quota import tariff applied to live hog imports from countries of the North American Free Trade Agreement (the United States, Mexico, and Canada). U.S. hog exports to Mexico had declined significantly after the imposition of the duty, falling to about 50,000 head in 2000 and 2001 from 208,000 head in 1998.

Live hog exports have averaged less than 1 percent of total U.S. hog slaughter over the past 10 years. Typically, breeding stock account for about a third of exports; slaughter hogs account for about 60 percent; and feeder pigs account for the remainder.

Imports of Lamb and Mutton Up in 2003 and Expected To Be Higher in 2004

U.S. imports of lamb and mutton have been increasing slowly for several years to compensate for declining U.S. production. Since 2001, imports of lamb and mutton have increased from 40 percent of consumption to 44 percent in 2003, when imports increased by 4 percent over 2002 to 167 million pounds. Drought conditions in Australia limited supplies of lamb to the United States in 2003 at the same time a 9-percent decline in U.S. production resulted in a 27-percent increase in the U.S. farm price of lambs. The higher prices in the United States increased demand for lamb imports. Imports increased only slightly more than 4 percent in 2003, with a slightly higher proportion than normal occurring in the last half of the year. Consumption is expected to increase against marginally lower production in 2004, resulting in about 5 percent higher prices. With no disease or trade restrictions, imports are expected to increase by 12-13 percent in 2004, to a record 188 million pounds in order to satisfy increased demand.