

Packer/Processor Concerns in International Marketing

William R. Lloyd*

The international market is becoming economically more and more important to American animal agriculture. In the 1997 report submitted to USMEF by CF Resources, Inc. (a subsidiary of Cattle-Fax) on Beef and Pork Exports, the export value of beef and veal, beef variety meats, hides, tallow and live cattle was \$4.718 billion dollars. This is up from \$2.884 billion just 10 years ago. The export value of pork and pork variety meats, lard, skins, and live hogs was \$1.277 billion in 1997 compared to \$217 million in 1987. The estimated negative price impact of cessation of beef exports on a fed steer is \$6.71/cwt; on a 750 pound feeder steer is \$9.18/cwt; and on a 500 pound calf is \$10.76/cwt. The estimated negative price impact of cessation of pork exports for 1997 was \$6.29/cwt. on slaughter hogs. Converted to numbers of head of livestock we exported the equivalent of 3,047,000 head of cattle and 5,565,000 head of slaughter hogs in 1997.

The equivalent feedgrain use by exporting beef and pork products is 251.1 million bushels, valued at \$652.8 million dollars. The equivalent soybean use by exporting beef and pork products is 27 million bushels, valued at \$199.5 million.

U.S. packers, processors, purveyors, and traders face many economic, political and technical barriers to exporting their products. Although dealing with these sometimes monumental obstacles, it is easy to see why they are willing to deal with the frustration.

Economic Barriers

With the recent economic woes of Asia, trade with all Asian and ASEAN countries has been difficult. The U.S. has stiff competition from Canada, Australia, Denmark, and Brazil among many other exporting countries. The strength of the U.S. dollar compared to these competing countries currencies has made beef and pork sales even more difficult. The strength of the dollar against some importing countries' currencies is depicted in figures 1 and 2.

* William R. Lloyd, Director Technical Services, U. S. Meat Export Federation, 1050 17th Street, Suite 2200, Denver, CO 80265

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Agricultural Exports to Korea and the ASEAN-4 Account for 12% of Worldwide U.S. Exports

In the April 28, edition of the Wall Street Journal, Michael Phillips writes, "Even when the Asian crisis first surfaced last summer, and the Thai baht began its chain-reaction tumble, U.S. companies expressed confidence that they would be able to weather the storm, thanks to the competitive strides they had made earlier in the decade. In the short run, they were right. Companies can hedge their currency risk, shielding costs and revenues from sudden movements in the dollar. Over time, however, a strengthening of the dollar inevitably makes U.S. goods more expensive in the local currency of foreign consumers, or cuts the dollar value of the profits that U.S. companies bring home. Since the spring of 1995, the dollar has risen 23% against a basket of currencies of 19 major trading partners, and the stifling effect on U.S. exports appears to be surfacing now."

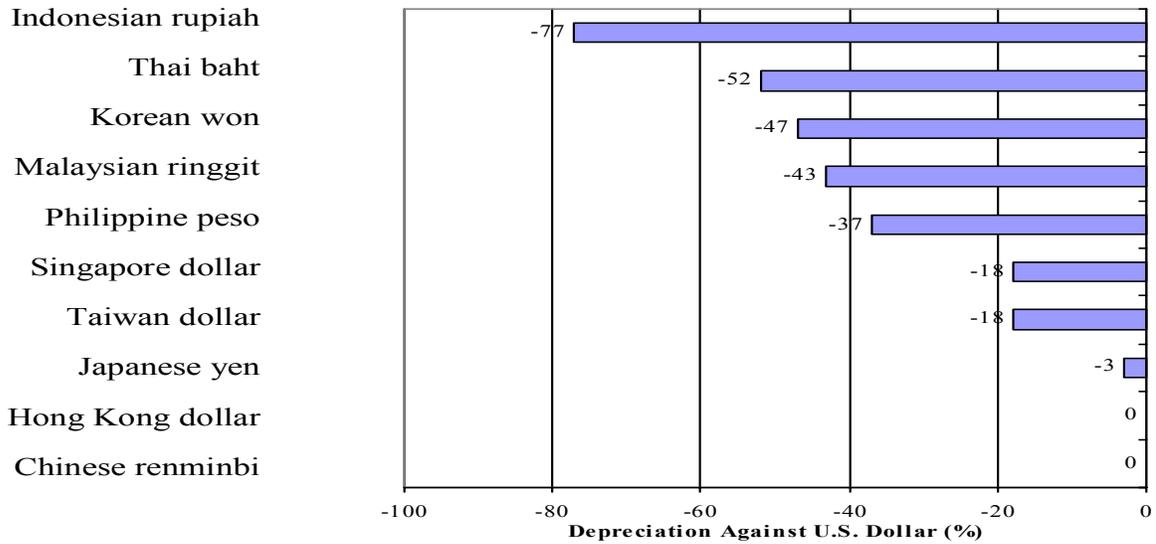
Animal Diseases

Vesicular Stomatitis (VSV):

Currently, beef can not be exported from a state that has had an incidence of VSV until it has been clear of any open cases, for a specified time period, to Russia, Romania, Latvia, and South Africa. The specified time period that a state must be clear of open cases is 12 months for Russia, Romania, and Latvia. The time frame for South Africa is 6 months. Argentina had a similar requirement, but dropped it in November 1997 because of a lack of scientific justification.

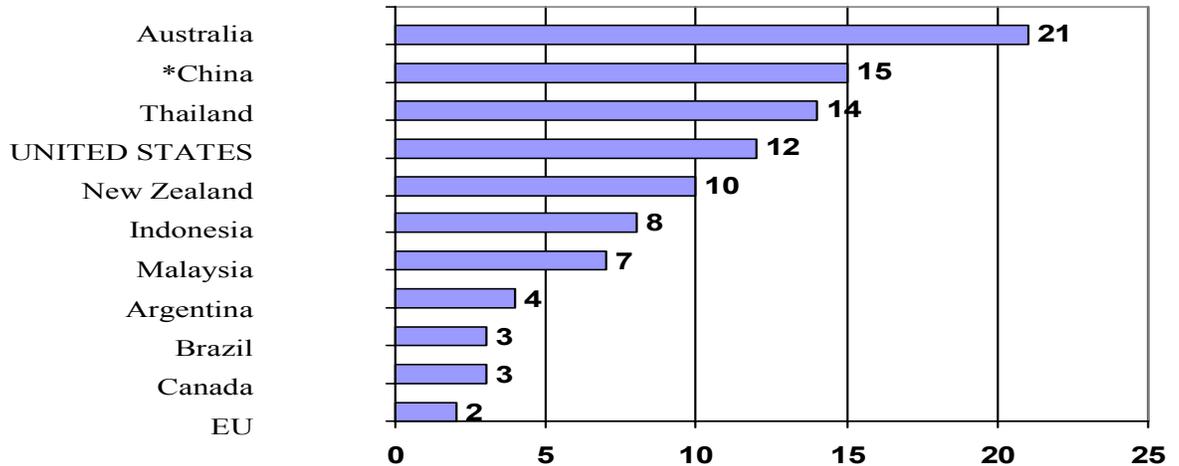
In a letter to Paul Drazek, Special Assistant to the Secretary for International Trade, Len Condon of AMI wrote that, "these sanitary restrictions — which appear to have no scientific basis — impose a significant financial burden on the U.S. meat industry. When in effect, they cost the U.S. industry more than \$2 million per year". The loss of trade primarily affects the sale of beef livers to Russia. Further, he wrote, "VS is classified by the Office of International Epizootics (OIE) as a "List A" disease. While the OIE's International Animal Health Code does provide for import restrictions on live cattle, hogs, and other species to prevent transmission of VS, the Code does not provide for re-

Figure 1. Depreciations of Selected Asian Currencies Against U.S. Dollar (January 31, 1997 - January 29, 1998)



Source: International Financial Statistics/IMF and CBS MarketWatch

Figure 2. Exports to ASEAN-4 and Korea as Share of Total Ag Exports (%)



* China's exports exclude sales to Hong Kong

restrictions on beef, pork or poultry. We are unaware of any evidence that this disease is transmitted through meat or poultry. Therefore, it appears that these restrictions are being maintained without scientific basis".

The states that are currently affected are Colorado, Utah, Arizona and New Mexico. There was also an outbreak in the summer of 1995 affecting these four states as well as Texas and Wyoming.

(PRRS):

Because of the presence of PRRS in the U.S. hog population, we are unable to export pork, and pork products to Argentina and Australia. Recently the U.S. sent Argentina a risk assessment saying that the risk is negligible that pork muscle or organ meats could transmit PRRS. One figure states less than 6 in 100 billion chances of causing infection.

Porcine Respiratory and Reproductive Syndrome

Other Technical Barriers

Labeling:

In late 1997, Egypt evoked a labeling requirement so cumbersome, that it excludes most American packers from exporting meat products (primarily livers) there. On November 16, the Ministry of Trade and Supply issued a supplementary decree stating that, "Product should be packed in well-sealed, hygienically approved bags. Inside each bag a card should be placed, on which, and on the outside of the bag, together with the outside of the carton; written with foolproof printing material, in Arabic language (it may also be written in an additional language), the following information:"

1. Country of origin.
2. Producer's name and logo (if any).
3. Name of slaughterhouse.
4. Slaughter date.
5. Name and address of importer.
6. Name of body, which supervised slaughter according to Islamic Rites, which should be approved by the commercial office in the country of origin.

Further clarification revealed that the label on the outside of the bag could not be a stick-on label. In essence, that requires a pre-printed bag.

The U.S. meat industry is already disadvantaged from exporting products to the EU with the non-tariff trade barriers of the Hormone Ban (beef) and the Third Country Directive (beef and pork). To add to this, the BSE situation has prompted the EU Commission to initiate a beef labeling requirement. Currently, language in the requirement dictates that at any point in commerce there must exist the ability to trace back product merchandized in the EU to the "group of animals" from which it was produced. The FAS response to them, which is still being negotiated, was that product could be traced back from the sealed box that it was packaged in at the packing plant to the group of animals from which it was produced (with the use of the MPA number and production date). As product moves through commerce after the sealed box is opened, identification of the product to facilitate trace back becomes the responsibility of the processors, retailers, etc.

By the year 2000, the EU Commission has stated that they will institute a "passport" system for beef products moving through commerce. This will require a complete trace back system. If this is carried out, it is likely that U.S. packers would have to comply to be able to merchandize their products to customers within any of the fifteen member nations of the European Union.

Grading:

Both Chile and Colombia require that beef sold in their respective countries be graded to their grading standards. For instance, the Chilean "Meat Law" requires all beef cuts

(less than one-half carcass) marketed in Chile to be classified to the Norma Chilena 1306-1993 (Chilean "Norms" are comparable in function to the USDA Grades for Carcass Beef).

According to Barry Carpenter, Deputy Administrator Livestock and Seed Program there is a draft agreement between New Zealand and Chile, which allows for the marketing of New Zealand beef in Chile. The agreement provides for Chilean beef standards to be administered in New Zealand by Chilean trained New Zealand personnel. Reportedly, New Zealand does not particularly like the agreement, they do feel that it lets them "get their foot in the door" while they continue to negotiate for acceptance of their own grades. The U.S. beef industry believes that Chile and Colombia should recognize the USDA Beef Grading Standards.

These and many other barriers are barricades to free trade at which we continually chip away. We work with Foreign Agriculture Service, The U.S. Trade Representatives Office, Food Safety and Inspection Service, Animal and Plant Health Inspection Service, American Meat Institute, National Cattlemen's Beef Association, National Pork Producers Council, American Farm Bureau, American Sheep Industry Association, and others to mitigate those non-tariff trade barriers. The USMEF maintains a Market Access Grid to remind us of the challenges we face. On that grid are twenty-nine countries plus the European Union and the corresponding trade barriers that prevent or inhibit trade of U.S. meat products. Along side each barrier we estimate its effect in the amount of trade damage. The total is a minimum of \$980 million. We have some work to do!

Although my assignment was to explain some of the problems U.S. packers face in exporting their products, I would like to conclude this presentation with a positive message.

Ten years ago, only 1% of the wholesale value of all U.S. pork production and 4% of all U.S. beef production was exported. Today those figures have increased to nearly 9% and 12% for pork and beef respectively. Never has there been a more exciting time for international sales of red meat products. Greater access to more markets around the world and higher levels of competition have spurred meat companies and whole industries to develop new technologies and marketing innovations that were not even thought of a few years ago.

No single factor has had more influence on red meat trade in recent years than food safety. U.S. meat packers have done more to improve food safety in the 1990's than in the prior two or three decades. Today, because of the many microbiological interventions that have been implemented in the packing plants, I think that U.S. red meat production is the safest in the world, which puts us at an advantage to our competitors.

American packers have also made giant strides in producing products to the foreign customers' needs. Among these changes made specifically for the export market are

smaller, stronger cardboard boxes to withstand the rigors of transoceanic shipping, using bi-lingual labels, and/or putting the customers' native language on the box, "export" vacuum bags, post shrink tunnel cold water baths, and cutting product to customers specifications. In other words, production/packaging efforts and attitudes of exporters have become more "export friendly".

In order to greatly improve the ability of U.S. exporters to identify and contact foreign customers who are interested in purchasing U.S. beef, pork, and lamb, USMEF will create and maintain a Global Buyers Database (GBD). The GBD will assist exporters in their efforts to increase exports by providing them easy access to foreign company contact information, company data, product specifications, and detailed regional market information.

In addition, USMEF staff will use the information in the GBD to monitor the impact of USMEF's market development and promotion programs in the markets and to determine ways to fine-tune the programs to meet specific needs of target accounts. The gathering of foreign "field" data by USMEF staff from each of the markets will serve to strengthen relationships with the foreign trade and target accounts. The GBD project will allow USMEF members, staff, and the public to access foreign market and detailed company information through the USMEF web site. Cataloging this information and making it available to U.S. red meat exporters is an integral part of USMEF's objective of fostering trade partnerships in the distribution chain which will ultimately lead to the development of long-term, continuous purchasing programs for U.S. red meats. A "Steering Committee" of U.S. exporters has provided valuable input into the initial design of the GBD and will continue to provide feedback as the system grows.

Japan will serve as the prototype market for this project and include data from the four main regions of the market. Before the end of the 1998 fiscal year, three other countries — Korea, Taiwan, and Mexico — will also be on-line. Eventually all major export markets will be included in the project.

The USMEF will begin promotion of The American Beef Club. This program is designed specifically for restaurants and hotels in Europe, Russia, and the Middle East which serve high quality U.S. beef on a continual basis and promote it on their menus. Membership is free, however, members must purchase their beef from an American Beef Club licensed distributor. The specifications of the product must meet the requirements of High Quality Beef defined in the EU High Quality Beef Quota (Hilton Quota).

There is optimism about China. Last year China initi-

ated a pilot project to test the waters for a new veterinary protocol that allowed select plants in the U.S., Canada, and Australia to import pork and beef for distribution to the general public. This move contravenes a long-standing ban on pork imports and also opens the door for sales of imported beef to the retail trade. This, for the first time, will make the more affluent cities like Shanghai, Beijing and Guangzhou accessible to imported meat.

As the economy becomes more stable in Russia, exports to customers there will improve. From 1996 to 1997, exports increased significantly (Table 1).

Table 1. Meat Exports to Russia

	Metric Tons		Value	
	1996	1997	1996	1997
Beef	3,883	7,755	7,970,802	13,652,778
Beef Var. Meats	52,145	55,353	52,459,459	52,759,557
Pork	26,469	26,368	46,102,367	53,223,694
Pork Var. Meats	1,928	1,799	2,385,022	1,881,605

Source: FAS, USDA

Mexico, even with politically stimulated problems at the Laredo border crossing, continues to be a strong market (Table 2).

Table 2. Meat Exports to Mexico

	Metric Tons		Value	
	1996	1997	1996	1997
Beef	58,650	106,517	162,899,435	299,844,656
Beef Var. Meats	30,490	39,444	35,288,129	45,233,070
Pork	22,526	29,877	46,222,815	67,722,454
Pork Var. Meats	59,253	68,357	46,023,078	53,659,224

Source: FAS, USDA

So, you see there are some strong areas for optimism. We will continue to face challenges. The industry will no doubt face times of frustration. However, we will persevere!