



# Growth of the Meat Trade

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# USMEF... and FAS Partnership



## USMEF's Global Reach



# Driving the global meat trade



## Animal disease and tariffs...and demand

### Pork

- China & Vietnam – ASF & tariffs
- Europe – ASF & Brexit
- Mexico – tariffs
- Japan – Japan-U.S. urgency

### Beef

- China
- Global supplies – drought
- Economic growth – demand
- FTAs

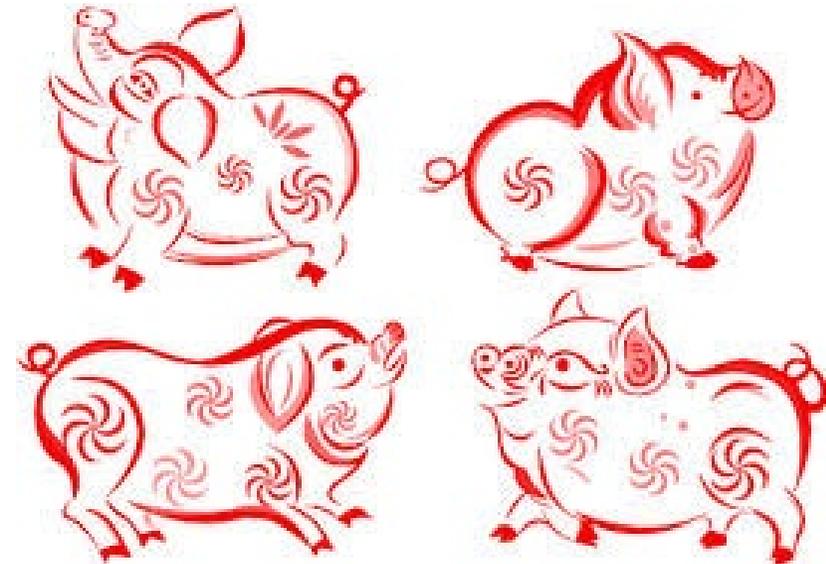
- ❖ Maximizing carcass values and adding value through the chain, from corn and soybean farmers to processors and exporters
- ❖ Providing customers around the world with affordable, high quality red meat

# Pork trade in the year of the pig

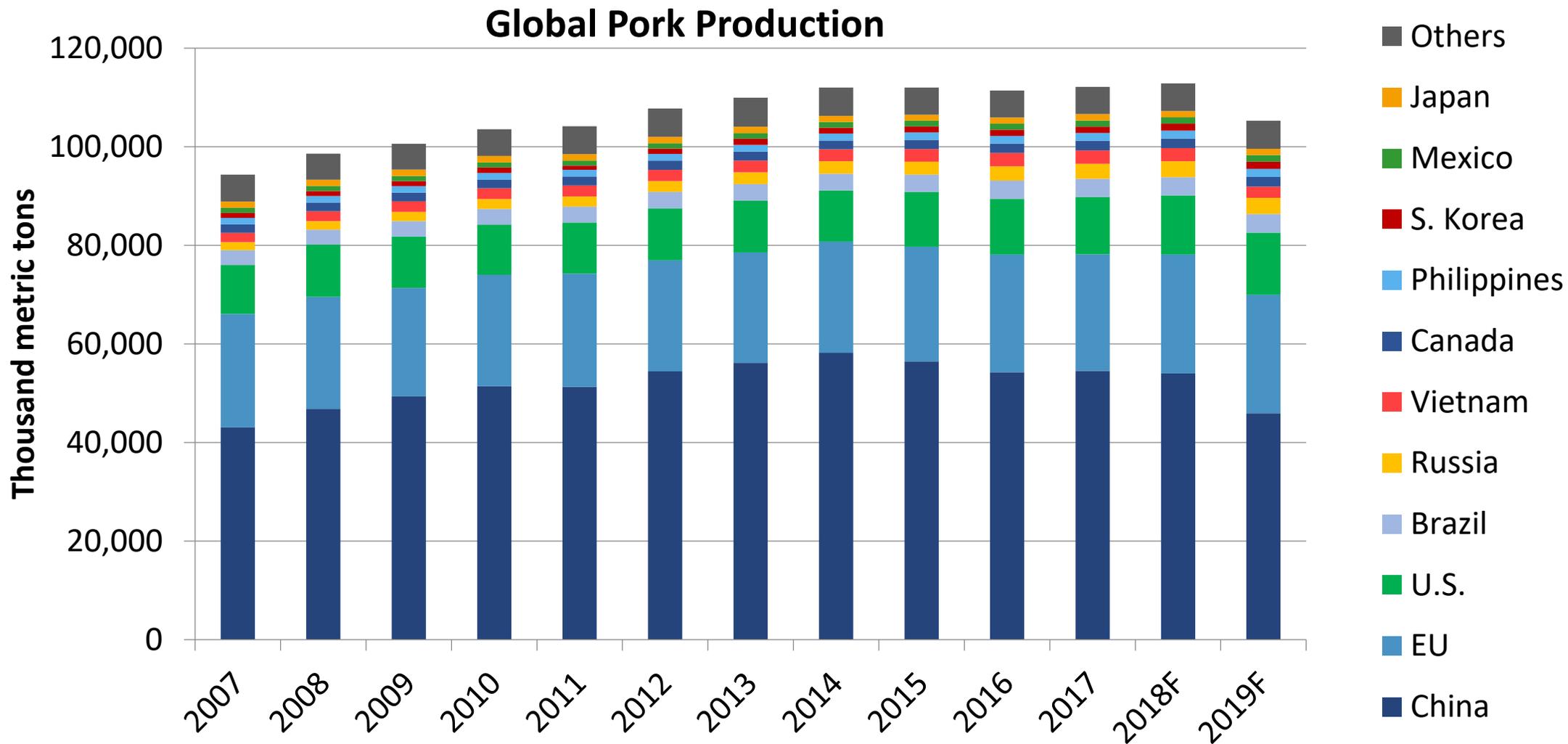
- Global pork trade will set new records this year
- The degree to which the U.S. benefits will depend largely on tariffs

## Four key areas:

- China & Vietnam – ASF & tariffs
  - Europe – ASF & Brexit
  - Mexico – tariffs
  - Japan – Japan-U.S. urgency
- Strong demand remains in the rest of world,  
But will be impacted by above & economy



# A 15% drop in China's & Vietnam's production means 7% decrease globally...back to 2010-11 levels

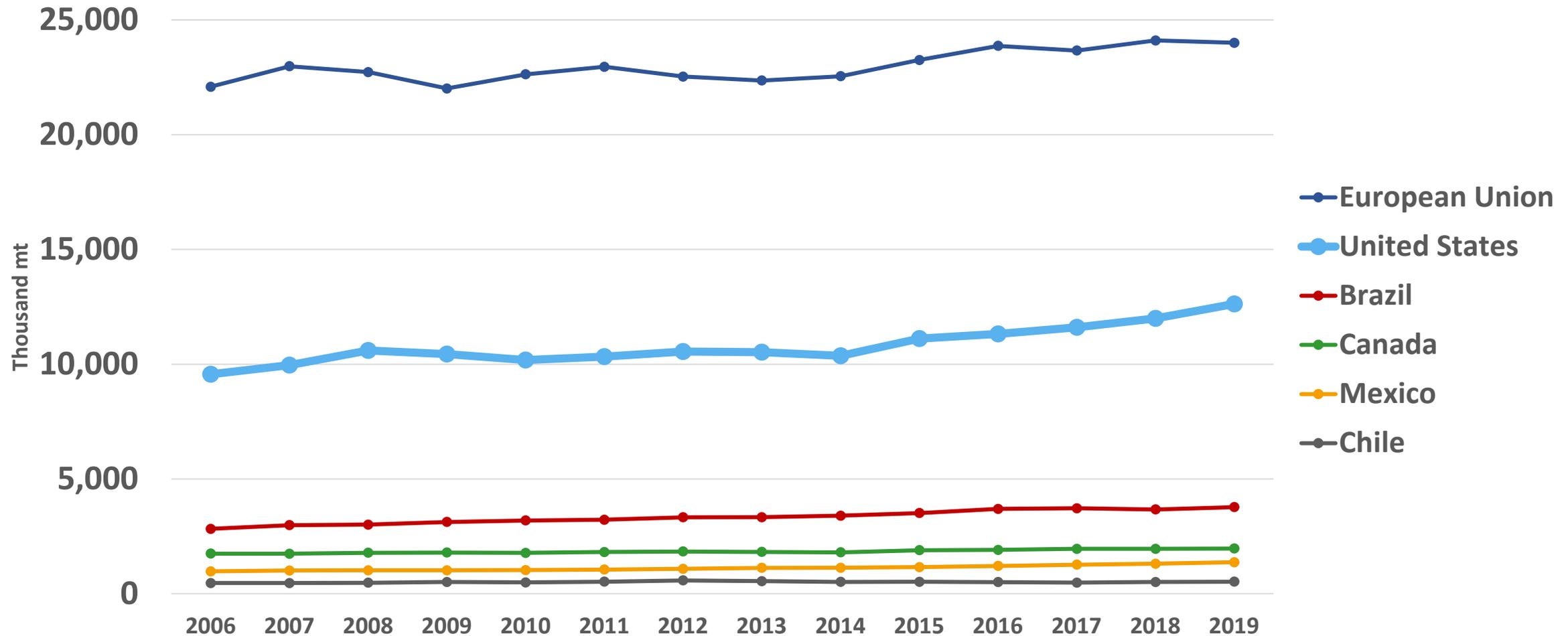


Source: USDA/FAS fall 2018 & USMEF estimates

# U.S. to continue to lead production growth for top exporters



## Pork Production for Top Exporters

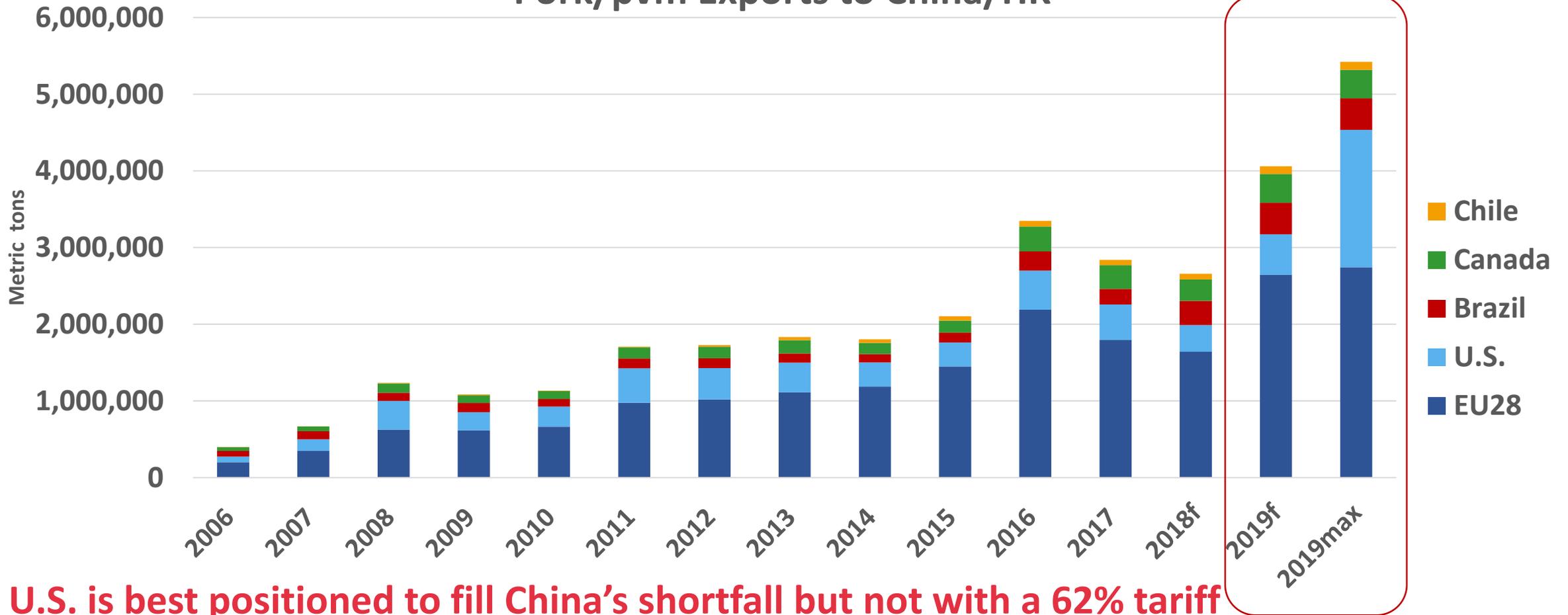


Source: USDA/FAS fall 2018 & USMEF estimates



In a scenario where China's production drops by 15% (-8 million mt), exports to China could increase by +1.5 mmt  
Maximum increase is about 2.7 mmt –requires surge in U.S. pork

Pork/pvm Exports to China/HK

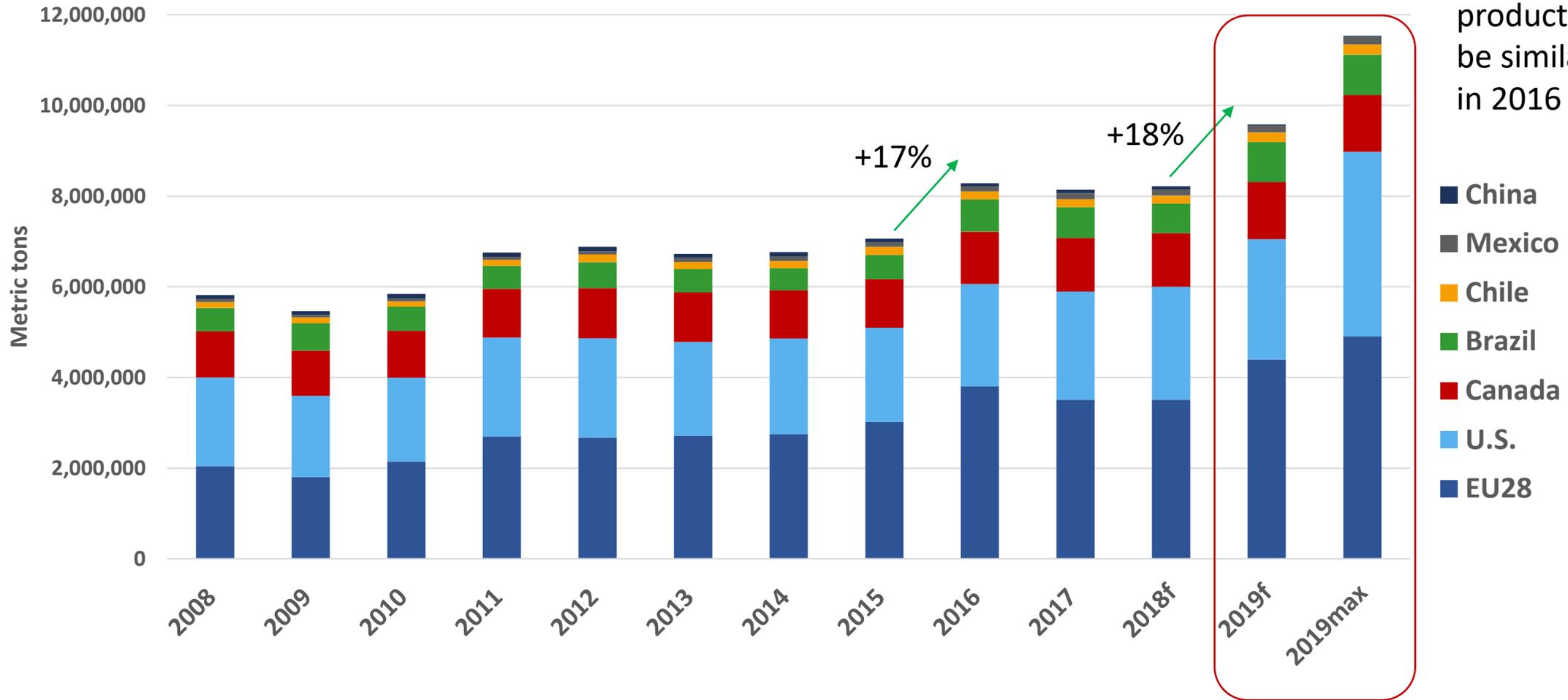


U.S. is best positioned to fill China's shortfall but not with a 62% tariff

# Driving global pork trade to a record 9-10 million mt ... max is 11.5 mmt, +40%



Global Pork & Variety Meat Exports, annual

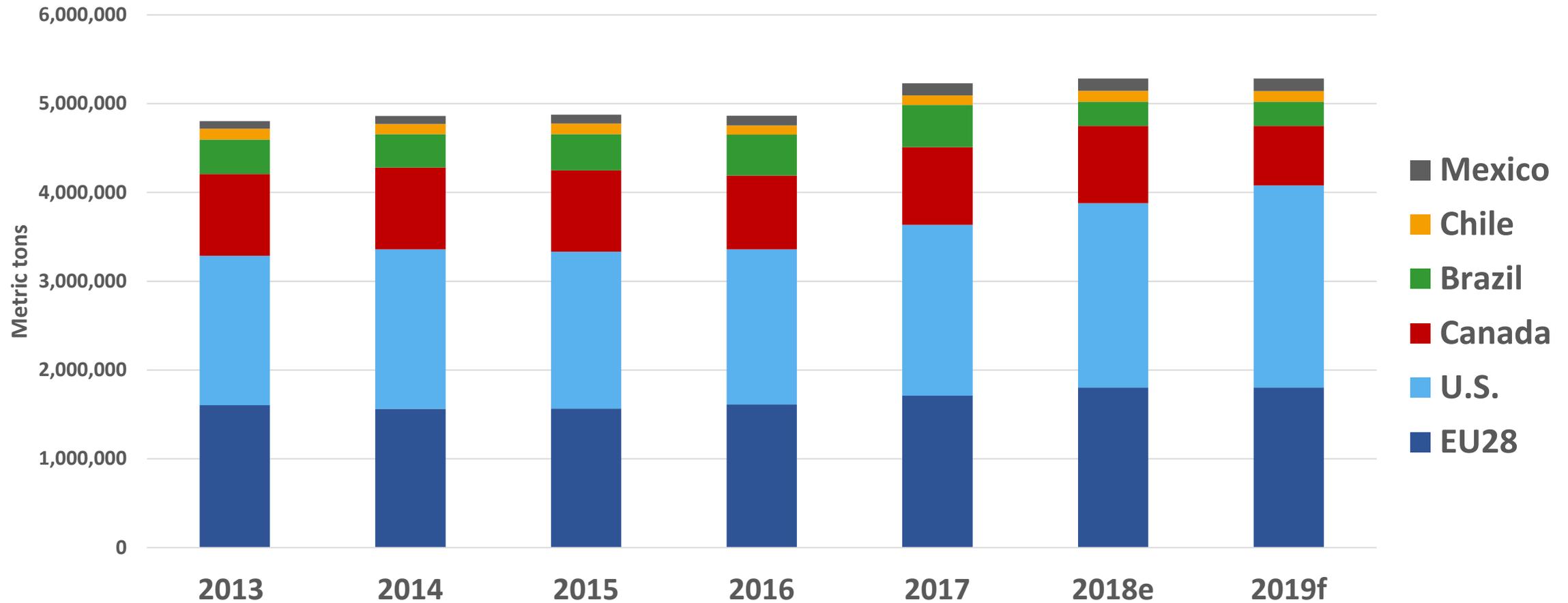


2019f is assuming a 15% drop in China's production; would be similar to the shift in 2016 trade

# Pork exports mostly flat outside China... Because growth across most markets has offset the loss of Russia & Ukraine buying



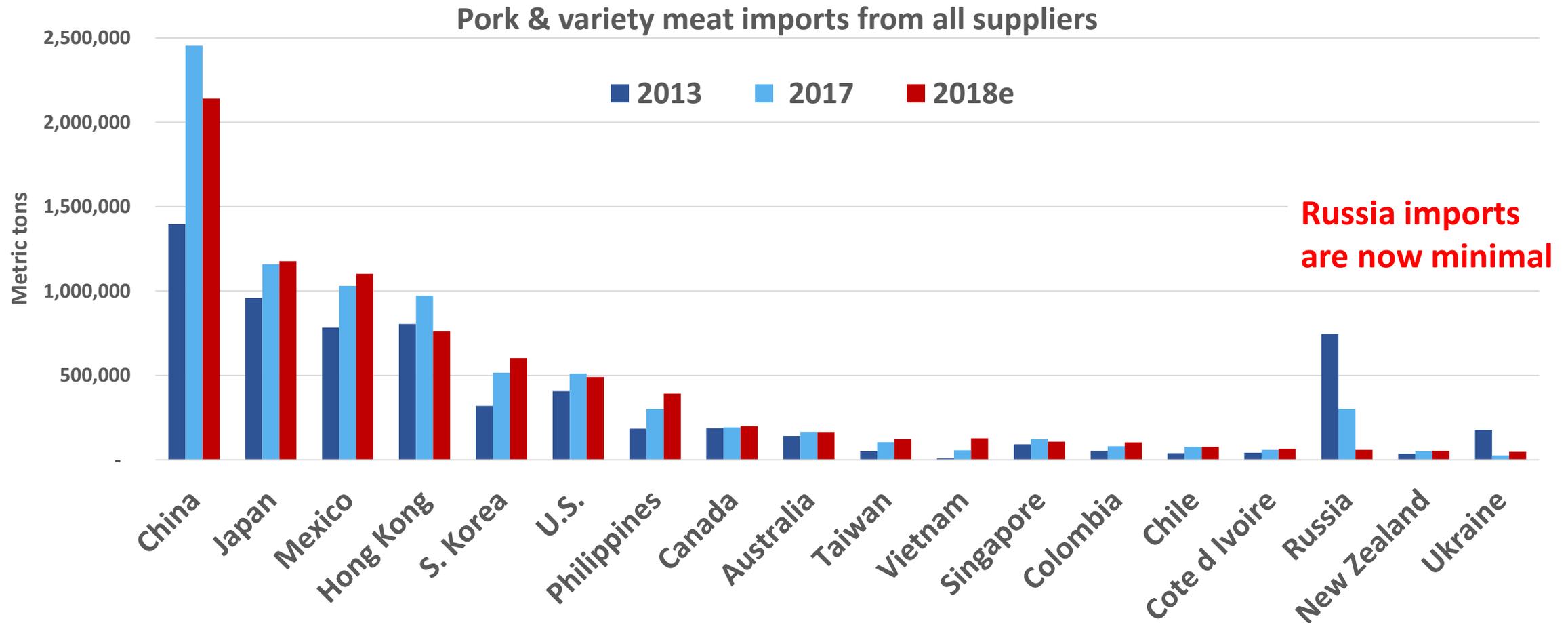
## Pork & Variety Meats to Rest of World ex China/HK



# China already the largest importer of pork but growth last year was in the rest of the world



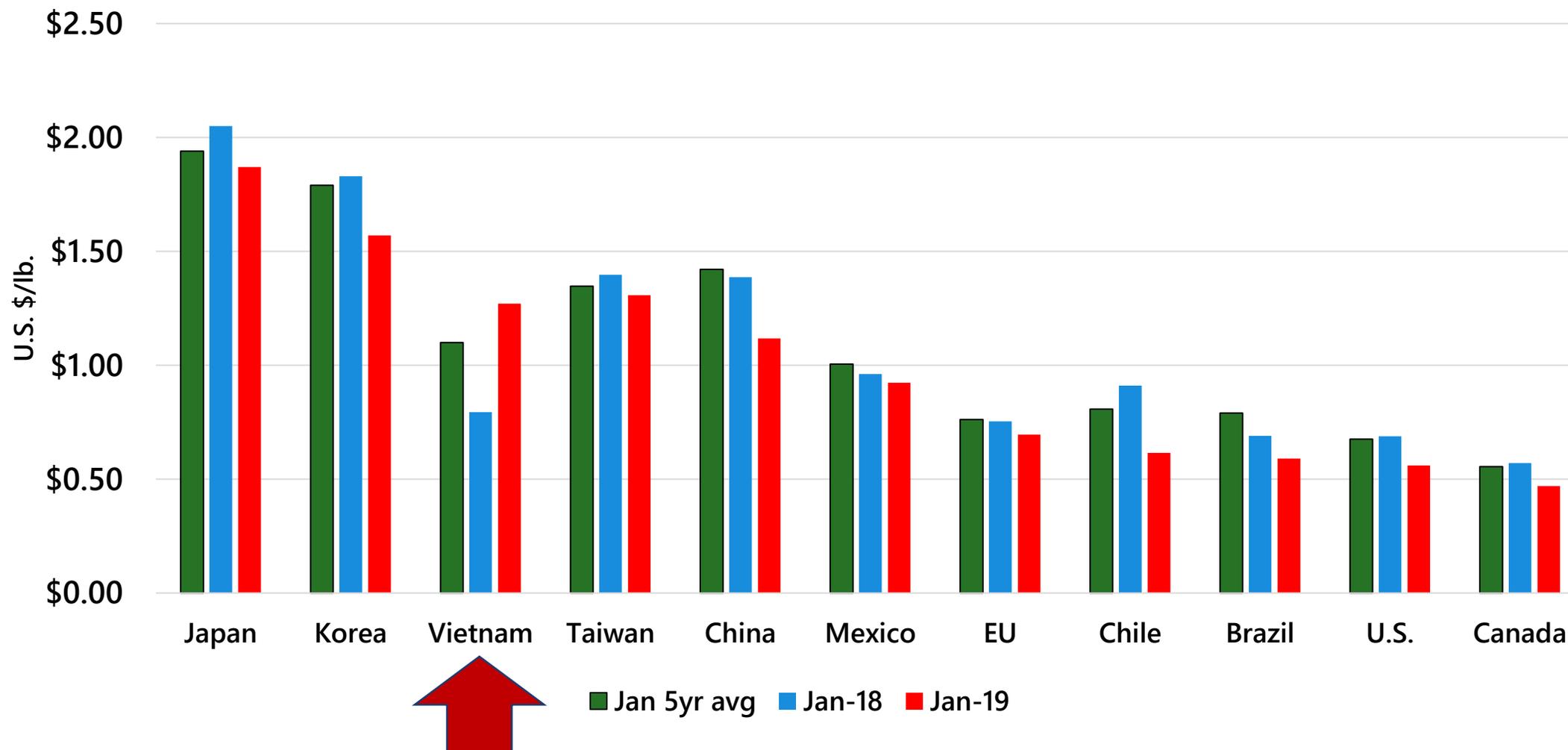
Expect continued growth in the major import markets, but could come down to price if China/global supply shortage materializes later this year



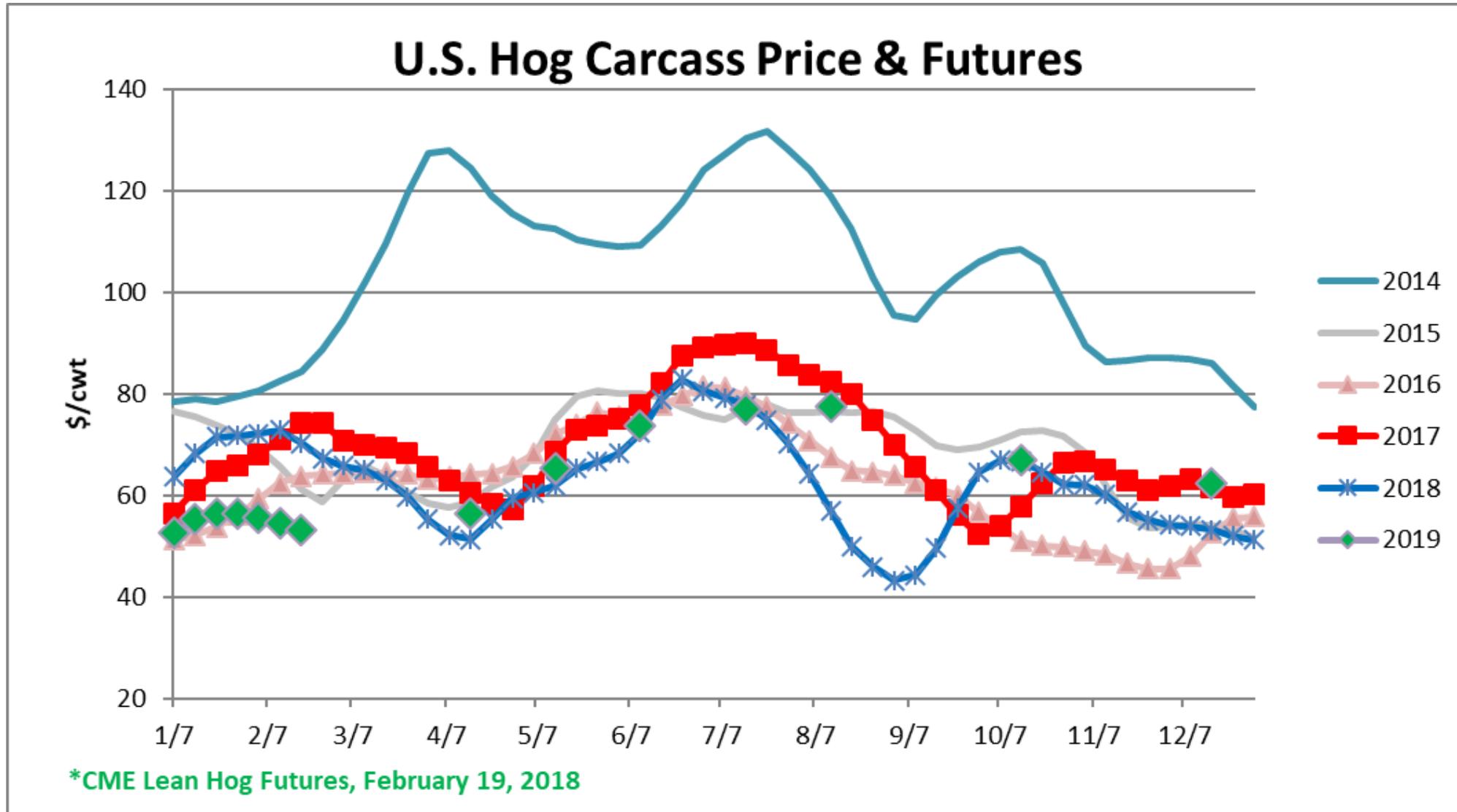
# As of January, hog prices reflected abundant supplies ... and retaliatory tariffs; Vietnam as the exception



## Estimated Carcass Prices



# U.S. futures now waiting for something more tangible? China March 1 Deal?



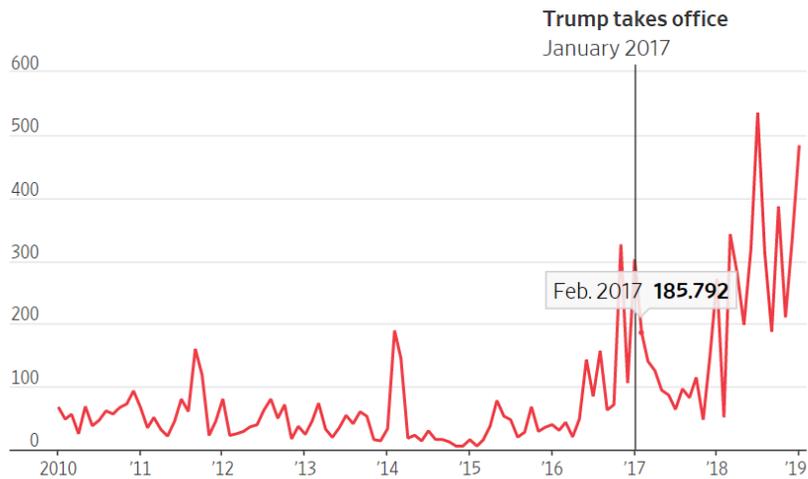
# Expect continued market volatility



## Uncertain Times

President Trump's ambitious plans to remake U.S. commercial policy have churned up uncertainty about the global trading system.

### Trade-policy uncertainty index



Note: Based on search results from 10 large U.S. newspapers, measuring the volume of articles "discussing economic policy uncertainty" on specific topics  
Source: PolicyUncertainty.com; Steven J. Davis, University of Chicago, Booth School of Business

## POLITICS

# As China Trade Talks Resume, Trump Pushes an Ambitious

Trump administration is pushing for a deal that will result in long-term reforms—and prove that tariffs are good for open markets



President Trump spoke with Chinese Vice Premier Liu He, left, in the Oval Office on Jan. 31 during talks aimed at easing a trade dispute between the world's two largest economies. PHOTO: MARK WILSON/GETTY IMAGES



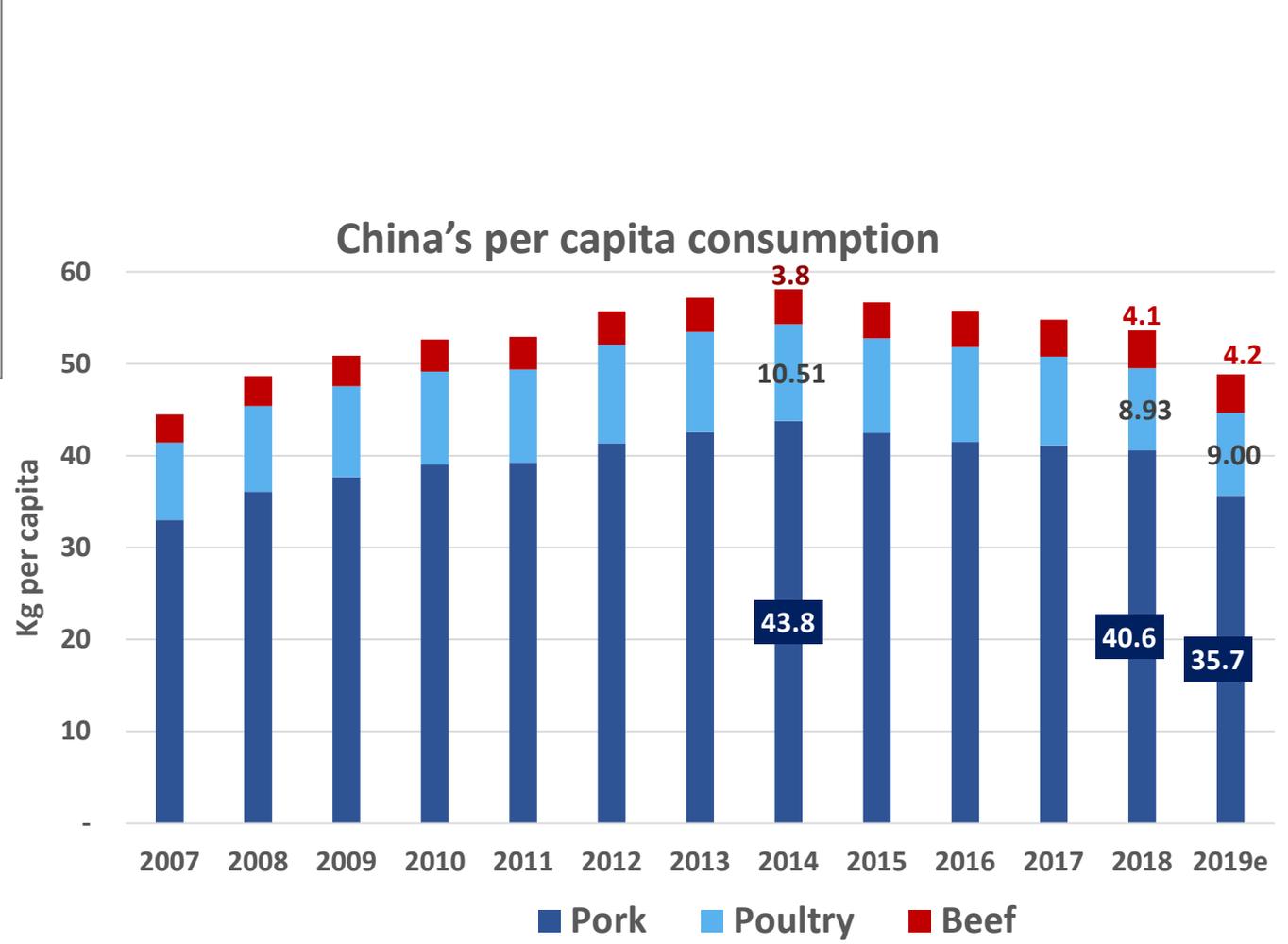
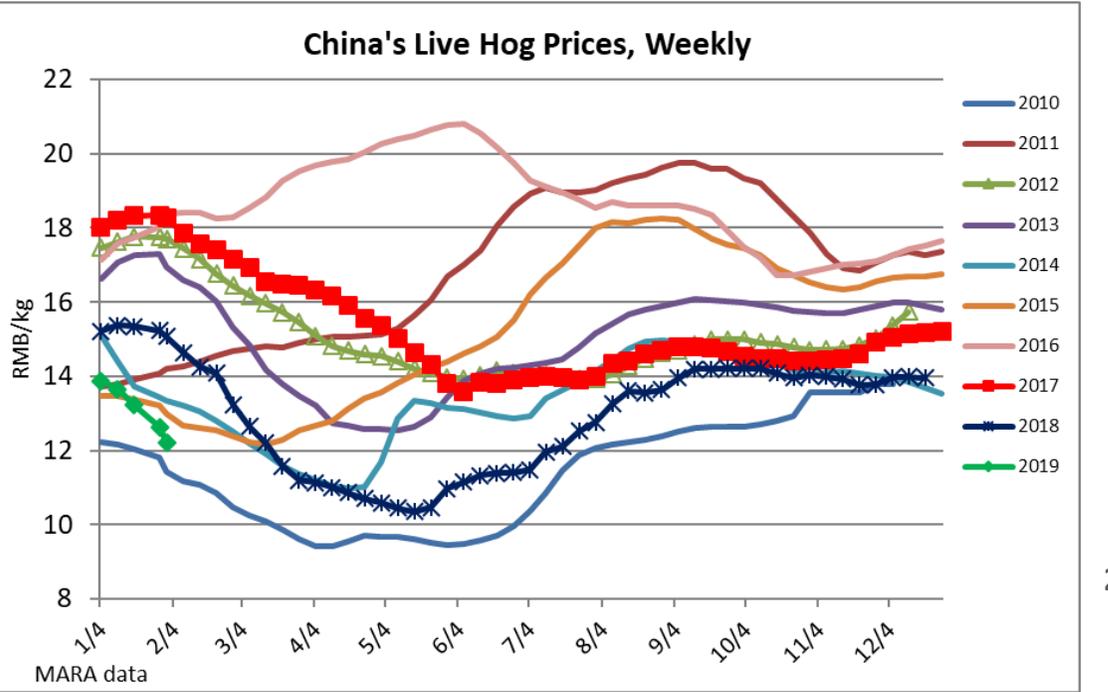
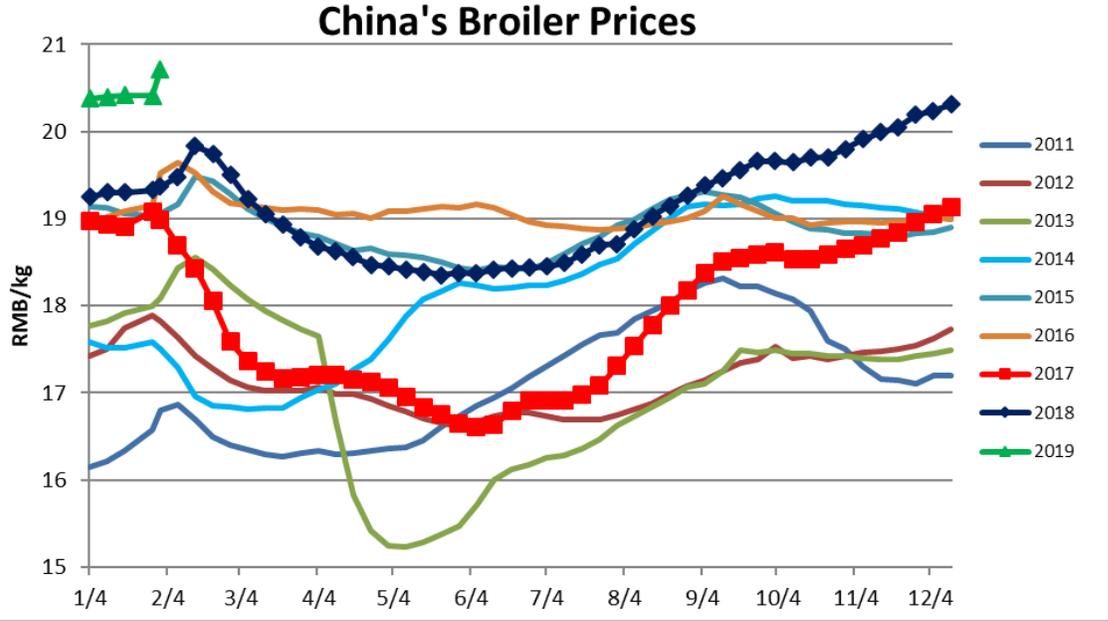
# No, it's not here: rumours of African swine fever in Canada are false

Photo by Simon White

By Jacob M. Schlesinger



# Record chicken prices as pork substitute

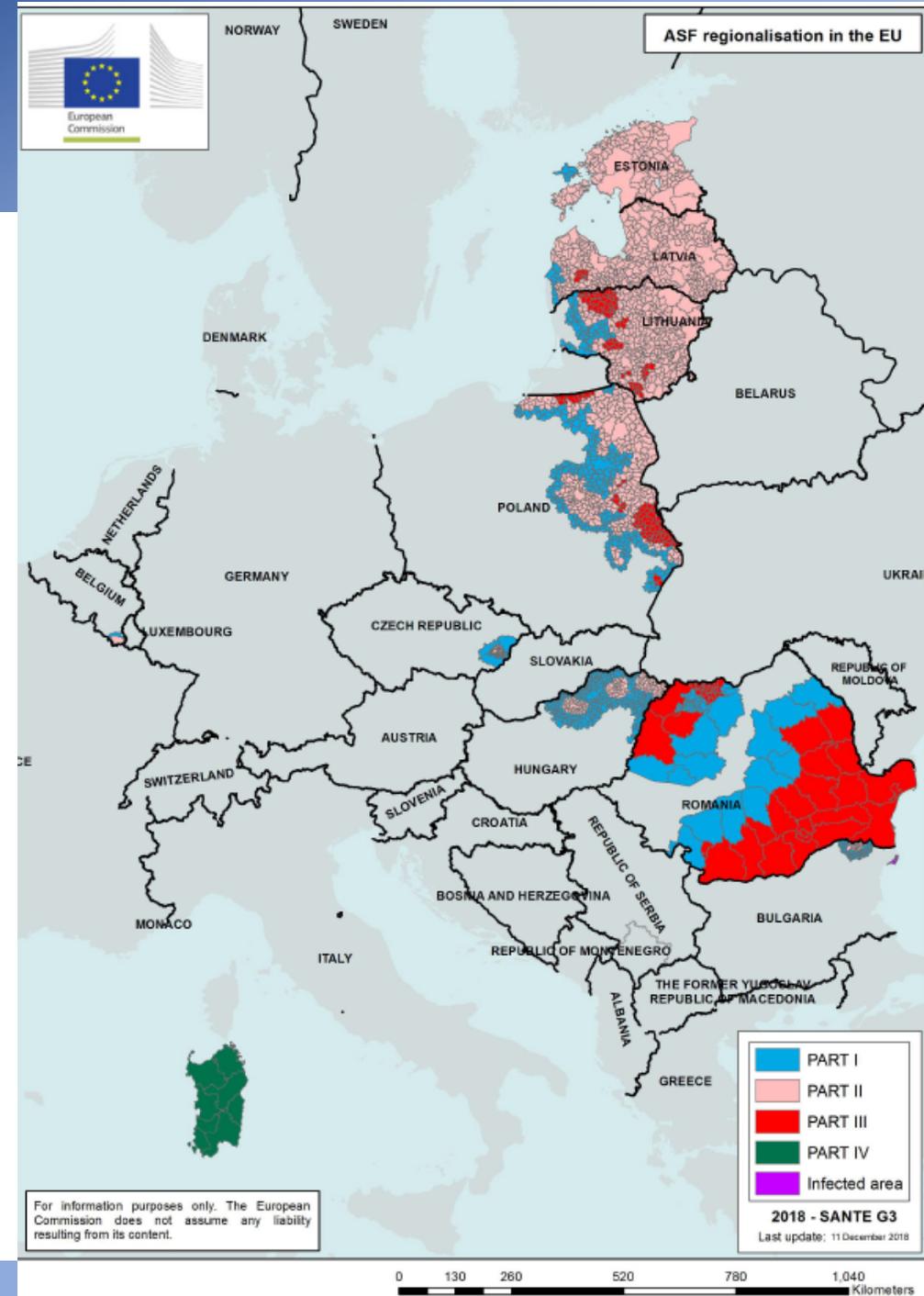


2019e shows 15% decrease in China's pork production

# ASF in Eastern Europe

EU ASF-infected countries=

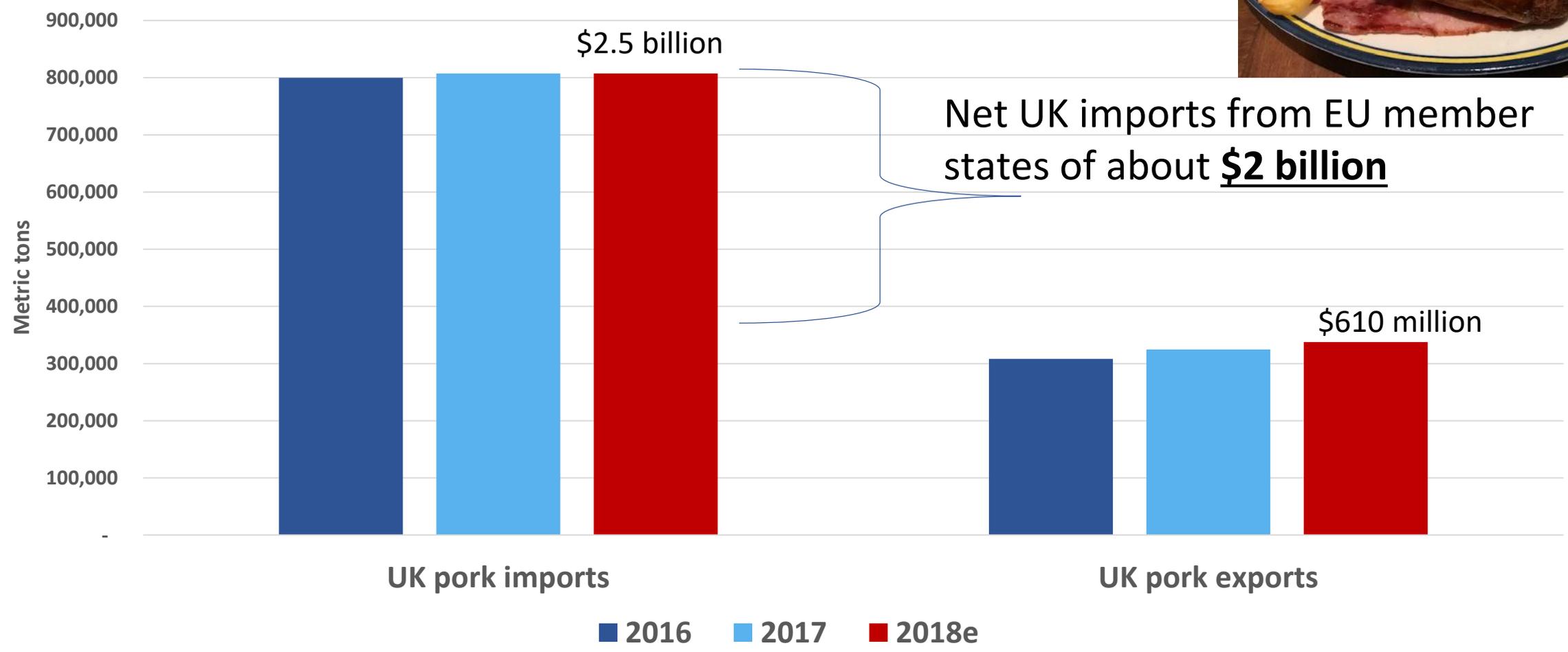
- 4.4 million mt pork
- 50 mil head slaughter
- 19% of EU 2017 production
- Poland, Hungary & Belgium are/were major pork exporters
- Most major importers have not recognized regionalization for ASF and impose country-wide import bans after findings
- Remains active in 2019



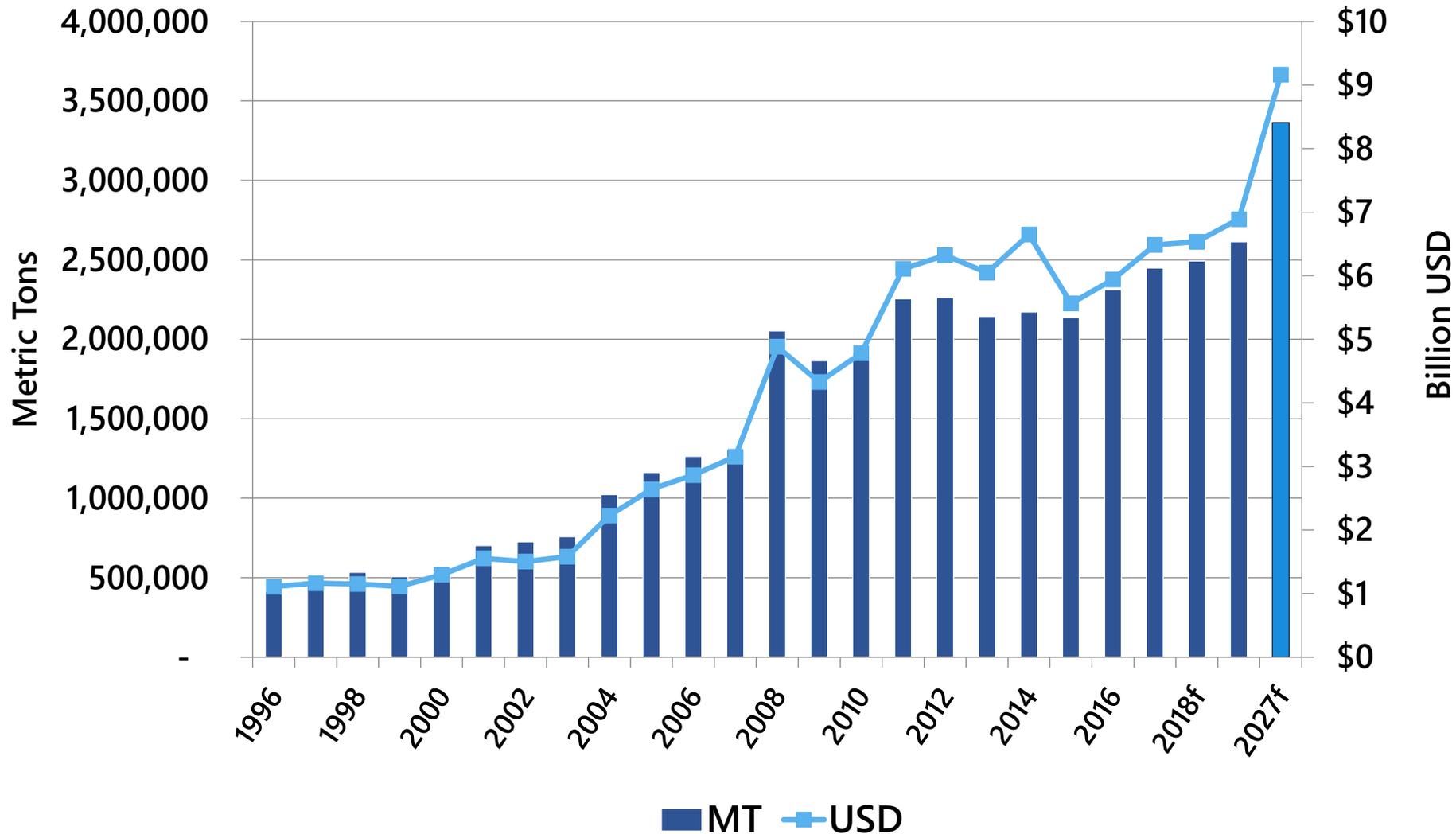
# Brexit and especially a Hard Brexit could impact over 1 million tons of pork trade



UK Pork Trade



# U.S. pork industry expansion is built on export potential U.S. must be seen as reliable supplier again



**Pork exports accounted for 22.4% of production and 25.7% when adding variety meats as compared to 22.2% and 26.5% last year.**

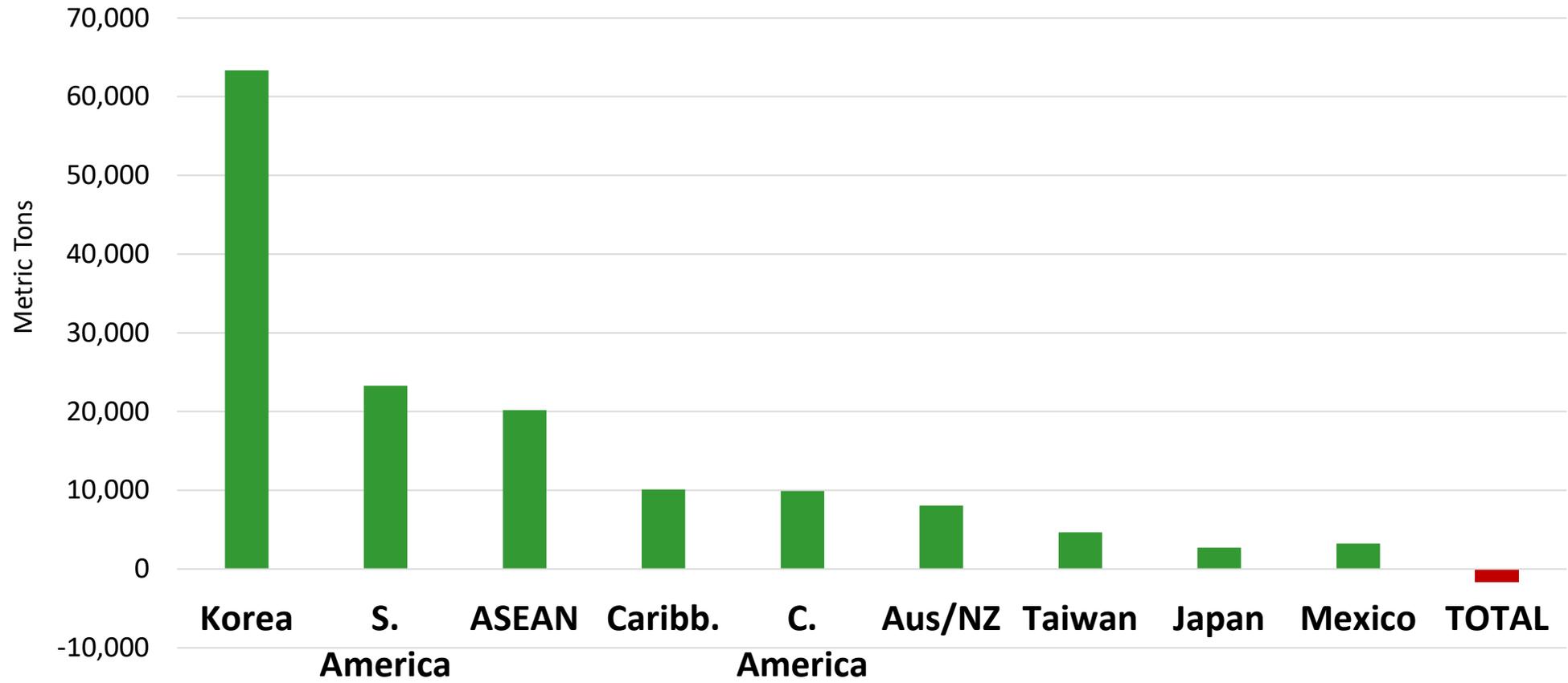
**Jan – Nov export value per head averaged \$51.46/head, down \$1.72/head or -3%**

**Down \$9.58/head for the month of Nov**

# Top 2018 U.S. Export Growth Markets... the silver lining



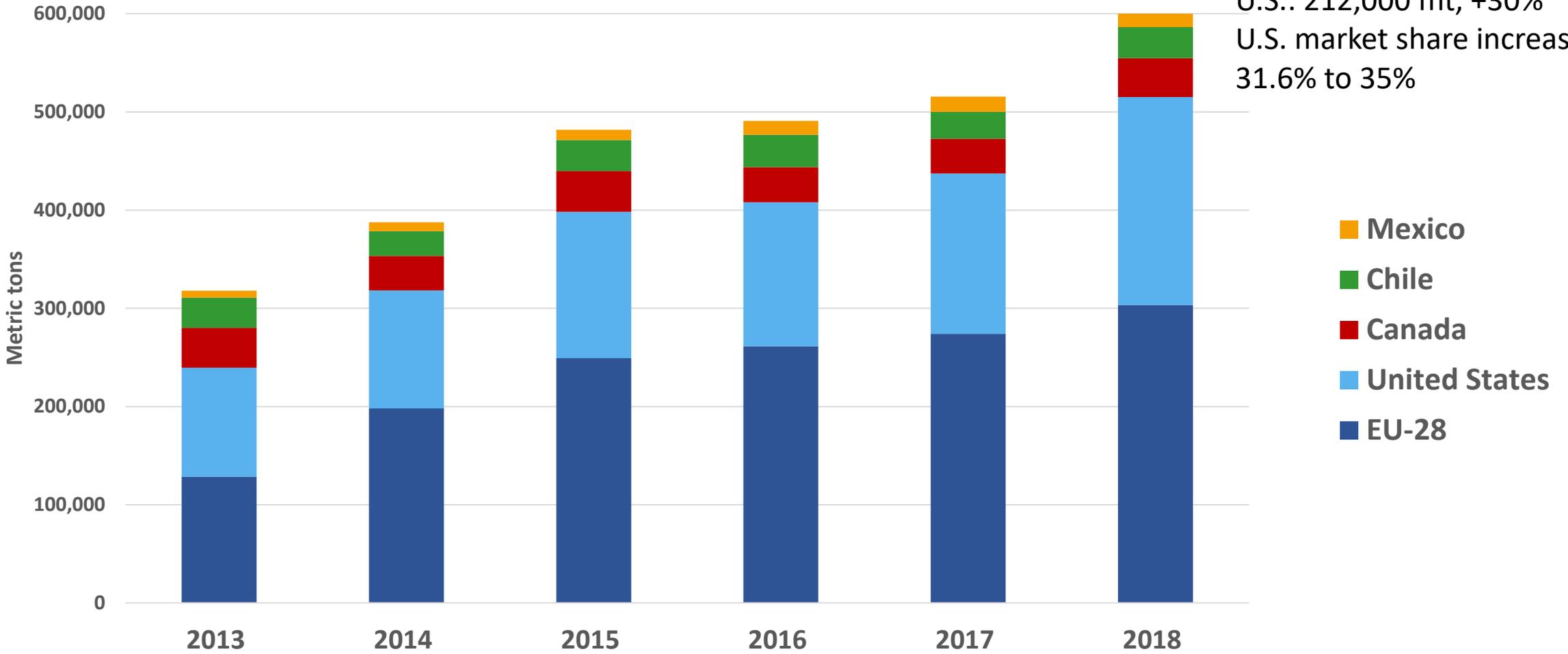
Year-over-Year U.S. Pork Export Growth  
*Jan - November*



# Korea importing record volumes of pork; growing consumption & U.S. share



Korea's Pork & Variety Meat Imports



Total imports: 600,000 mt, +17%;  
U.S.: 212,000 mt, +30%  
U.S. market share increased from 31.6% to 35%

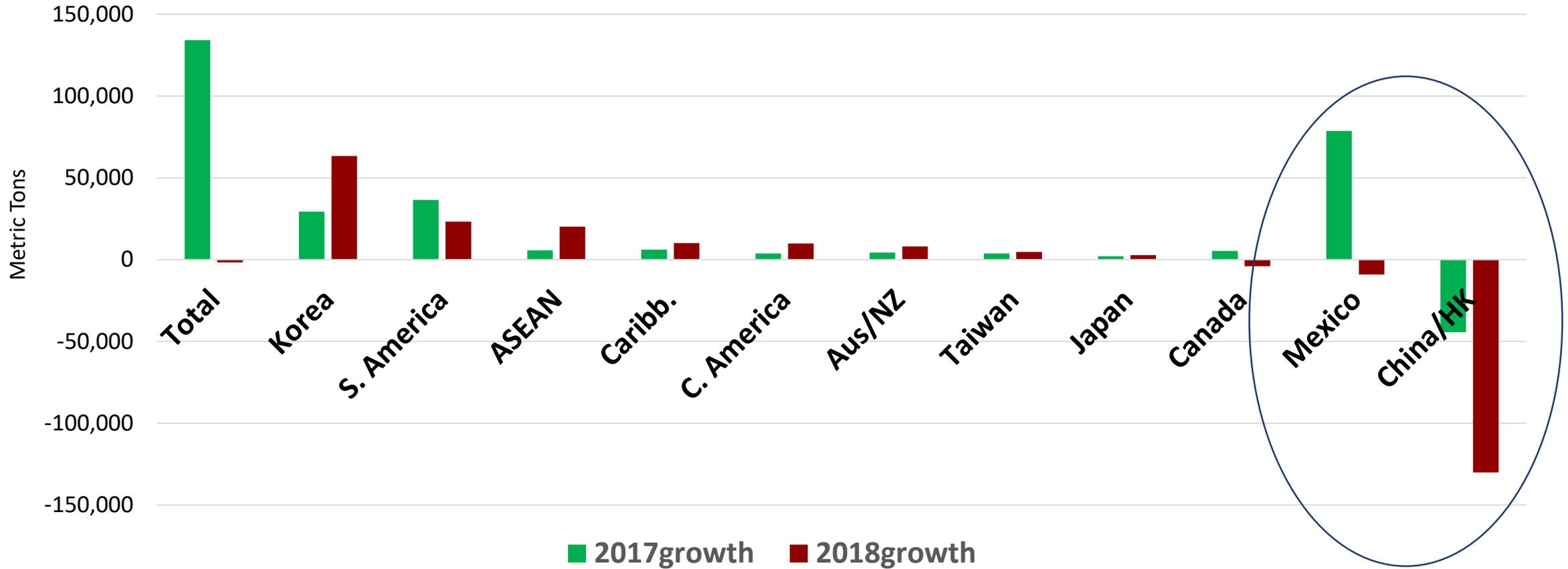
# Korea Meat – centric Home Meal Replacement



# Growth did not fully offset the dramatic slowdown to Mexico & China



Year-over-Year U.S. Pork Export Growth  
*Jan – November 2017 and 2018*



# Loss summary: impact of retaliatory duties following U.S. Section 232 (China & Mexico) & 301 tariffs (China)



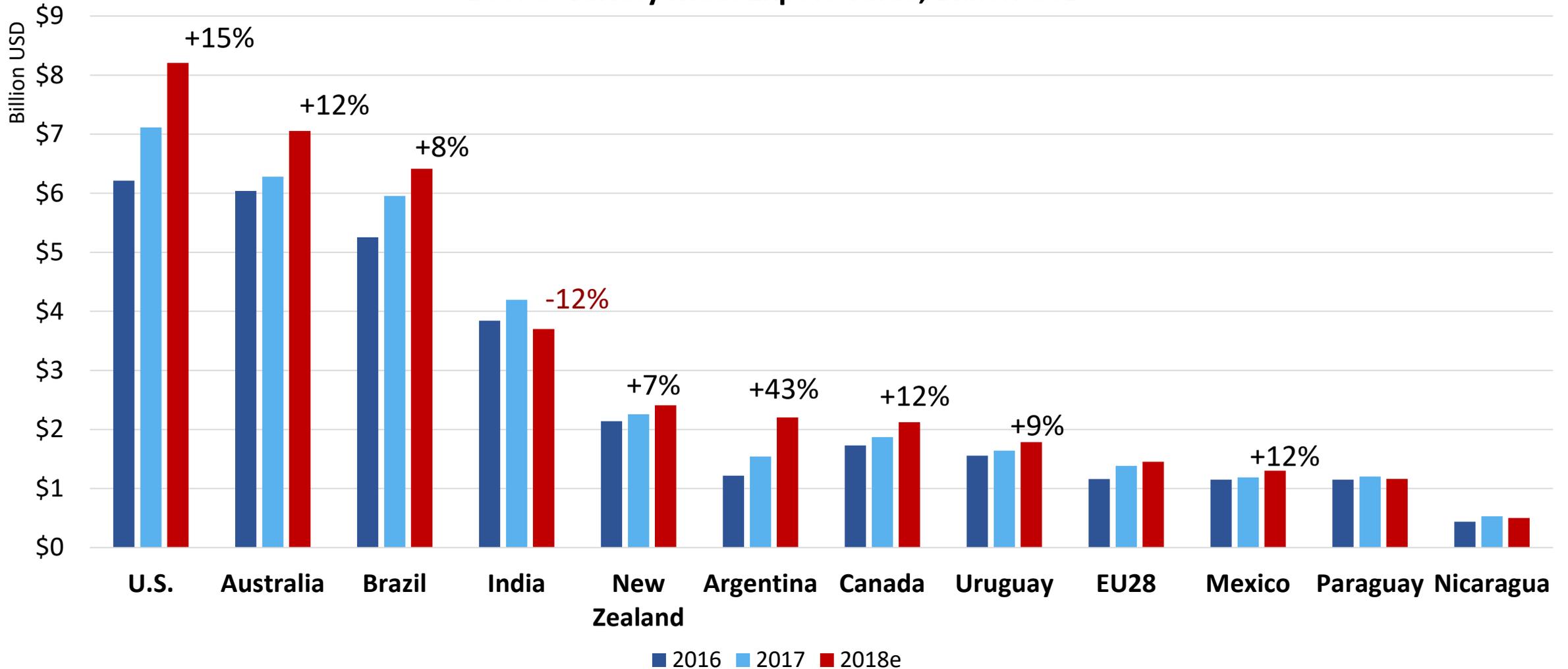
- U.S. ham primal -19% or -\$6.63 per head
- U.S. picnic primal -22% or -\$3.32 per head
- **Loss in ham + picnic value = -\$9.95 per head**
- Front & hind feet & picnic hocks = -\$1.80 per head
- **Hams + picnics + feet lost value = -\$11.75 per head**
- **\$860 million loss** when spread across June-Dec harvest
  
- **SOME PACKERS ARE RENDERING CHINA PRODUCTS!**
- Lost market share & customer efforts to diversify
- U.S. as a reliable supplier????



# U.S. beef is #1 on a \$ basis and global beef trade set a new record in 2018 at >\$38 Billion, up 9%



**Beef & Variety Meat Export Value, Billion USD**

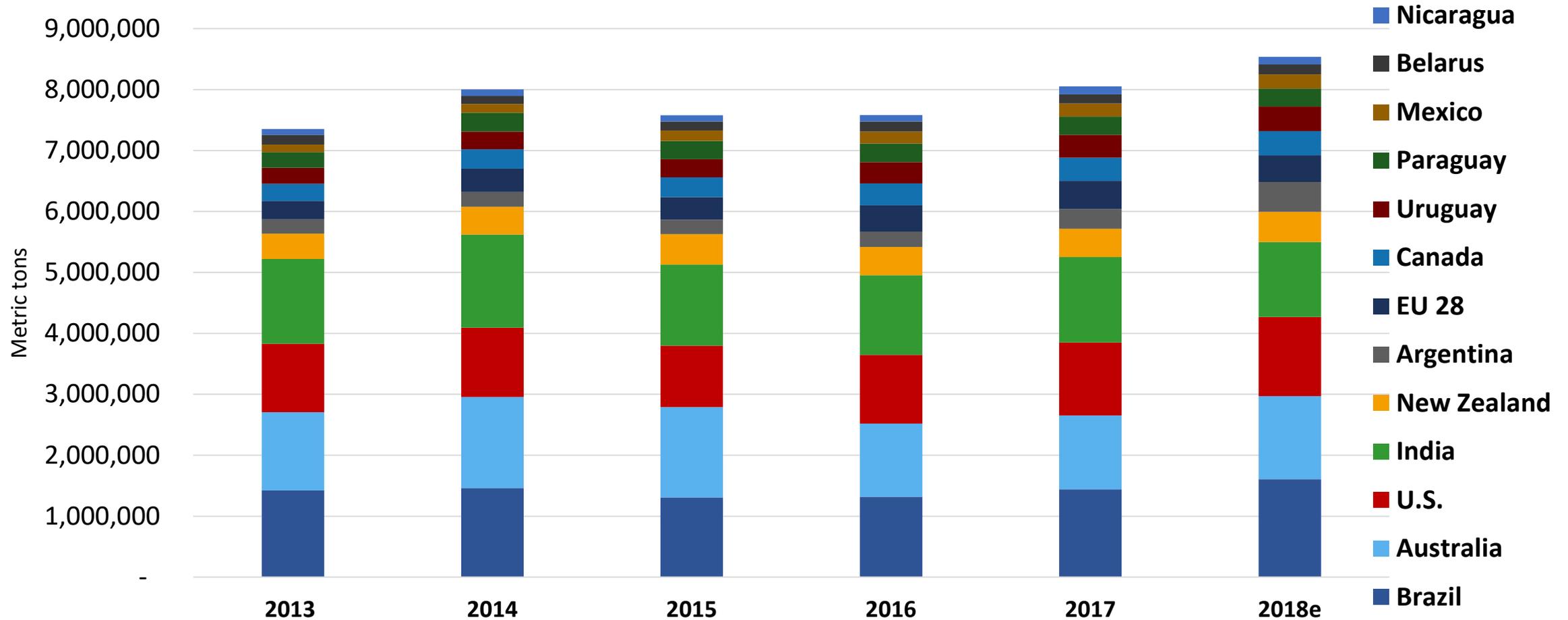


Source: GTA and USMEF estimates

# Overall beef export volume up 6% last year

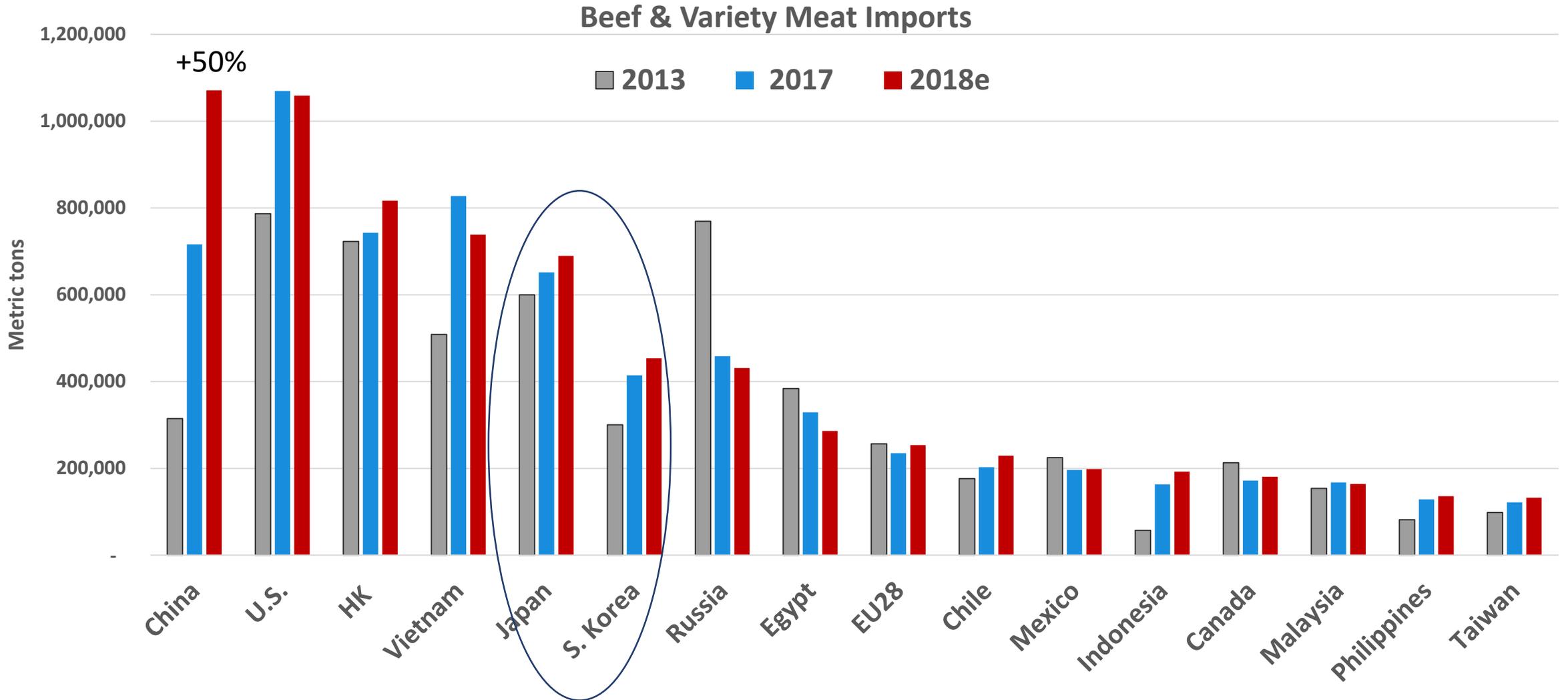


## Beef & Variety Meat Export Volume



Source: GTA and USMEF estimates

# Driven largely by China's buying

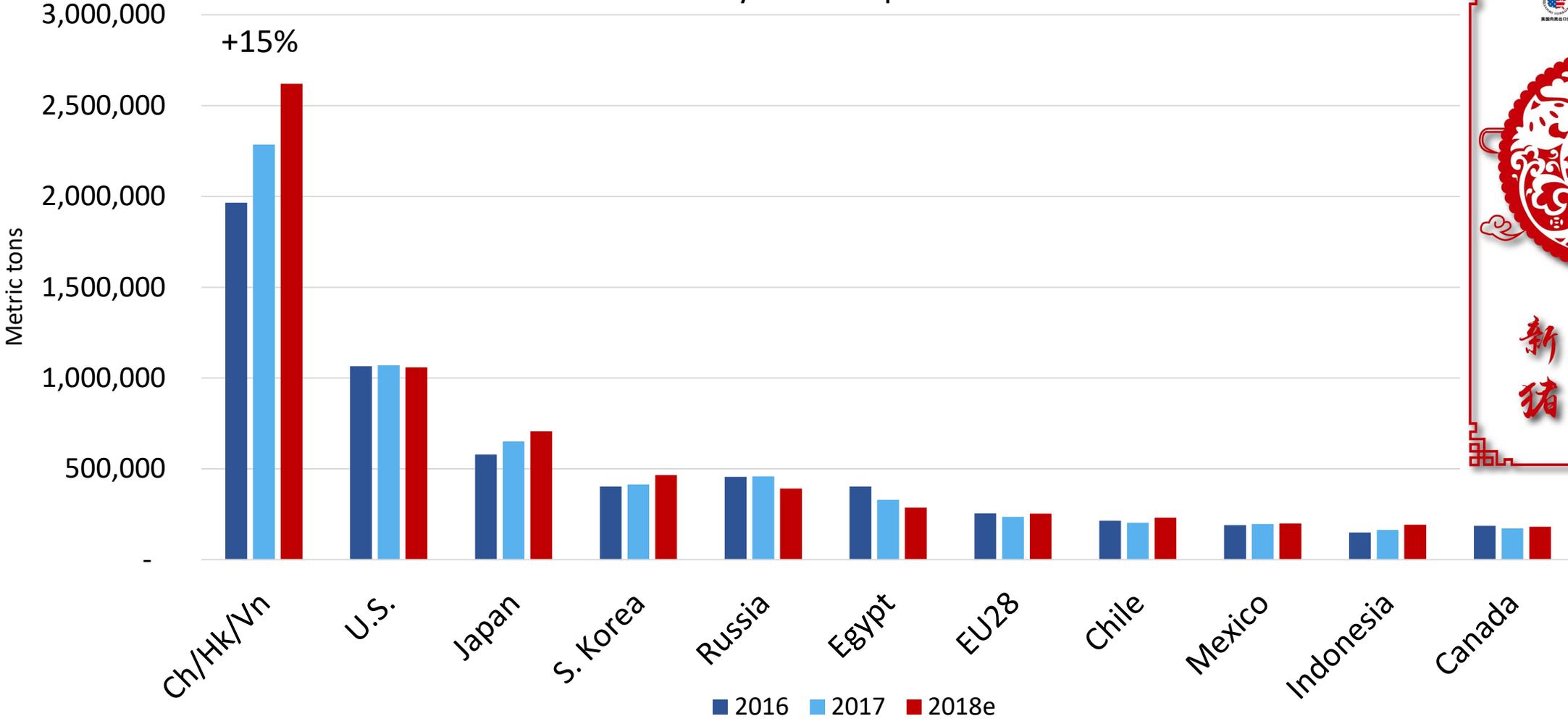


Source: GTA and USMEF estimates

# Beef exports to the China region are now double the volume imported into the U.S.

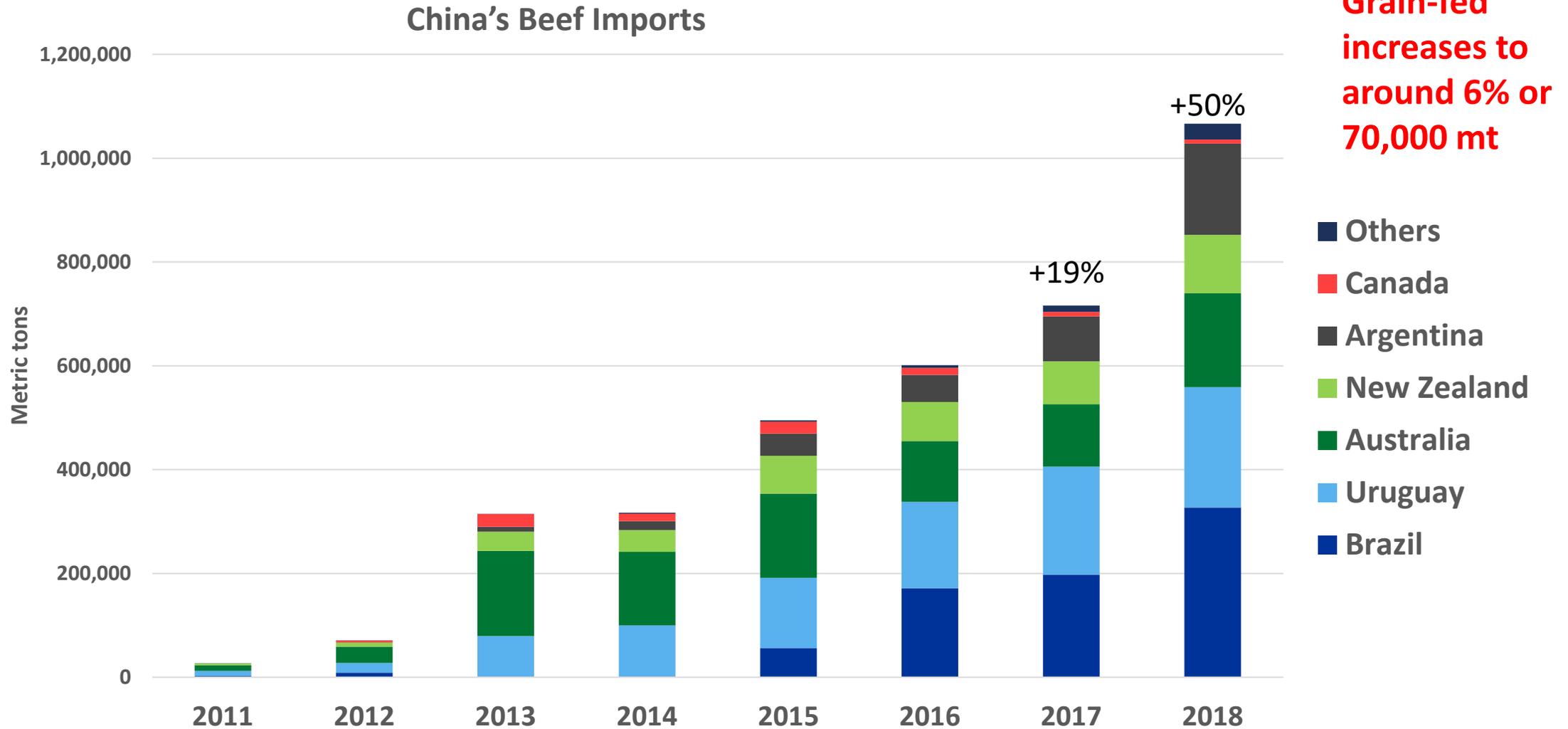


Beef & Variety Meat Imports



Source: GTA and USMEF estimates

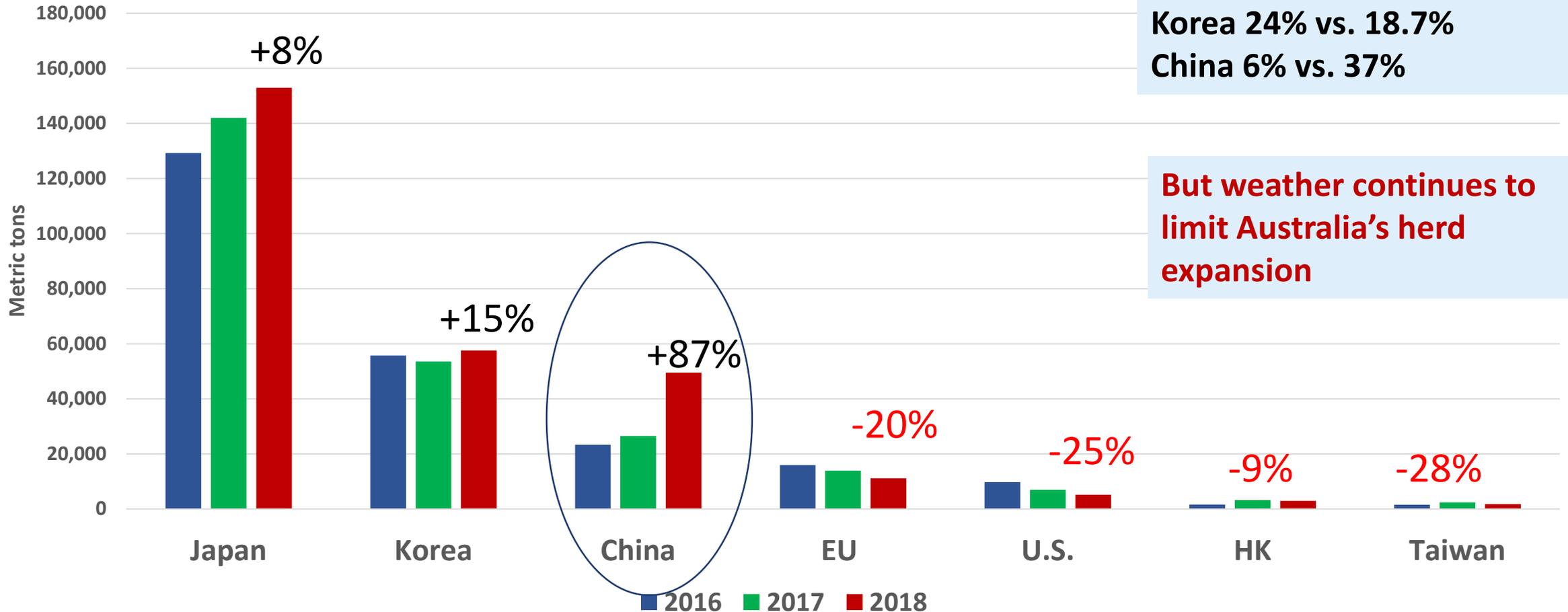
# South America dominating China's imports, accounting for ~70%



# Australia shipping more grain-fed to China, even with limited plants approved



Australia's grain-fed exports to top markets



**Tariff advantages Aus vs. U.S.:**  
Japan 27.5% vs. 38.5%  
Korea 24% vs. 18.7%  
China 6% vs. 37%

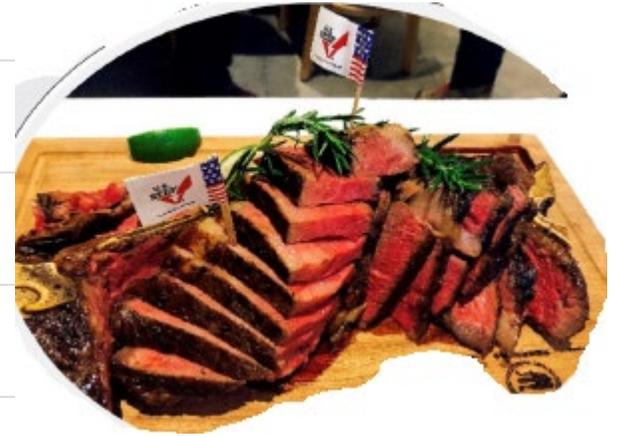
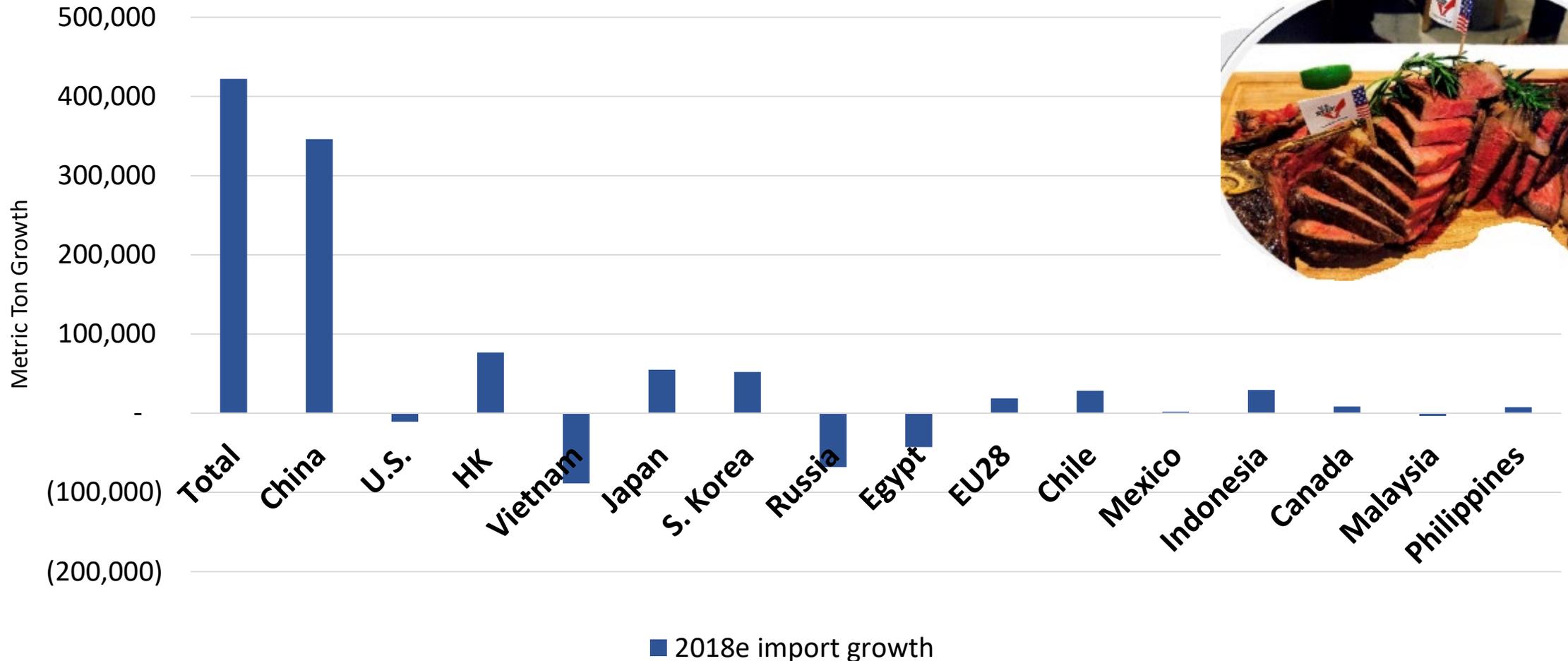
**But weather continues to limit Australia's herd expansion**

**2018 main markets ~280,000 mt, +13%**

# China accounting for 80% of the increase in beef trade



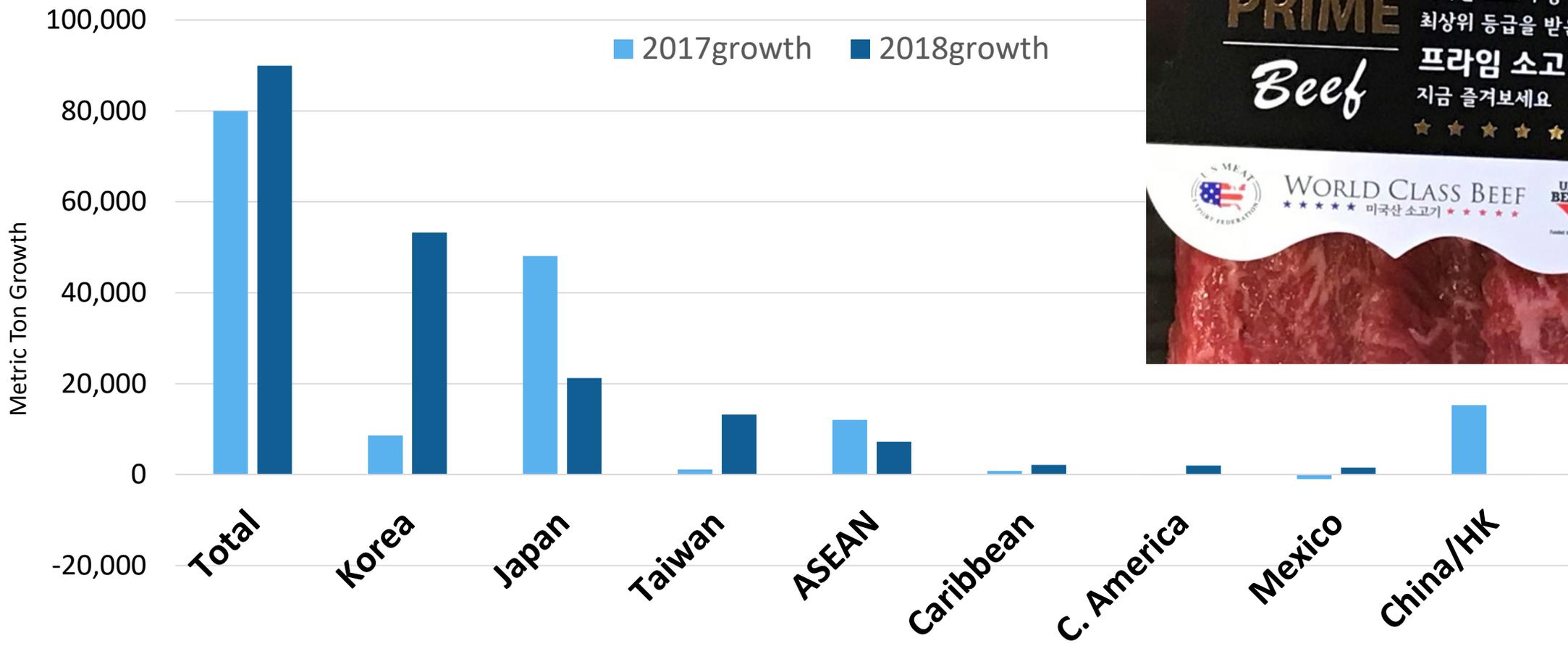
The tonnage change in 2018 beef/bvm import volume



# But the growth for U.S. beef has been led by Korea, Japan, Taiwan & ASEAN



Jan-Nov 2017 and 2018 growth year-over-year in U.S. beef/bvm exports



Source: GTA and USMEF estimates

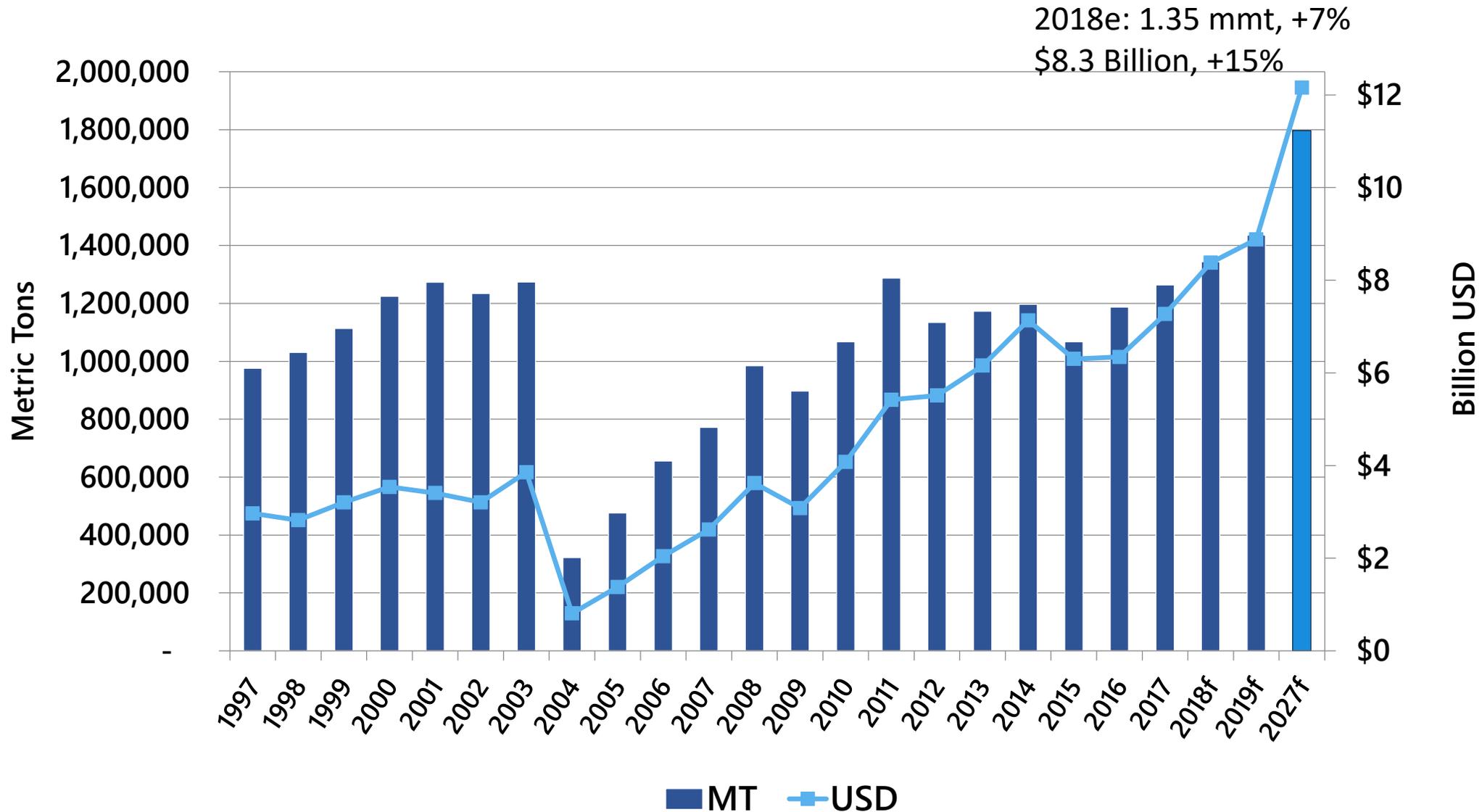
# Underpinned by growing consumption...



	Per Capita Consumption (2016 and 2018est)	U.S. Share of Total Beef Consumption (2016 and 2018est)
Japan	6.7 kg to 7.5 kg	23% to 27%
Korea	11.5 kg to 12.5 kg	27% to 33%
Taiwan	4.67 kg to 5.35 kg	38% to 42%
China	4.2 kg to 4.33 kg	2%
HK		17% to 18%
Mexico	14 kg to 14.15 kg	9%
Canada	18.4 kg to 18.9 kg	15%



# U.S. beef and variety meat exports set a new record in 2018...growth to continue



>Jan – Nov  
beef export  
value per  
head  
averaged  
**\$320.72**, up  
**\$38.38** or  
+14%.  
>Beef exports  
accounted for  
**11.1%** of  
production  
and **13.4%**  
when adding  
variety meats  
up from 10.3%  
and 12.8% last  
year.

# Summary



- It will be another wild year, with trade driven by forces out of our control: disease and tariffs
- U.S. maintains supply advantage
- U.S. red meat exports will again be record-large, barring our own crisis
- Degree to which U.S. is able to supply the world depends on trade policy
- All meat producers globally are looking to sell more to China
- China's pork supply "hole" will be partly offset by reduced consumption and larger imports of pork, poultry, beef, sheep- the big import surge might not happen until late 2019-2020
- Mexico's domestic pork industry is growing
- Japan's imports will continue to set new records, with growth going to our competitors until a U.S.-Japan trade agreement happens
- Longer-term potential is significant, as U.S. has the production base & natural resource advantages but must also have partnerships and trade agreements
- Opportunities for more branded and value-added products?

# Thank You...and Happy Year of the Pig!



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# EXTRAS



- Growth of Meat Trade minutes

15

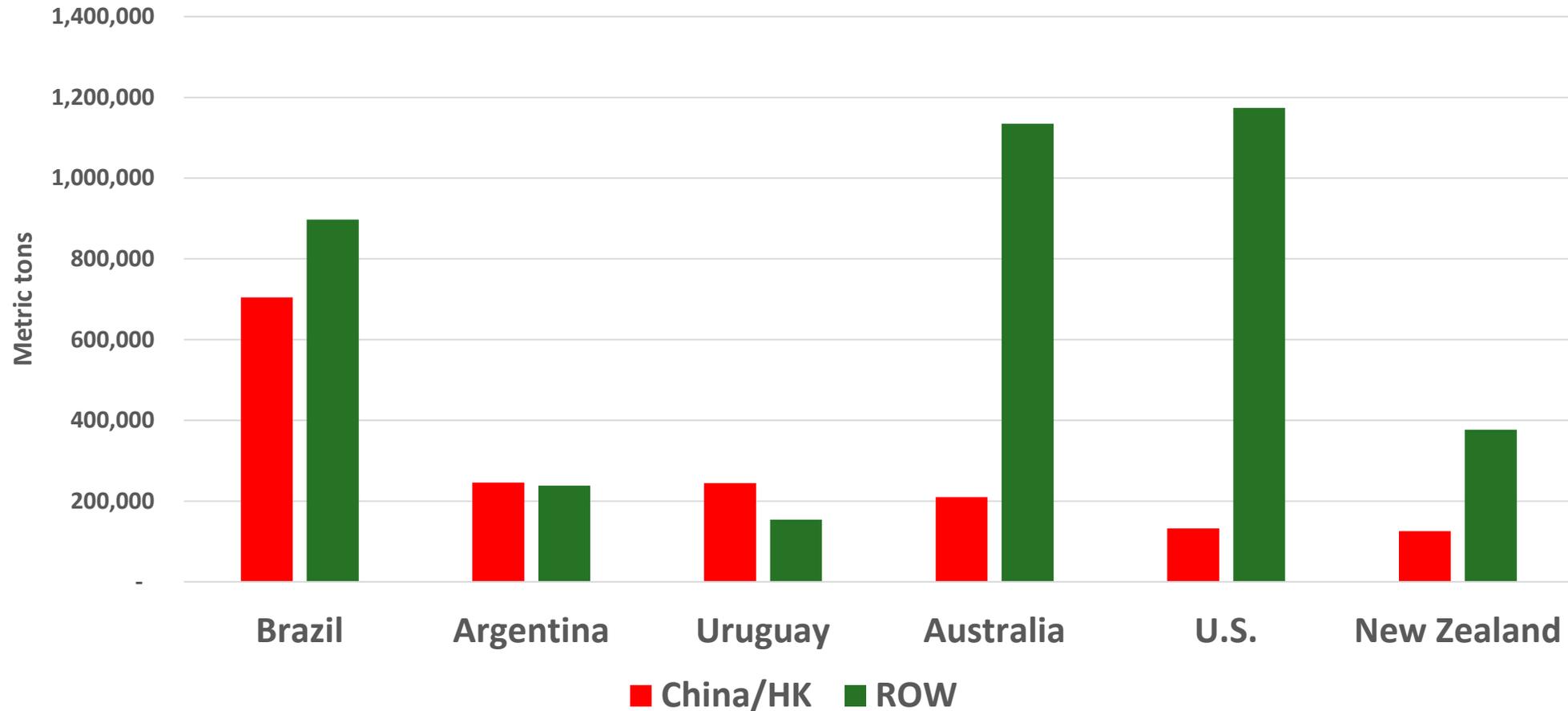
- *Over the past 10 years, global exports of beef and pork have increased by more than one-third, supported by economic growth and an expanding middle class. Although demand is growing in most regions, much of the increase in exports is due to surging demand from China. During the same period, Russia drastically reduced imports of beef and pork, increasing competition for markets in Asia. This speaker will discuss expansion in red meat trade, focusing on future opportunities and challenges to growth.*

# South America's reliance on China

## Accounts for >50% of Arg. & Ur. exports



Exports to China/HK and to the Rest of the World, 2018

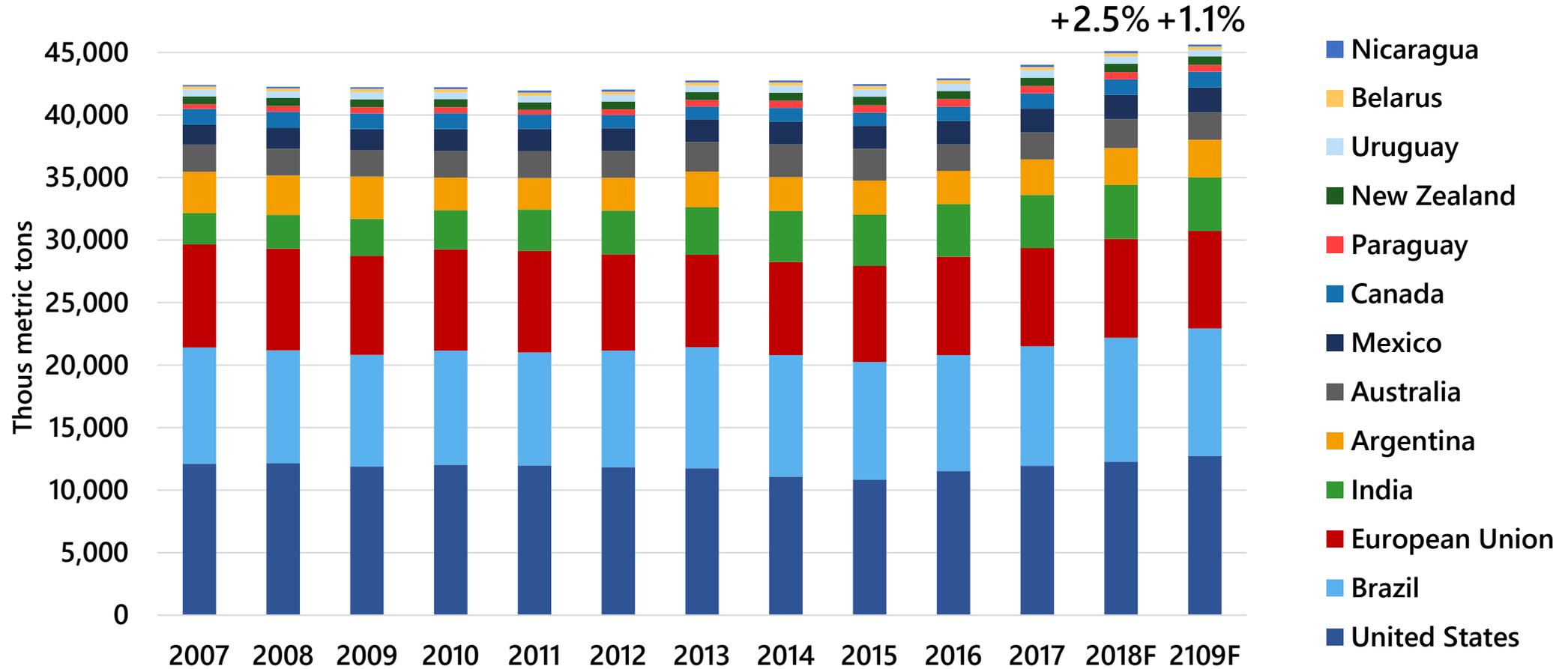


Source: GTA and USMEF estimates

# U.S. and Brazil leading the growth in beef production for top exporters



## Beef Production, Top Exporters



Source: USDA/FAS fall 2018, USMEF estimates

# Drives a 10%-15% increase in total U.S. exports vs. 5% baseline forecast



- The increase to China is 1.5 million mt, of which 900k mt can come from the EU
- Drives EU exports to 4.45 million mt, +27%
- Canada's growth could be constrained
- And the hedge against EU ASF ... favors U.S. growth
  - Latin America
  - Korea, Japan
  - Southeast Asia
- U.S. 2019 export potential scenario... 2.75 million mt, +15%
- **It's going to come down to tariffs and prices.**

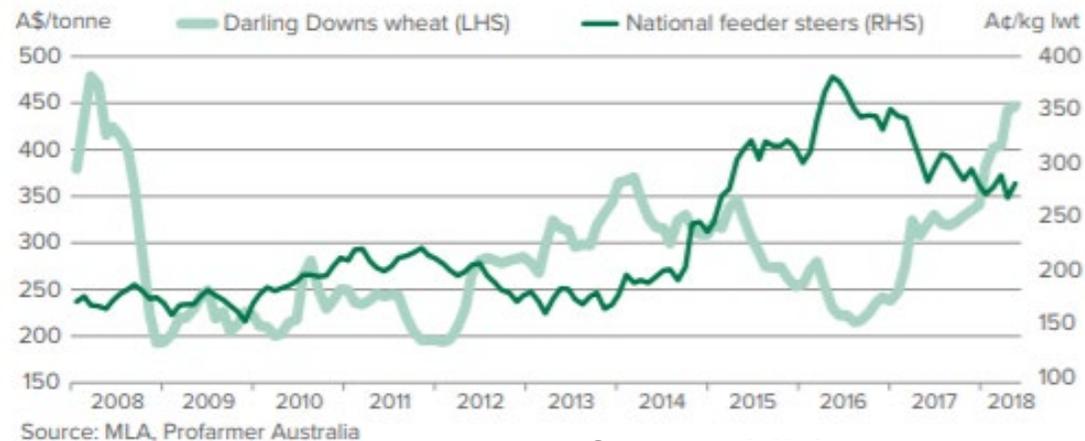
>>Retaliatory tariffs continue to limit U.S. export opportunities in China and Mexico  
>>The "hole" in China's supplies might not materialize until later in 2019, with a more significant import surge in 2020

# Booming Aussie grain-fed exports...weather continues to limit overall production expansion



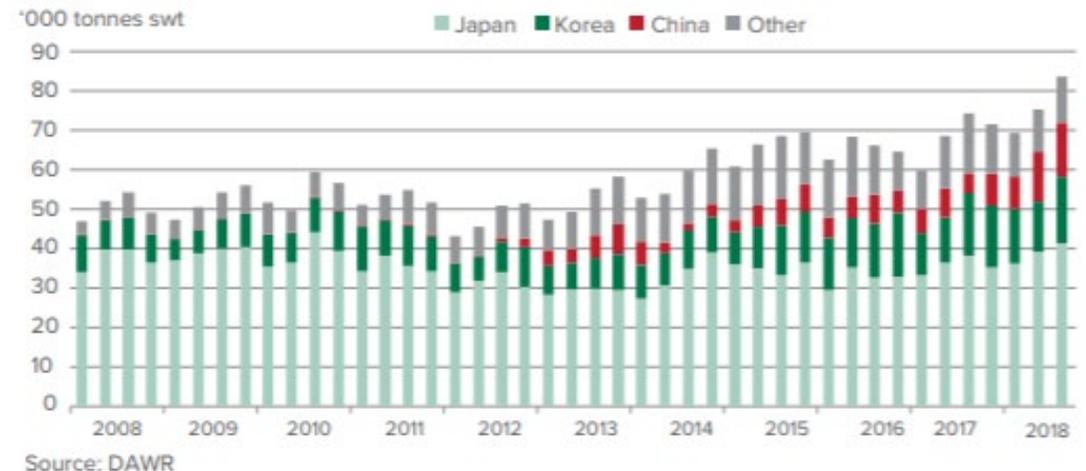
- 2018 CY grain-fed exports >280,000 mt, accounting for a quarter of Australia's total exports and a new record
- Japan: up 8% to 153,000 mt (48% of exports to Japan)
- Korea: up 15% to 57,600 mt (34%)
- China: up 87% to 49,470 mt (30%)

Figure 4: Feed grain and feeder steer prices



Source: MLA

Figure 2: Quarterly grainfed beef exports



# China's situation



## 基本生物安全的主体

### Tenants of basic biosecurity...

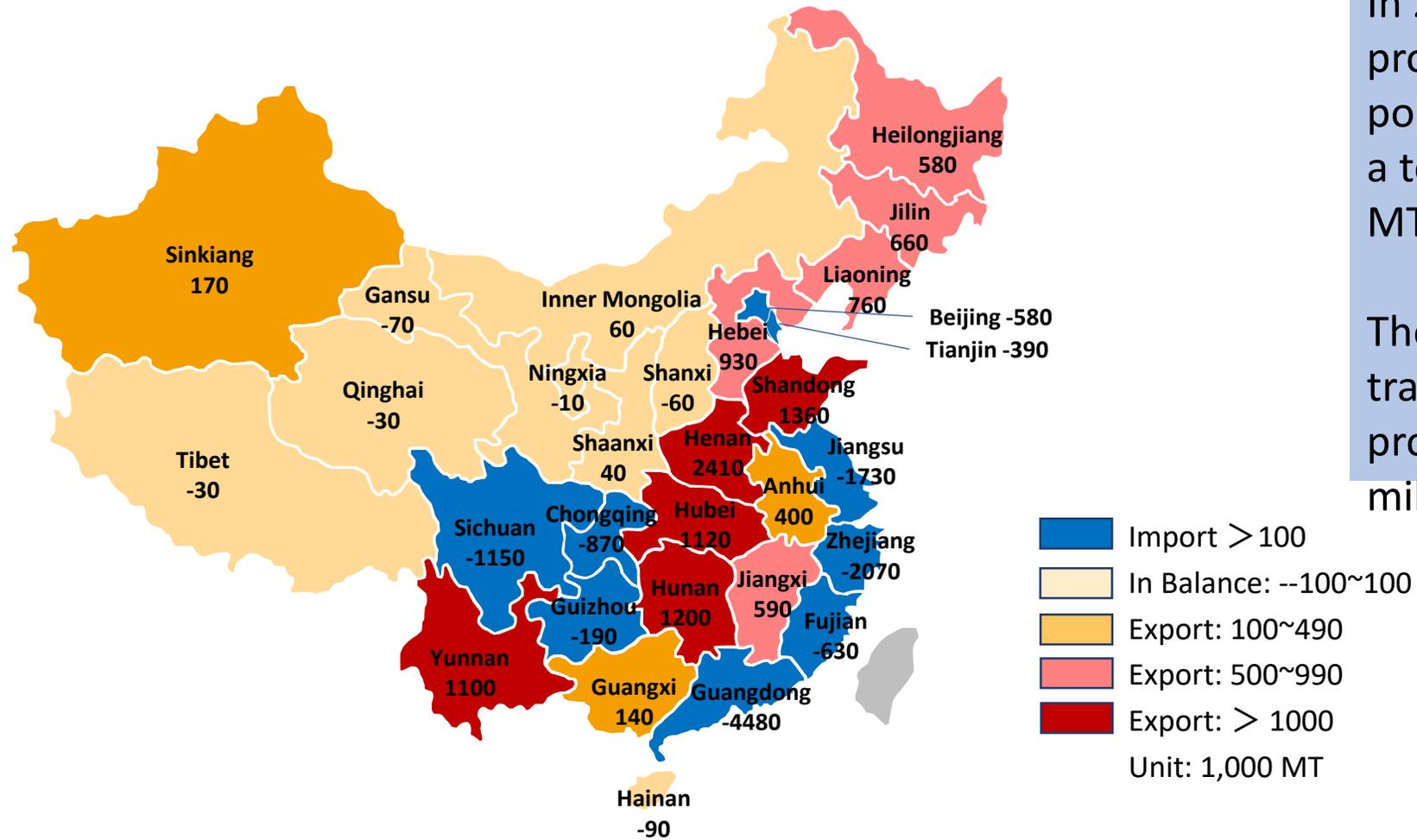
- K.I.S.S.
- 使其合理, 即使无人看管也可以每周7天每天24小时“可行”  
Make it make sense and be “do-able” 24-7, even when no one is looking...
- Get **buy-in** from those you are affecting
- 审计和追踪  
Audit and follow-up!
  - 庆祝成功  
Celebrate successes
  - 严格评估那些未达到期望值的区域  
Critically assess those areas that are not meeting expectations



People, Pigs, Planet. pork

U.S. GRAINS COUNCIL  
美国谷物协会  
U.S. Grains Council

# Transportation of pork in China ~ Boyar estimates

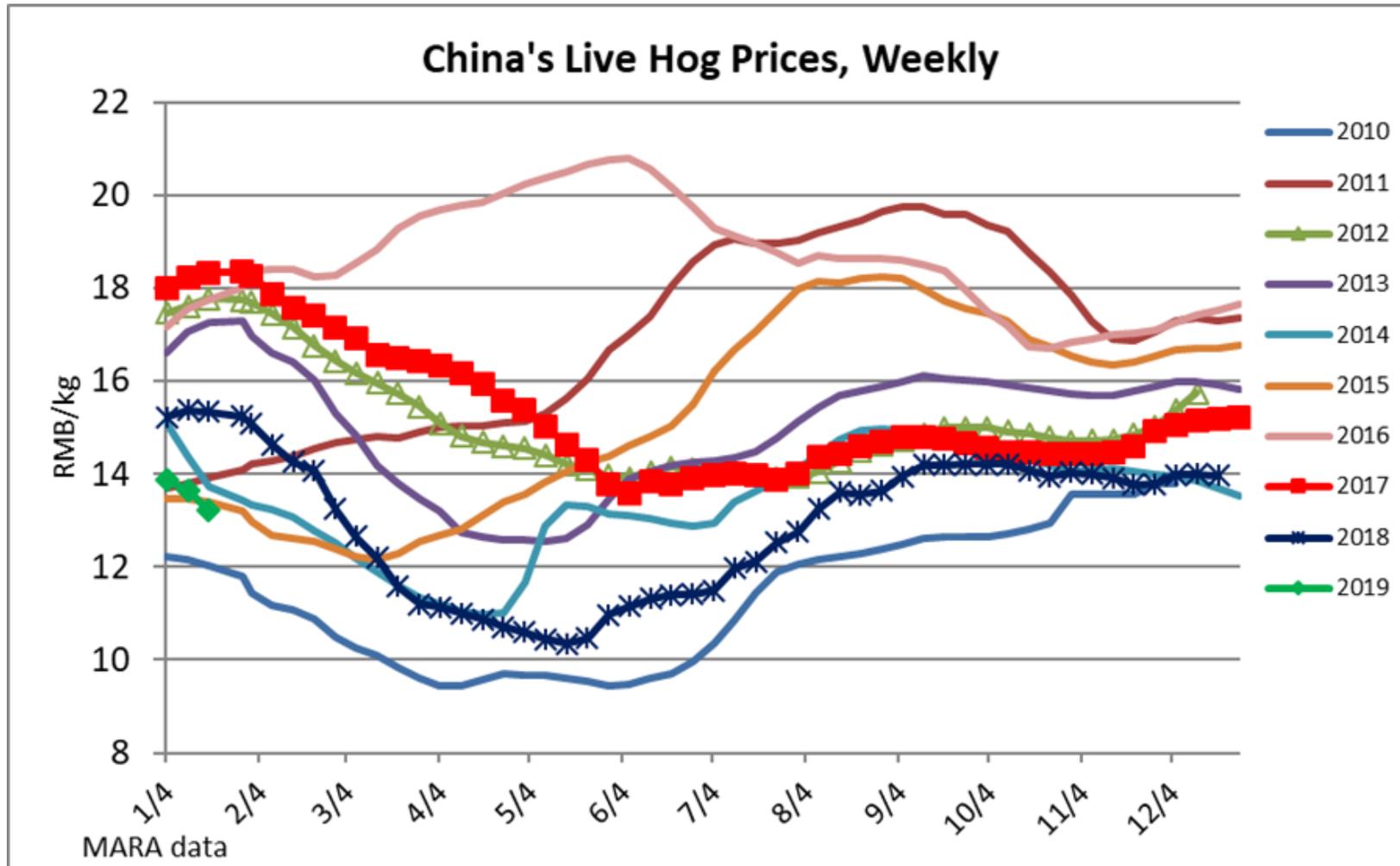


In 2017, there were 16 provinces transported pork out of the province, a total of 11.53 million MT.

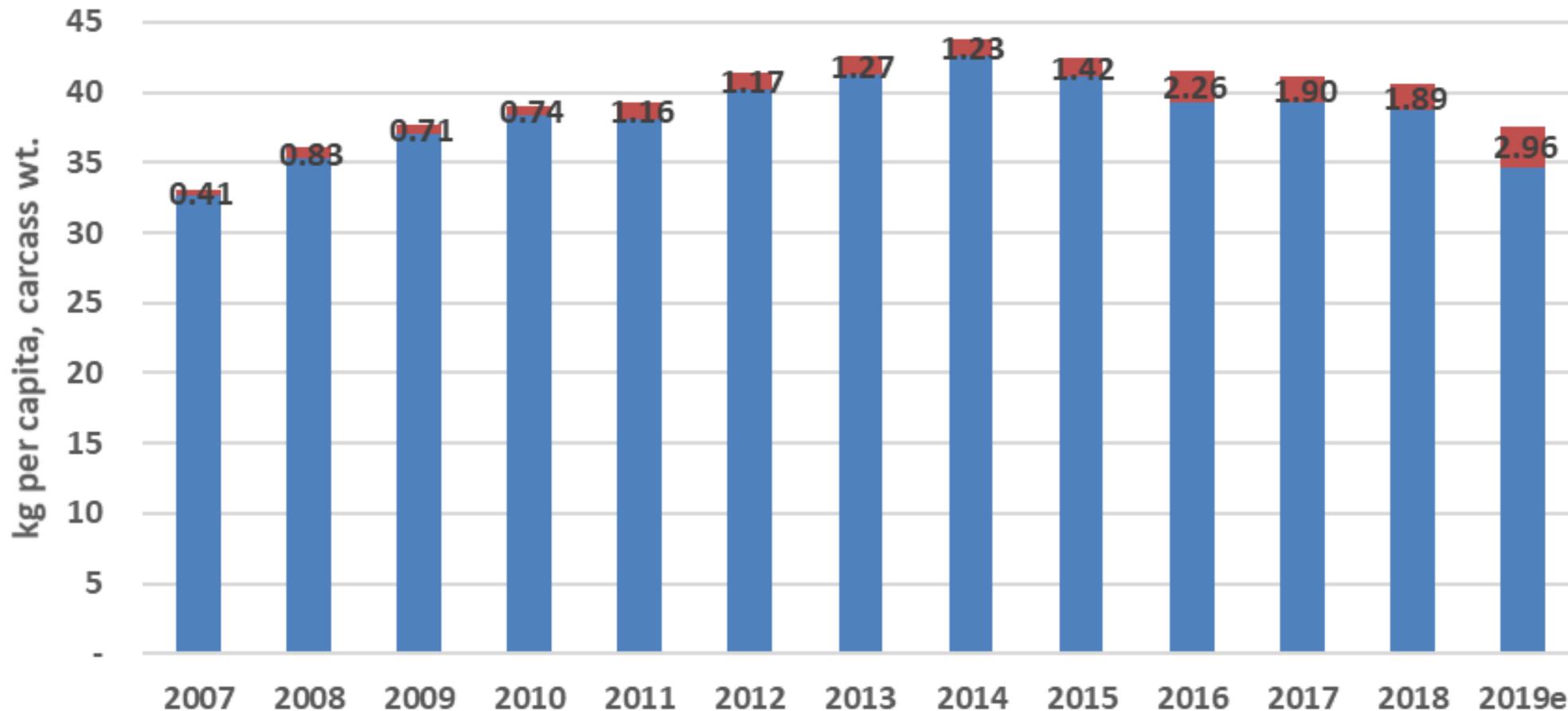
There were 15 provinces transported pork into the province, a total of 13.54 million.

- Import > 100
  - In Balance: --100~100
  - Export: 100~490
  - Export: 500~990
  - Export: > 1000
- Unit: 1,000 MT

# China's hog prices low going into Chinese New Year



# China's Implied Per Capita Pork Consumption



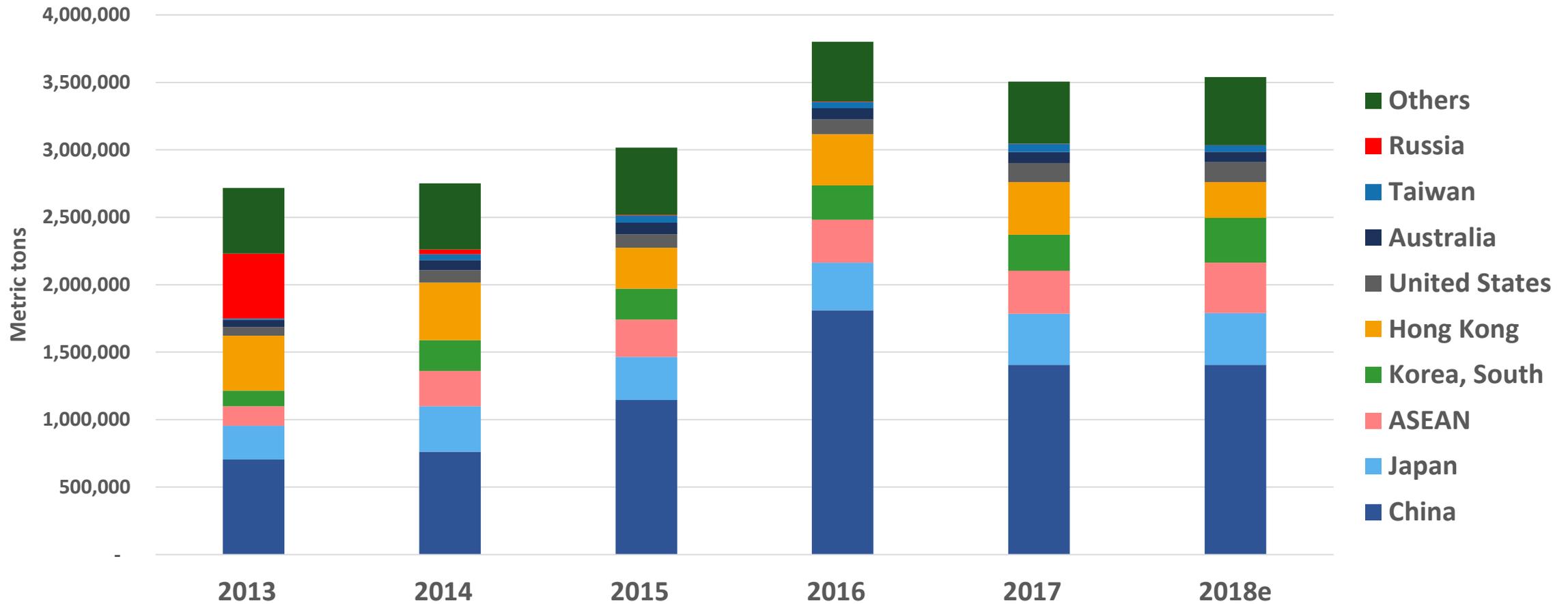
Domestic is in carcass wt; Imports are product weight but include cuts & variety meat; 2019 shows 10% production decrease scenario

■ Domestic ■ Imports/capita

# EU exports continued to grow, without access to Russia and despite ASF



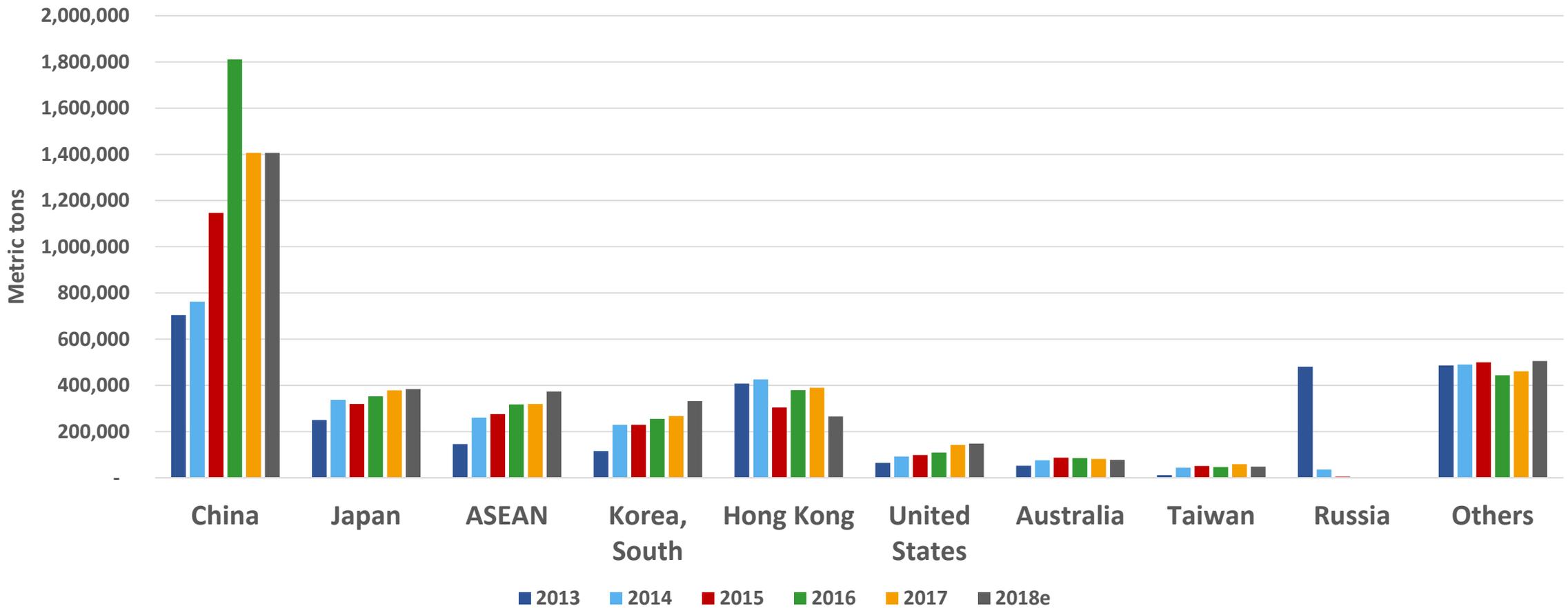
## EU pork & pork variety meat exports to top markets



# Especially to Asia...they remain key supplier to China and China is by far their biggest market



EU pork & pork variety meat exports to top markets



Source: GTA and USMEF estimates

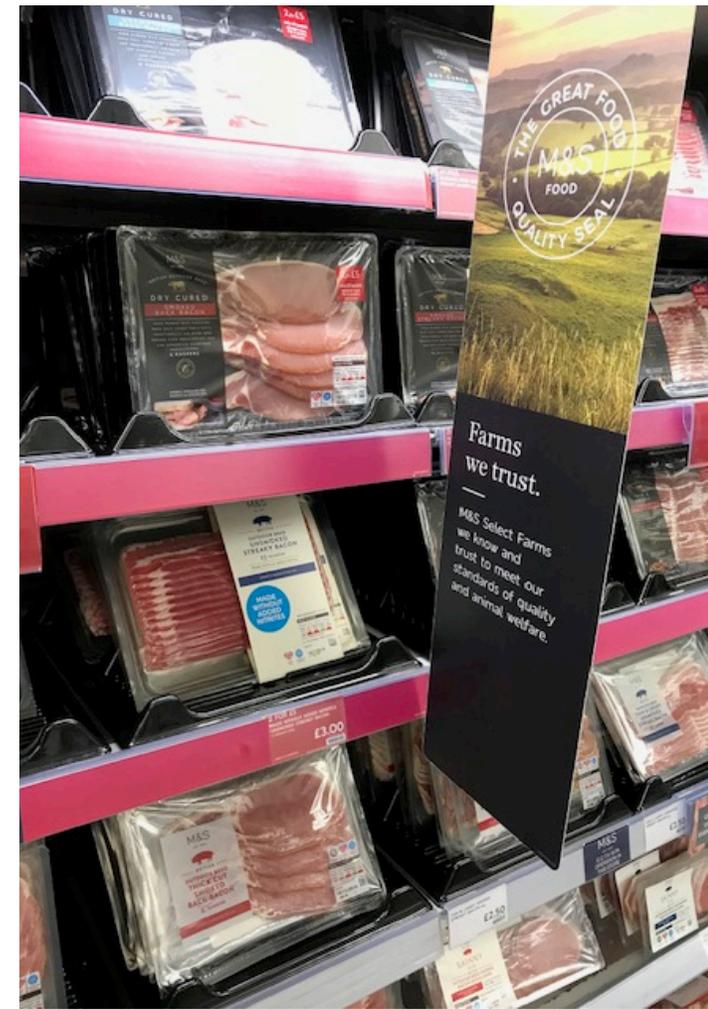
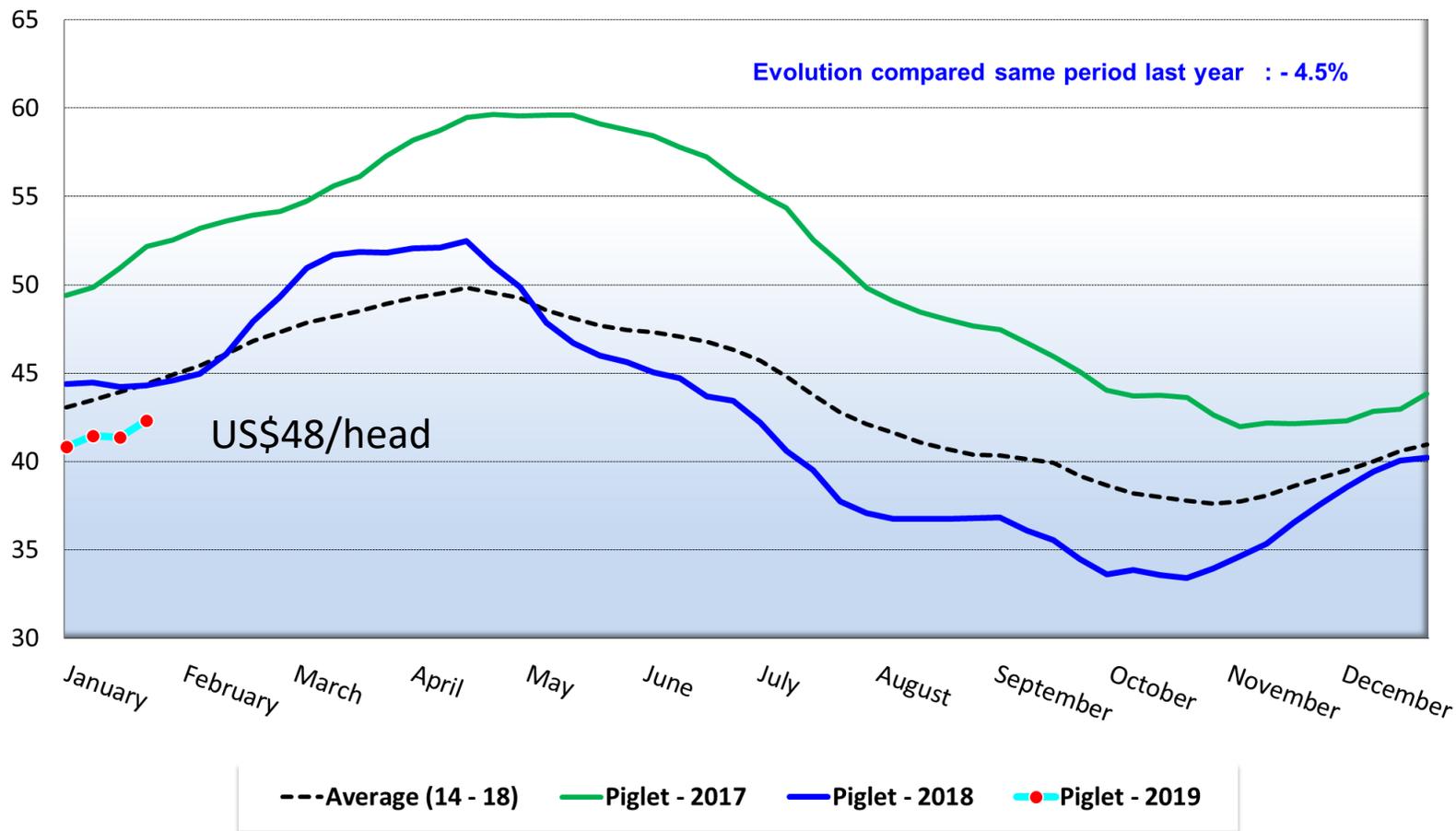


# A bit of a rebound in EU piglet prices



EU evolution of the EU average piglet prices (€/head)

Week 4 latest price ==> 42.31 EUR/head

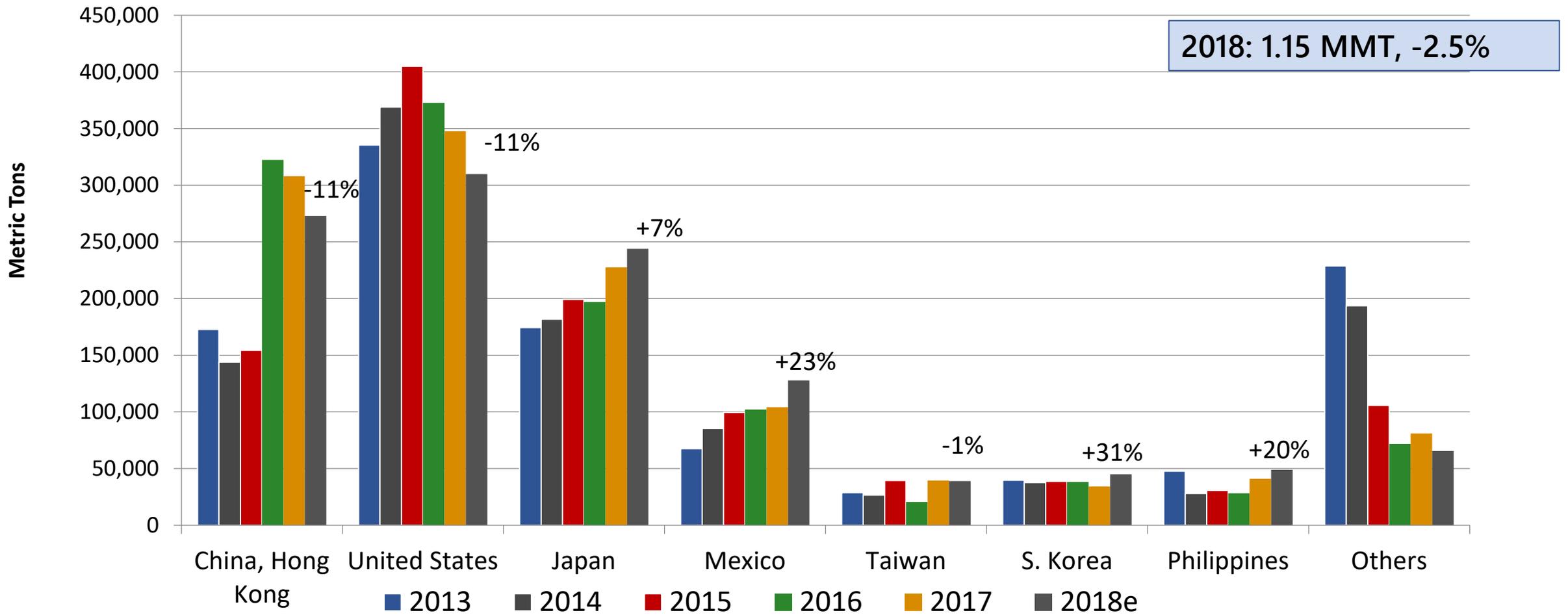


# Canada's exports slow to China & U.S. but growth to Japan, Mexico, elsewhere in Asia



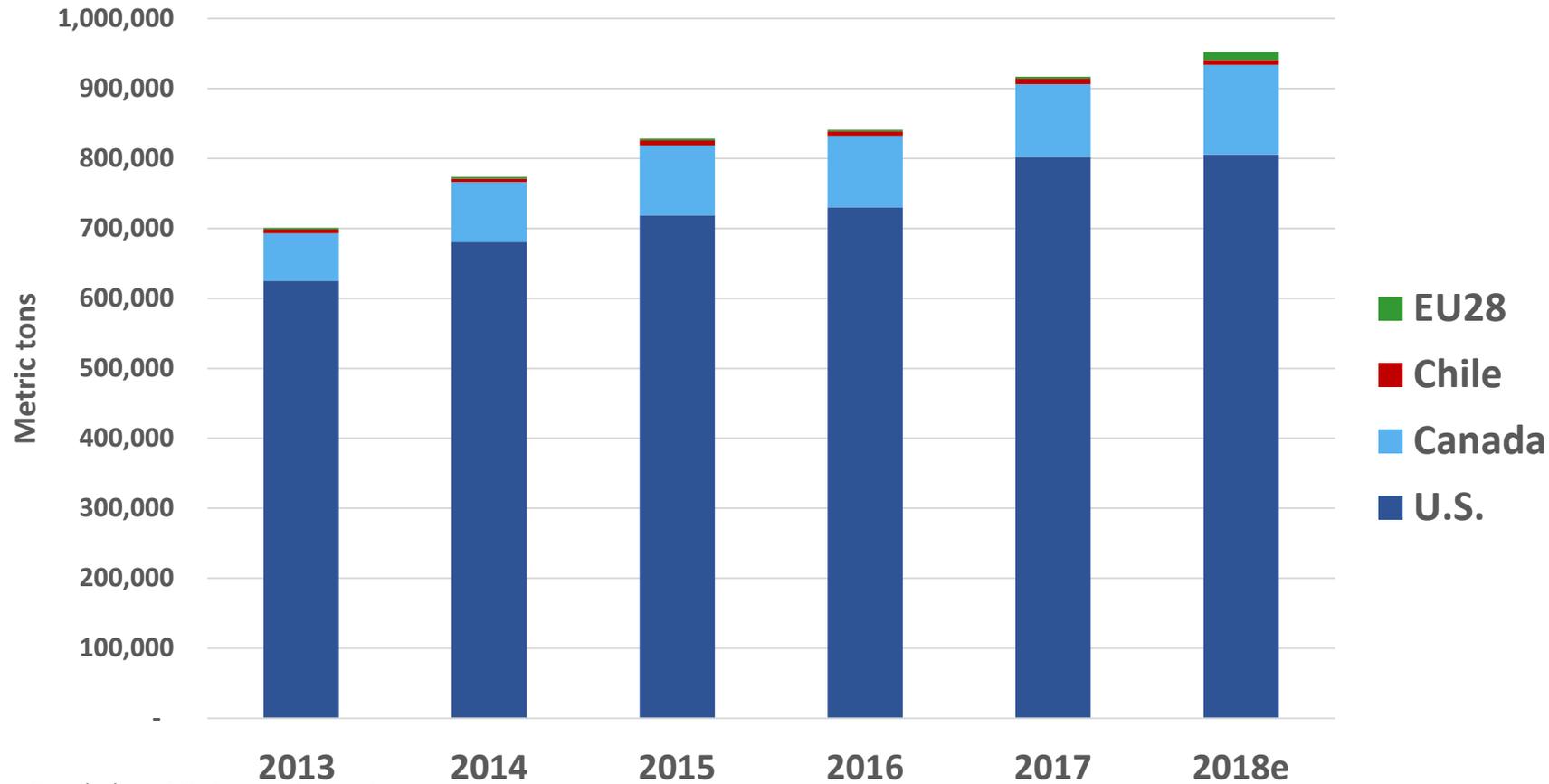
*China/HK accounted for 24% of Canada export volume, down from 29% in 2016*

## Canada's pork & variety meat exports



# Mexico's pork imports record-large again

Exports of pork/pvm to Mexico

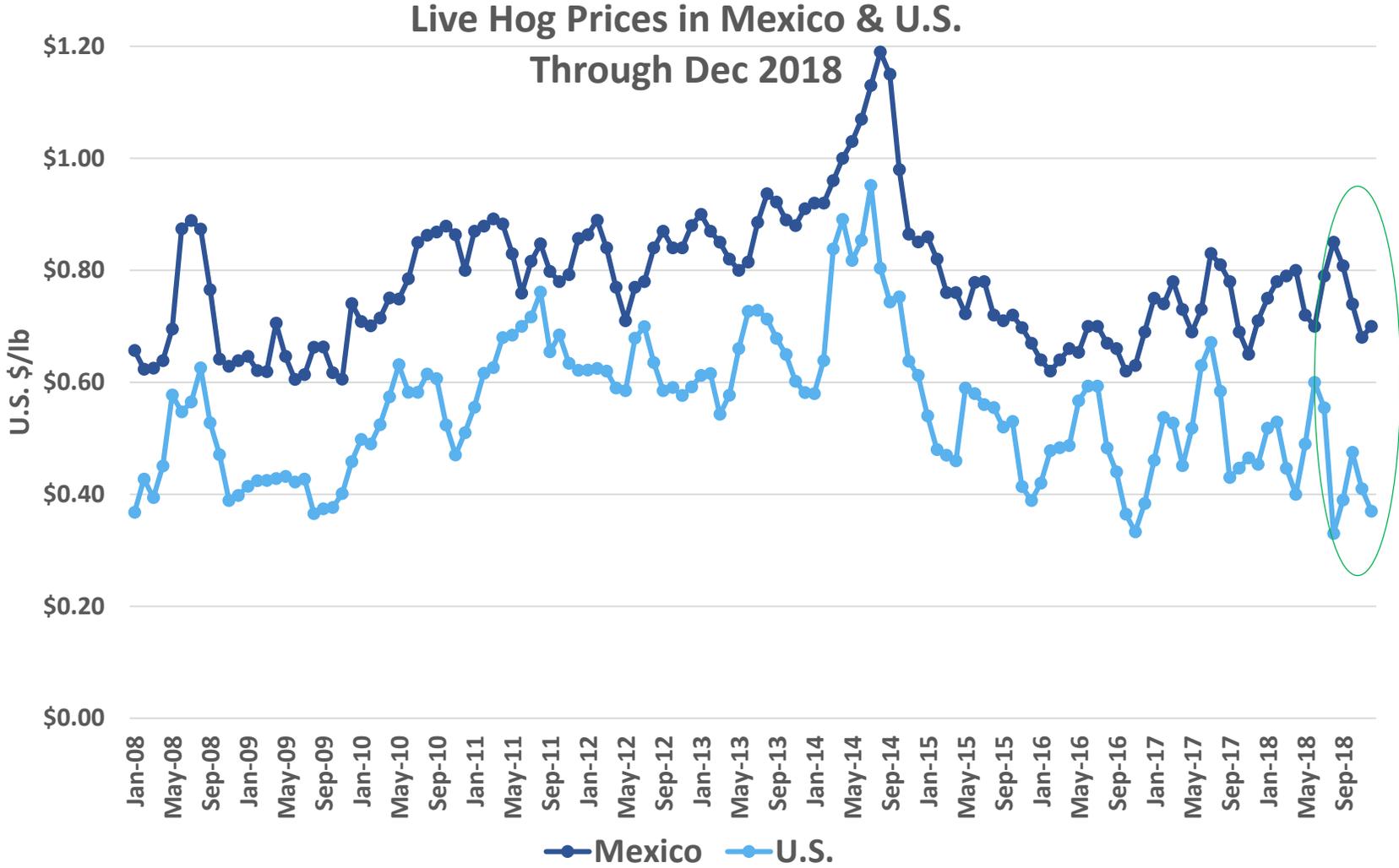


U.S. includes HS 0504 variety meats

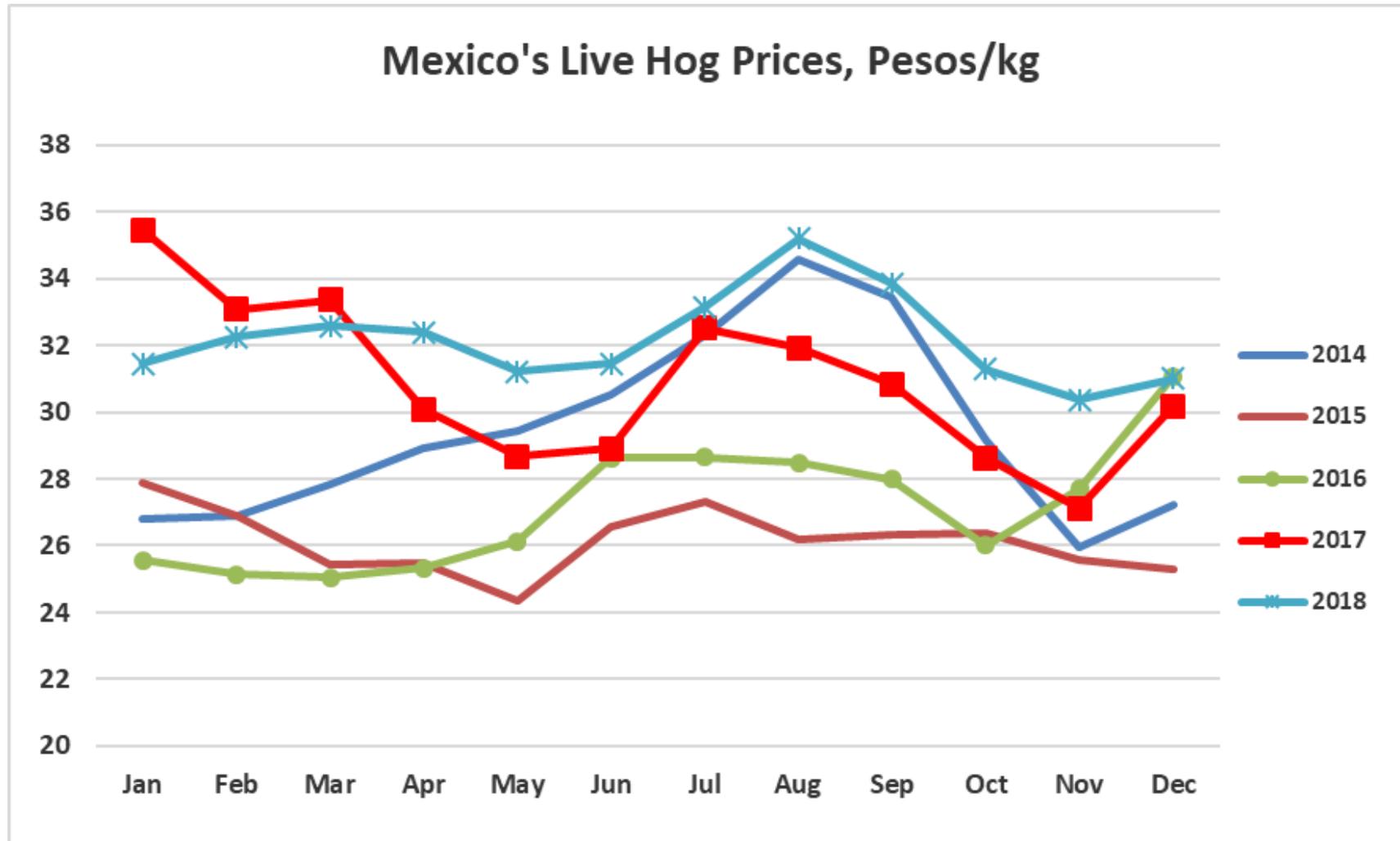
**U.S. market share dropped from 87% to 85%**



# Mexico's hog prices have remained strong



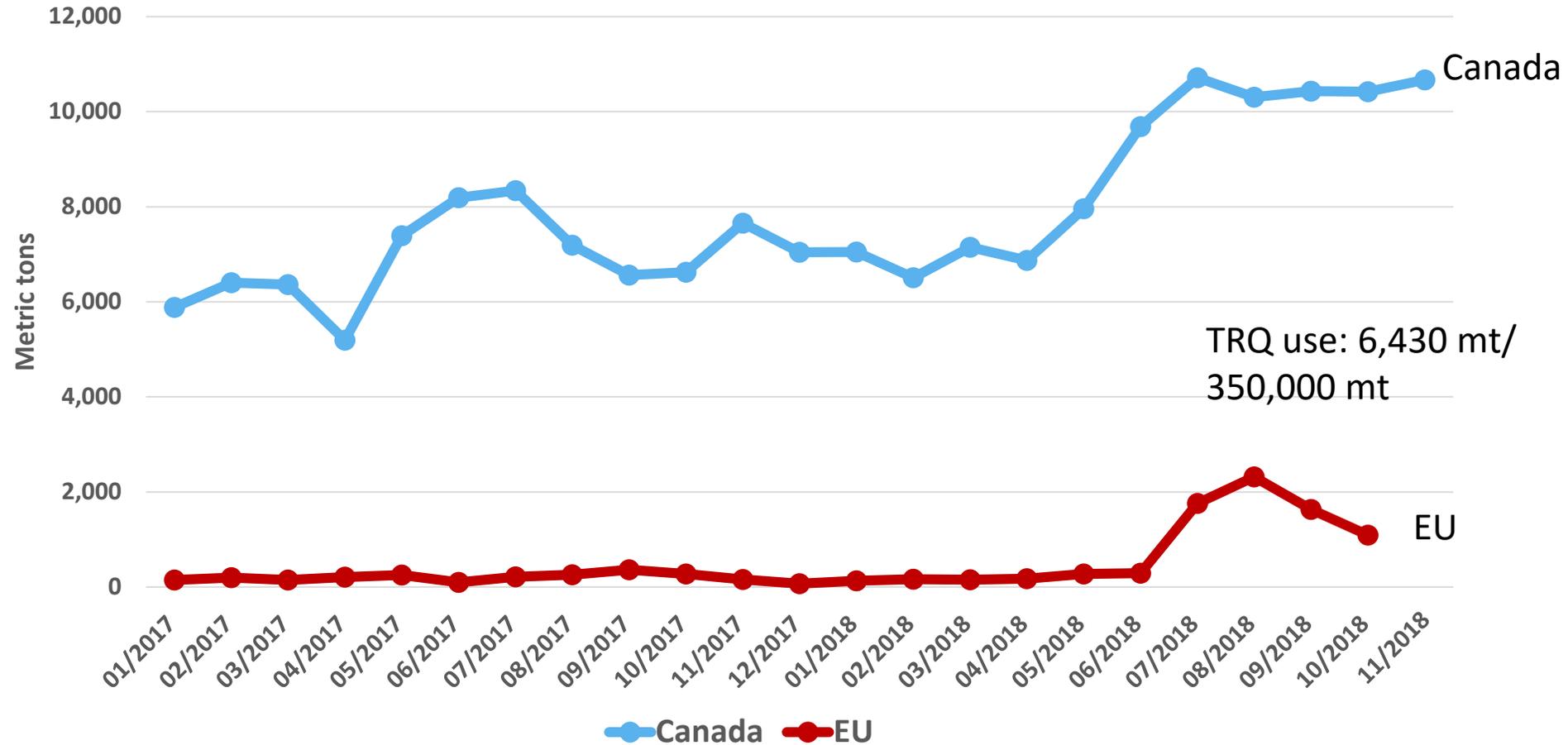
# With a strong finish to 2018 as tariffs remained on U.S. pork



# Mexico's efforts to diversify suppliers



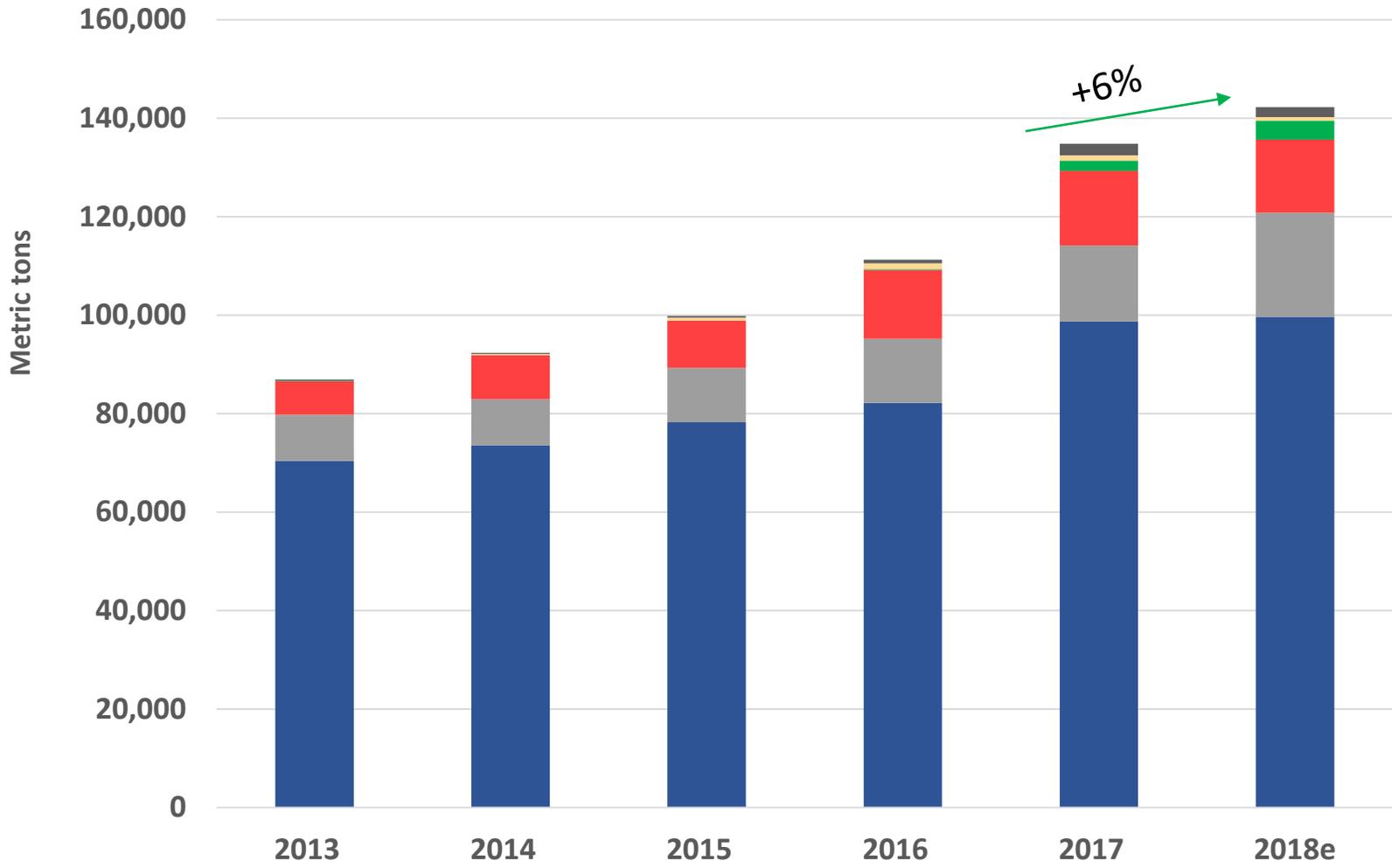
## Pork exports to Mexico, excluding variety meats



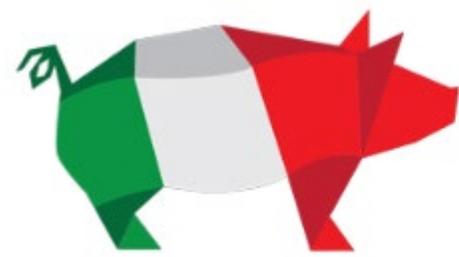
# Growth in Mexico's pork exports...CPTPP



Mexico's Annual Exports, including variety meats



- Others
- Canada
- China
- S. Korea
- U.S.
- Japan



# U.S. - Japan trade agreement

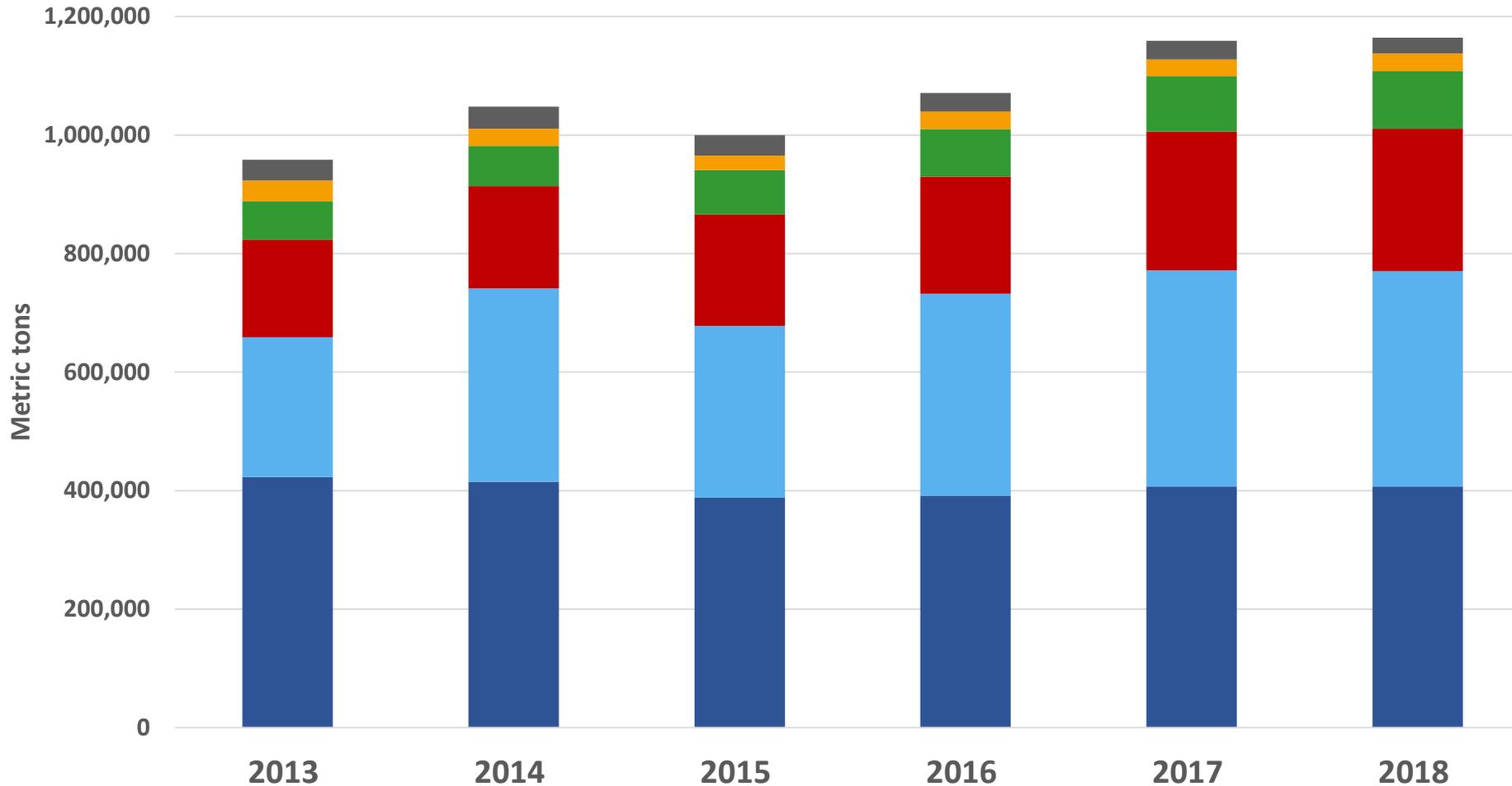
- **Urgency: all is not yet lost, but we are now way behind**
- Japanese market booming / in transition
- Companies looking to invest for future – noting decrease in Japanese production expected, high labor costs, etc.
- Expect continued growth in Japanese red meat consumption and imports accounting for a larger share of the market
- Need assurance that U.S. will be FTA/TAG partner soon
- *What is the reality for rapid progress / agreement scope?*
- *Exporter priorities conveyed to USTR= level playing field ASAP*
- Near-term loss estimates: \$600 million pork and \$550 million beef ... lost opportunities exceed \$1 billion each in 10 years
- <http://www.usmef.org/usmef-assesses-potential-pork-and-beef-industry-losses-due-to-japans-preferential-trade-agreements/>



# “Niku Boom” Japan imports record volumes of pork (> \$5 billion)



Japan's Pork & Variety Meat Imports



Total imports: 1.16 mil mt, +0.5%;  
 U.S.: 407,000 mt, steady  
 U.S. market share held at 35%

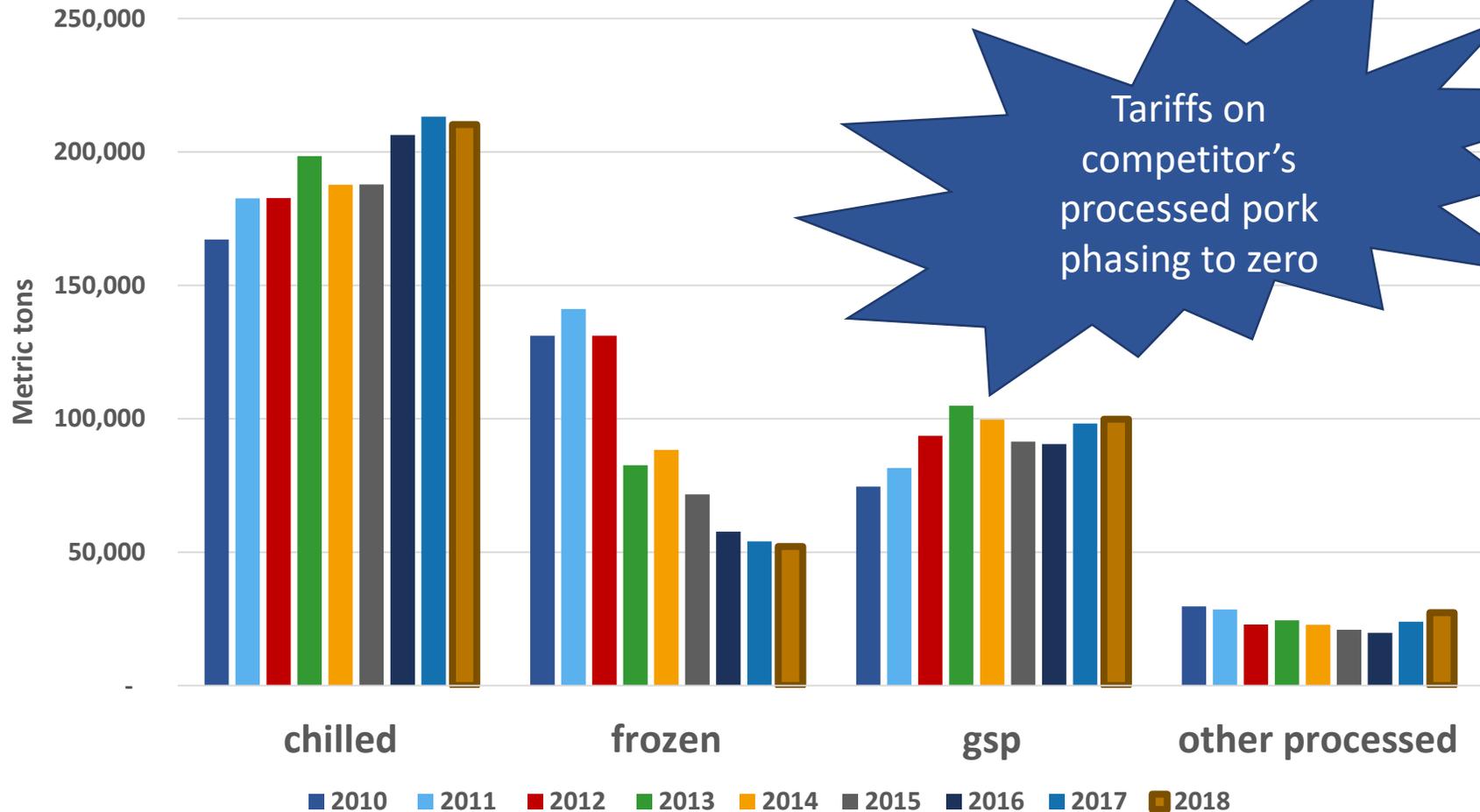
- Others
- Chile
- Mexico
- Canada
- EU-28
- United States



# Japan's imports of U.S. pork



Japan's U.S. pork imports by category

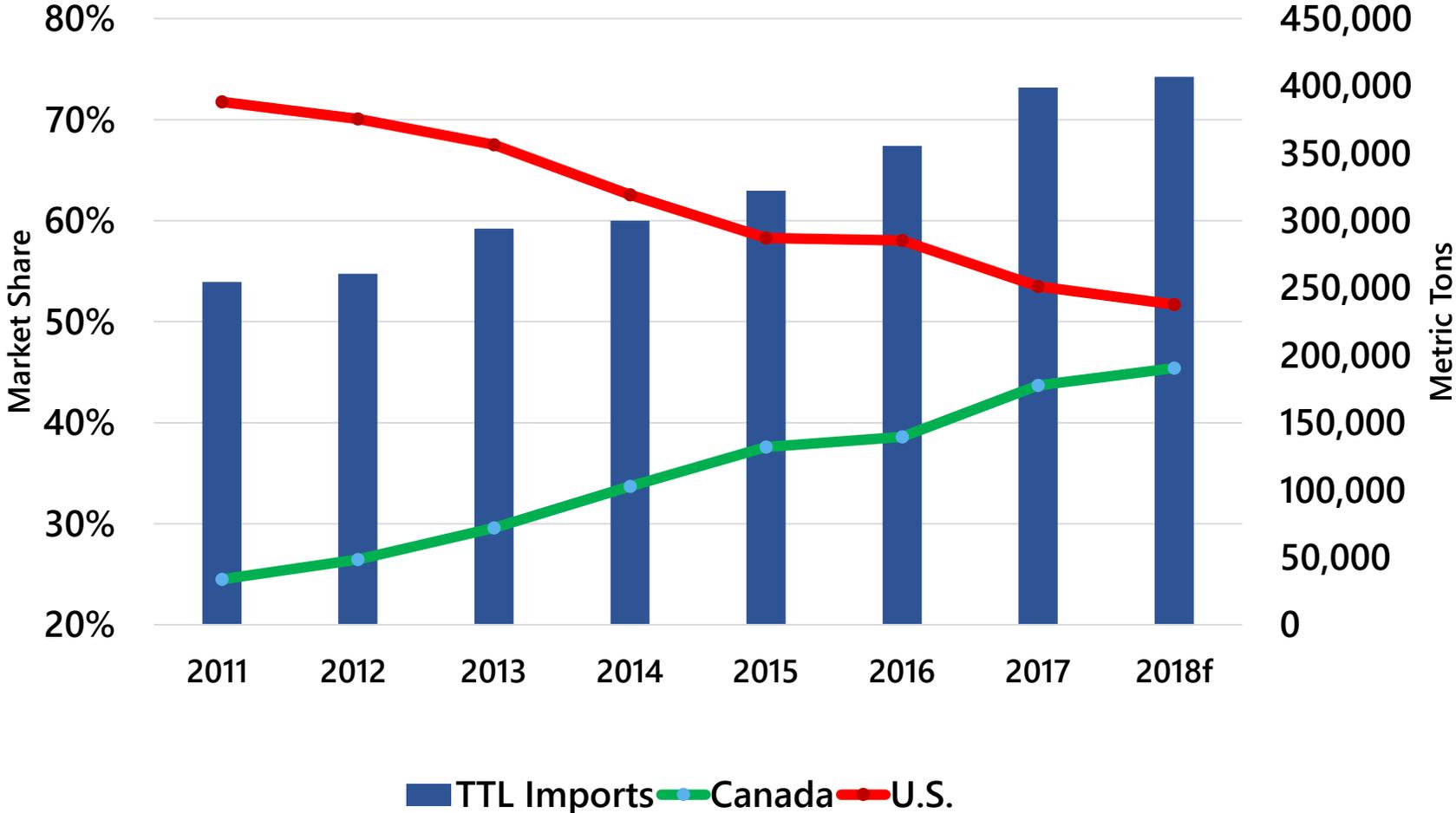


Tariffs on competitor's processed pork phasing to zero



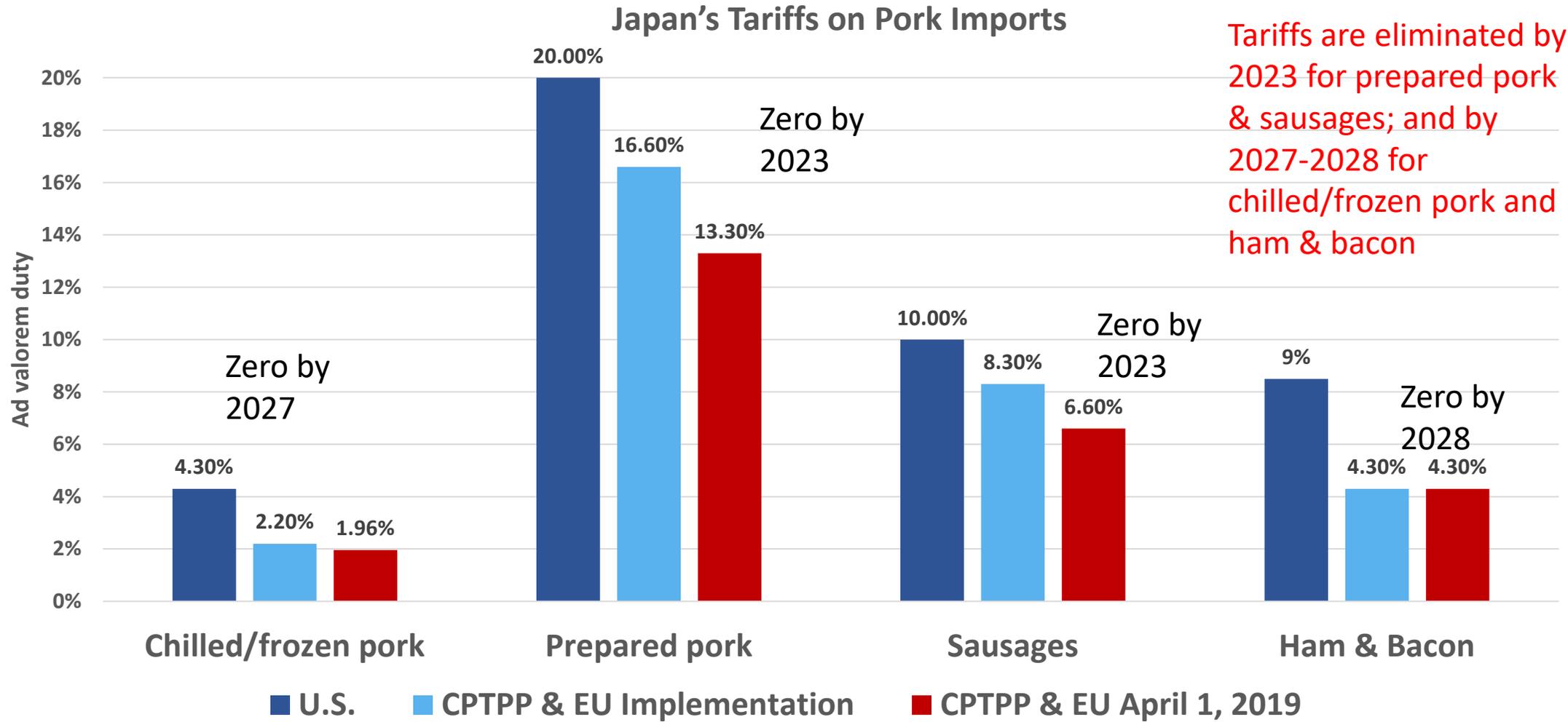
# Canadian pork gaining chilled market share

## Japan's Chilled Pork Imports





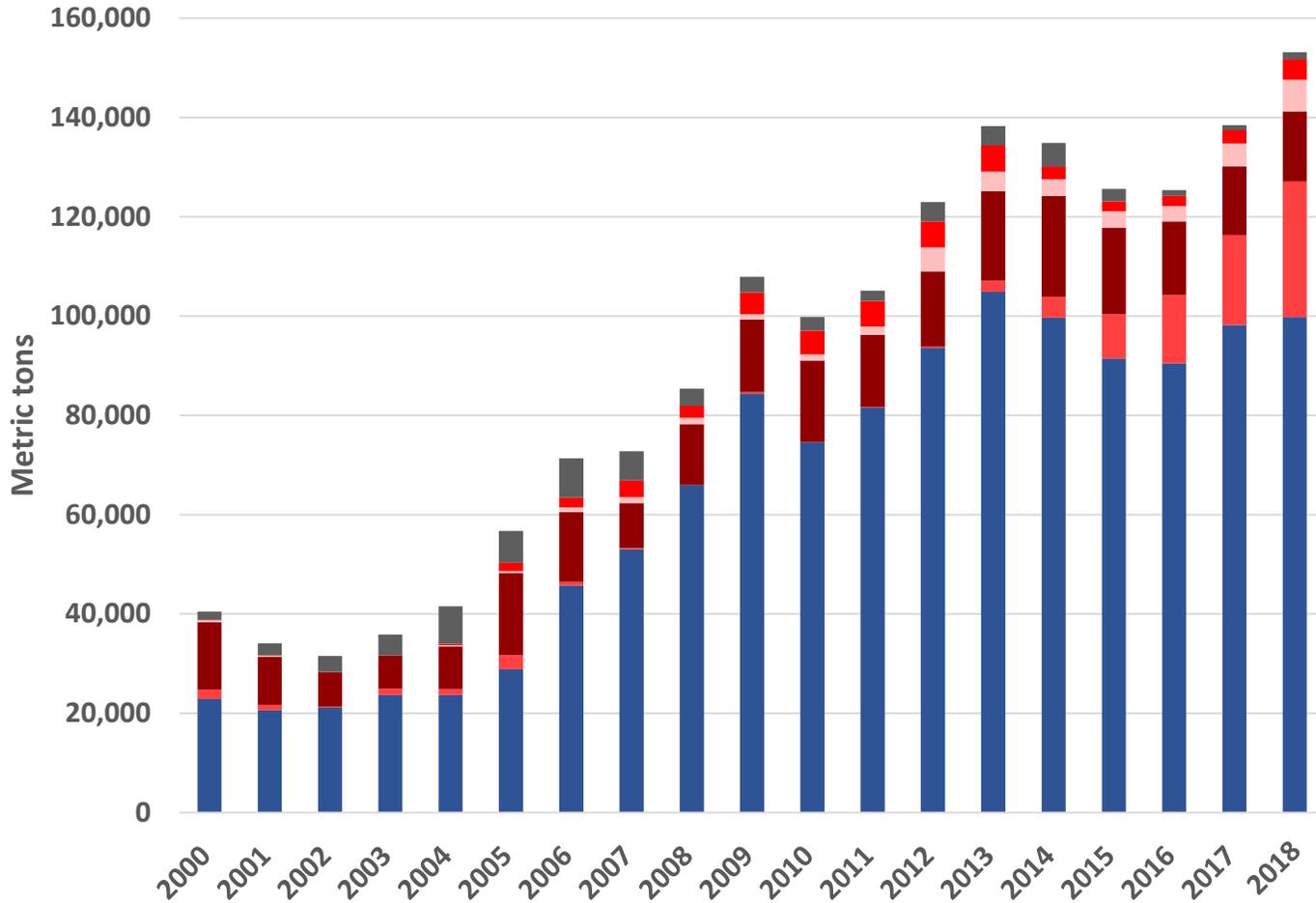
# Initial tariff reductions on implementation (Dec 30 for CPTPP and Feb 1 for EU) and again at start of JFY, April 1, 2019



# Record-large GSP imports, driven by EU, Mexico, Chile, Canada ...FTA partners



Japan's imports of ground seasoned pork



EU market share has increased to 18%

- Others
- Chile
- Mexico
- Canada
- EU-28
- United States

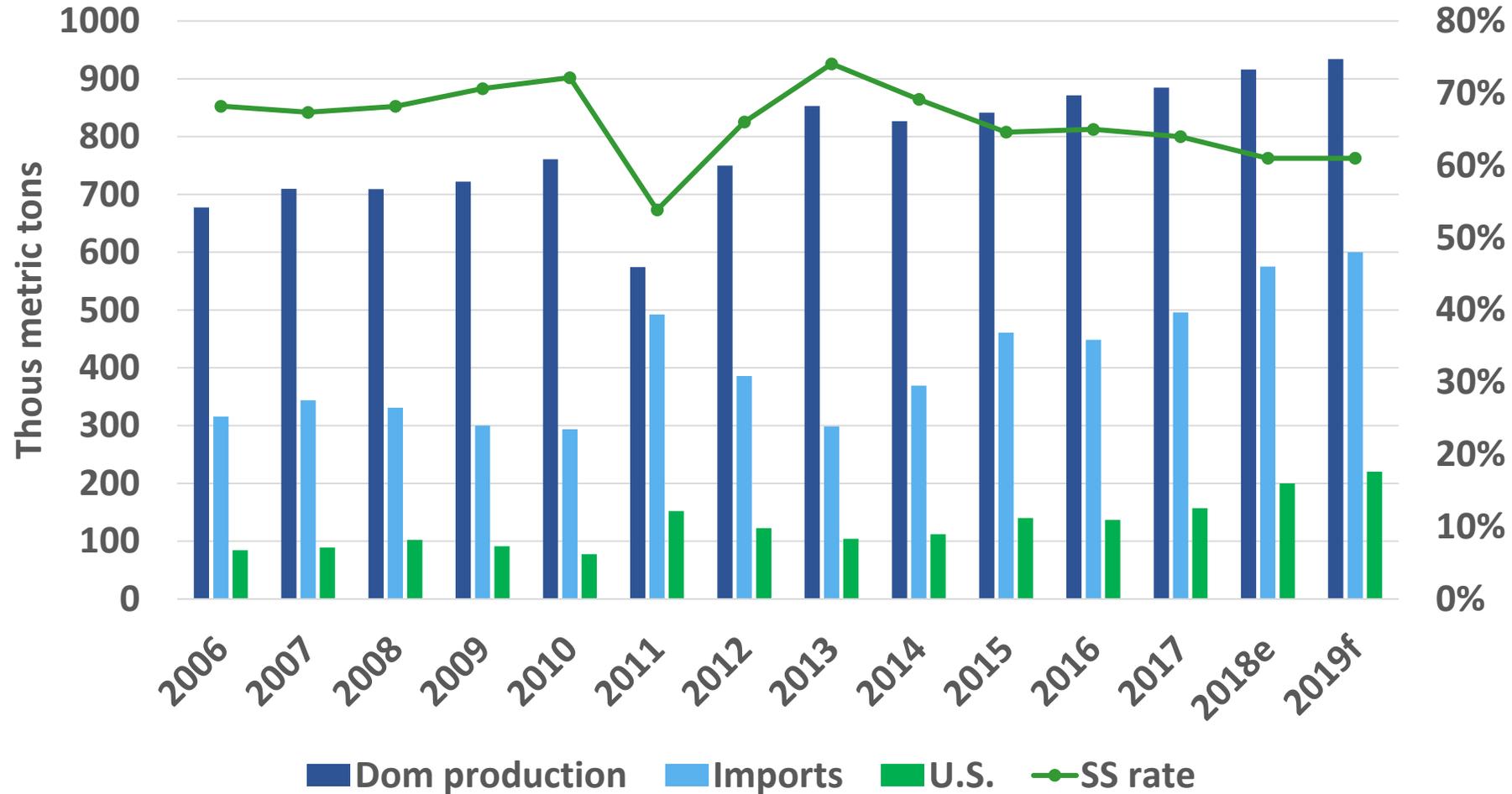


# Korea producing & importing more pork

## *most imports duty-free*

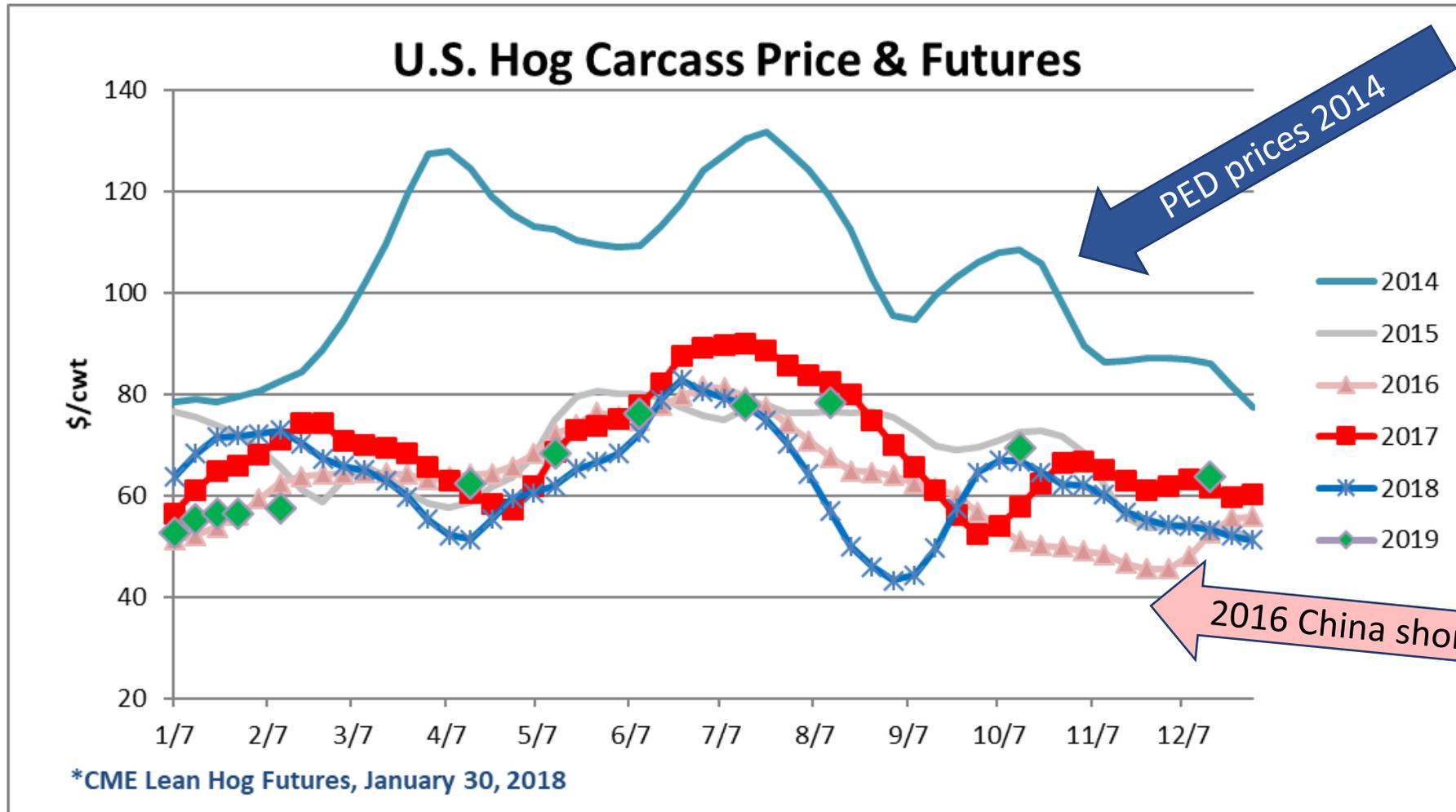


### Korea's Pork Situation



# Many variables impacting U.S. hog prices

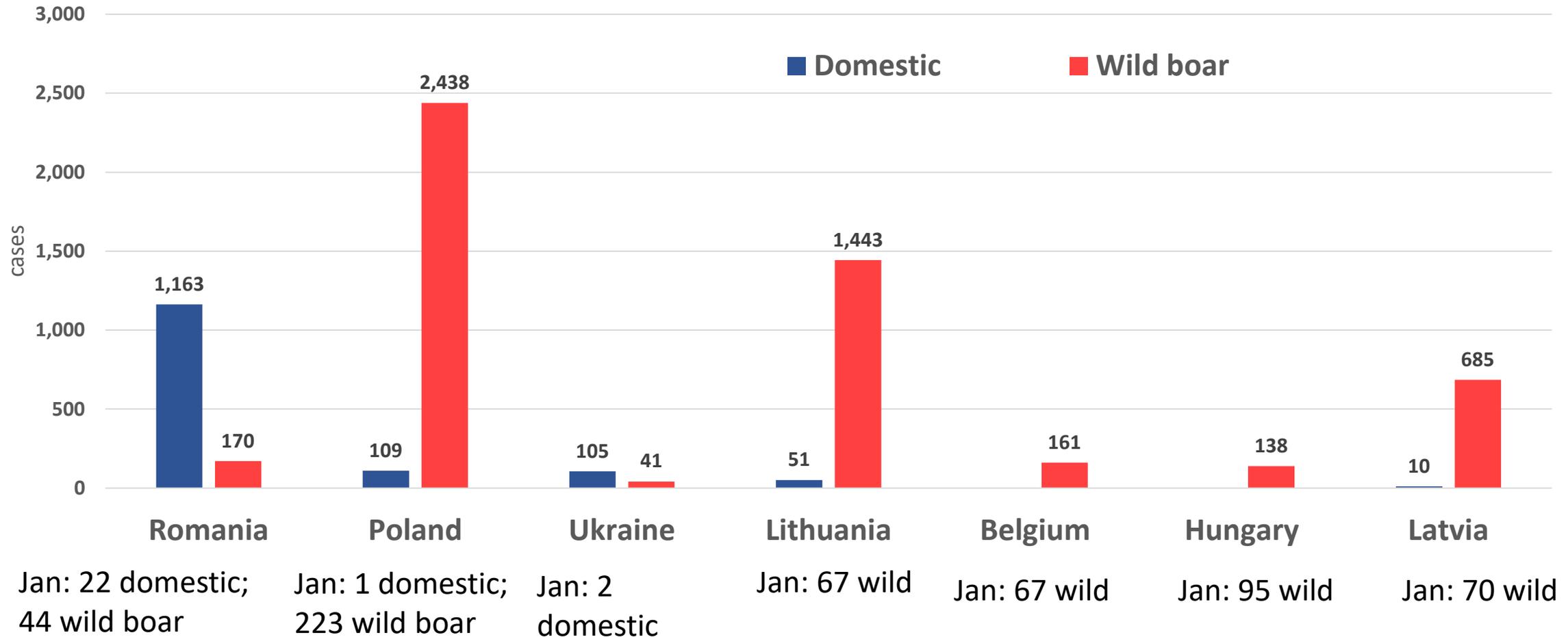
## Crisis = opportunity?



# Europe's cases mostly in wild boar; Romania most active in domestic, backyard & large farms



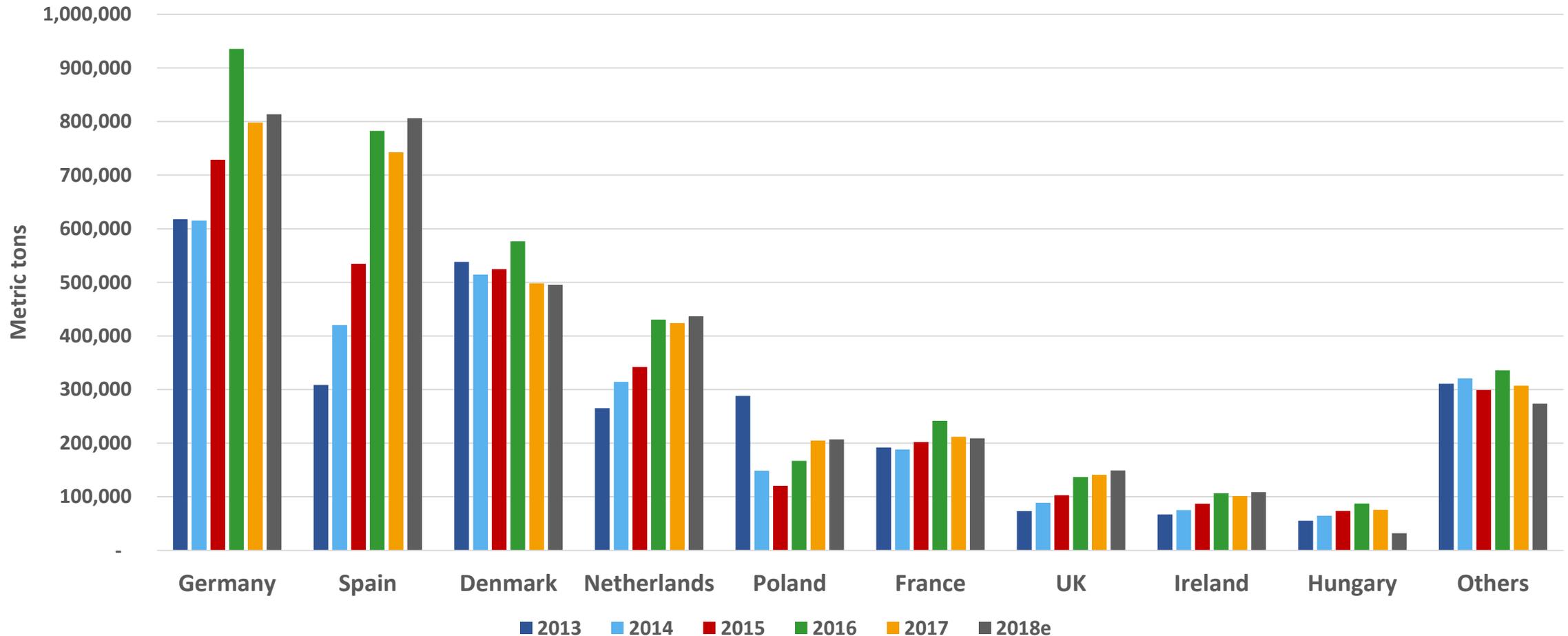
Cases of ASF in European Countries in 2018



# Europe's big exporters



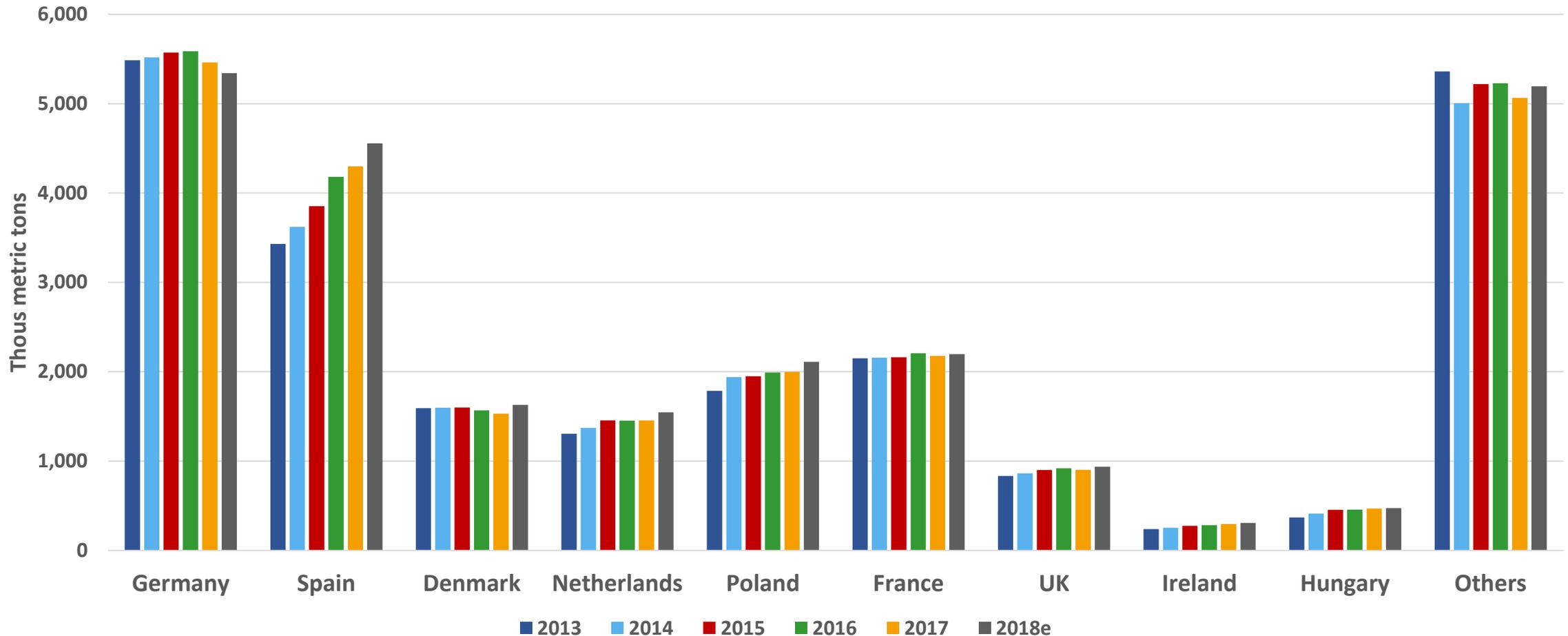
## EU pork & variety meat exports to third countries



# Europe's big exporters mostly producing more pork, except Germany



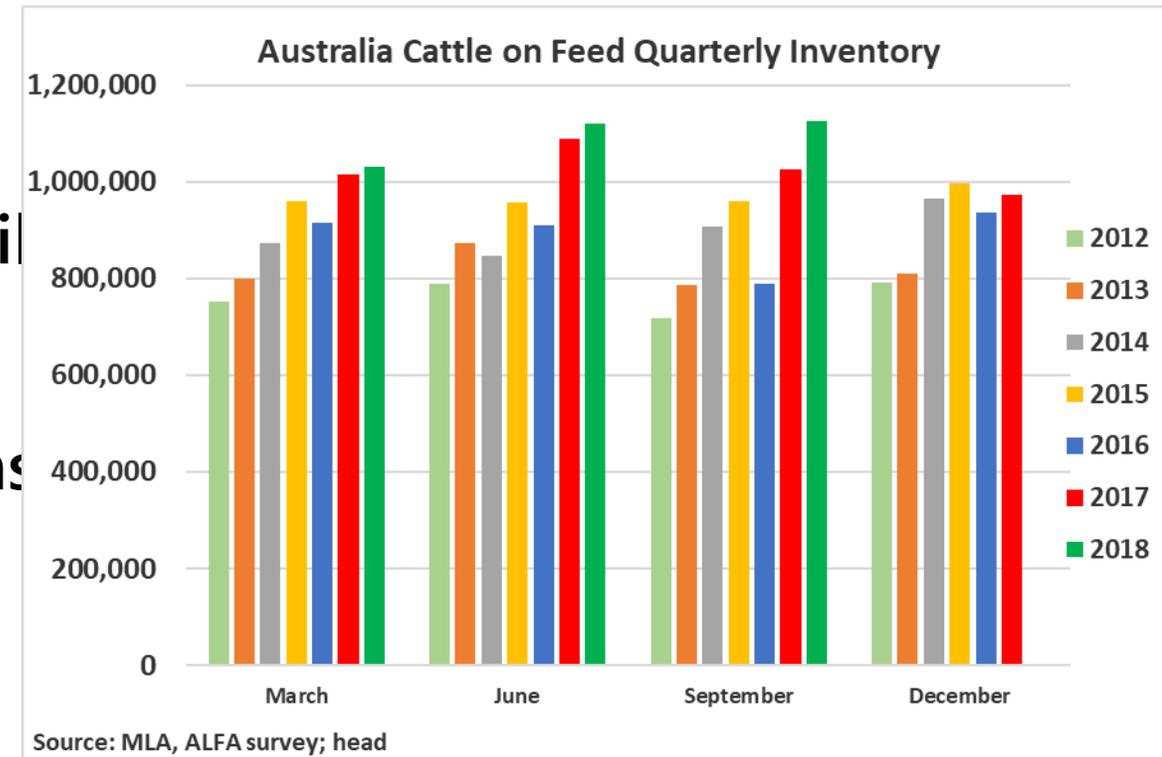
EU pork production by top exporters



# Australia cattle on feed set new record

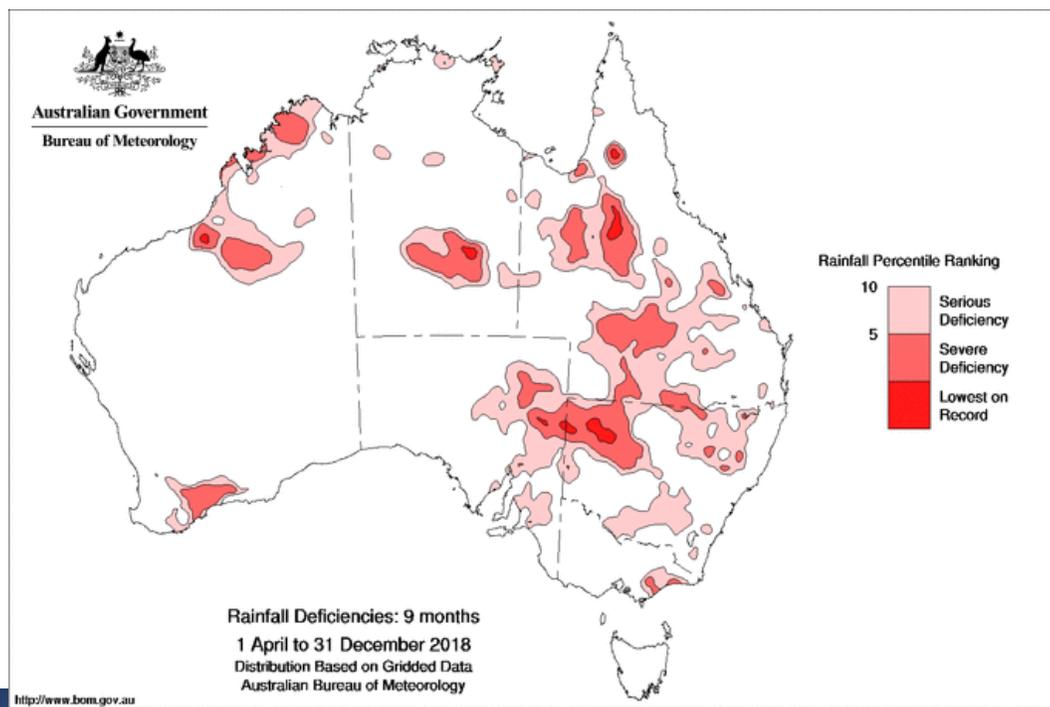


- COF to a record 1.13 mil head (Q3 2018)
- Dry pastures and strong Asian market demand for grain-fed beef
- 2017-18 feedlot marketings were a record 2.83 mil head
- Total slaughter in 2019 estimated at 7.6 mil head, -3%; (following +9% in 2018)
- Production 2019 est. at 2.2 mmt, -4%
- Significant female slaughter (+22%) means smaller breeding herd.
- Feed stockpiles depleted and better than average Northern wet season needed
- *Wheat A\$432/mt, +36% yoy while grain-fed cattle prices were below year-ago in Q3*



# Australia's chilled/frozen beef

- Total 1.125 mmt, +11% or +110,000 mt
    - But still 20,000 mt below the 5-year
  - 2019F: 1.03 mmt, -8%
- (watch MLA update in late Jan)



## 12-months ending December

Volume (tonnes swt)	Chilled		Frozen		Total	
	12-months ending December	Y-O-Y % chg.	12-months ending December	Y-O-Y % chg.	12-months ending December	Y-O-Y % chg.
Total	298,482	8	827,176	12	1,125,657	11
US	63,918	0	167,269	-2	231,187	-1
Japan	128,920	10	186,971	7	315,891	8
South Korea	36,728	9	133,646	16	170,373	15
China	13,744	127	148,939	43	162,683	48
Canada	1,389	-12	21,601	18	22,990	15
Taiwan	4,853	-3	24,585	-6	29,438	-5
Indonesia	4,196	12	53,154	16	57,349	15
Philippines	874	14	35,914	11	36,788	11
EU	14,838	-14	828	57	15,666	-12
Saudi Arabia	3,155	23	6,087	-13	9,242	-4
Malaysia	2,247	6	8,593	1	10,840	2
UAE	5,208	1	3,522	2	8,729	1
Singapore	4,106	12	2,003	-5	6,109	6
Hong Kong	3,703	11	2,681	-38	6,384	-17
Thailand	1,923	16	4,457	5	6,381	8
Other	8,681		26,926		35,607	

Source: DAWR. SWT = Shipped weight. YTD = Calendar year-to-December.