

Global Views

Which countries will be competitive in supplying beef for the world's needs in the next decade?

by *Kindra Gordon*

Around the globe, meat consumption has been on the rise, and it is expected to continue to expand throughout the next decade. Predictions call for a 5% increase in meat consumption by 2007, and an additional 8% increase by 2012. That's according to an in-depth study released in summer 2003 by Sparks Co. Inc., Memphis, Tenn.

While Sparks anticipates that the broiler and pork industries will capture the bulk of this projected growth — primarily because of their relative price advantage — beef demand is expected to remain stable. And that begs the question, "Which countries will be the beef powerhouses feeding the world in the future?"

South American advantages

Dennis McGivern, Sparks senior meat consultant, reports that conditions look most favorable for South America — specifically Brazil, Argentina and Uruguay.

McGivern says, "For the future, the U.S. is expected to plateau at present levels, while Brazil, Australia, New Zealand, Canada, Uruguay and Argentina are expected to supply most of the world market growth for beef — with low variable costs and plentiful supplies of grain and forage being big advantages for the South American countries."

These predictions are based on a detailed analysis comparing live-animal production costs, processing costs, domestic demand, social factors, government policy, business climate, product differentiation, product quality and exchange rates among 14 countries. From that information, Sparks ranked the relative competitiveness of each country.

For grain-fed beef, the countries ranked 1) Brazil, 2) Argentina, 3) Uruguay, 4) Canada, 5) Australia, 6) United States, 7) Mexico, 8) New Zealand, 9) Central and Eastern Europe, 10) Russia,

11) China, 12) Korea, 13) the European Union (EU) and 14) Japan.

For grass-fed beef, the countries ranked: 1) Brazil, 2) Argentina, 3) Uruguay, 4) New Zealand, 5) Australia, 6) Mexico, 7) Russia, 8) Canada, 9) Central and Eastern Europe, 10) United States, 11) China, 12) the EU, 13) Korea and 14) Japan.

McGivern said the original rankings were adjusted after the May 2003 incident of bovine spongiform encephalopathy (BSE) in Canada. As a result, Canada's rank dropped from fourth to seventh for grain-fed beef, and from eighth to ninth for grass-fed beef.

McGivern says there are a couple reasons South America ranks high among other nations. "Exchange rates have helped South America at the present time and will continue to help them in the future. Their competitiveness in the beef industry is also enhanced by the fact that they have large amounts of resources available to use and increased access to technology."

McGivern cautions that South America's beef growth could be limited if disease control issues surface or if there's an inability to obtain capital to further assist in beef industry expansion.

Can North America compete?

Given the favorable conditions for South America, what does the future bode for North America — Canada, Mexico and the United States — in growing world beef markets? The Sparks report is not as optimistic for this corner of the world.

Beef by the numbers

In 2002, approximately 187 million metric tons of meat was produced worldwide. Of the total meat produced, 44% was pork, 27% was beef, 26% was broiler meat and 3% was turkey. (An additional 11 million metric tons of lamb was produced, but not included in this study).

The United States has the largest annual beef consumption at more than 12 million metric tons. Other countries that are large consumers of beef include the European Union (EU), Brazil, China, Argentina, Russia and Mexico.

The largest importer of beef is the United States, with more than 1.4 million metric tons of beef imported each year. Other major importers include Japan, Russia, Mexico, the EU, Korea and Canada.

Currently, Australia is the leader in world beef exports, followed by the United States, Brazil, Canada and New Zealand.

In the United States. Because the United States has had record beef production levels in recent years, growth beyond those levels is not expected. Instead, Sparks anticipates that the American fed-beef sector will, at best, plateau at current levels.

It's also expected that the United States will face growing competition just to hold onto the markets it has today. McGivern reports that investment in America's beef industry is constrained for other countries due to a strong U.S. dollar. It is also constrained by the fact that U.S. grain and oilseed prices are rising as a result of new competition for U.S. crops from industrial markets. Growing social and environmental concerns have also hindered beef development in the United States. And, lastly, competing countries are rapidly investing in new technologies that have allowed them to become more competitive with the United States.

As a result, Sparks suggests the U.S. beef industry's focus should be on the export of high-end, value-added products that would allow for more export dollars even if the exported volume does not rise.

Also, if the implementation of country-of-origin labeling (also referred to as COL or COOL) results in a decline or disappearance of Canadian and Mexican live imports, the U.S. situation could become even more serious due to large excess capacities in the feedlot and packer sectors, McGivern says.

"The U.S. imported about 1.5 million head of live cattle from Canada last year, consisting of approximately 1 million head of slaughter cattle and 500,000 head of feeder cattle and calves," he says. "The U.S. also imported 800,000 to 1 million head of cattle (mostly feeder cattle) from Mexico. There is more capacity in the feedlot and packer sectors than there is domestic supply of cattle. U.S. operations need the imports to supplement the domestic herd."

In Canada. McGivern says Canada will realistically remain

competitive if the borders open and global access is gained. "We do believe that there will be a resumption of trade, first with Mexico and the U.S. The Asian markets are expected to take longer to open. But the longer the borders remain closed, the less likelihood there will be a full recovery of the Canadian beef industry," he says.

In Mexico. The relative competitiveness of Mexico is expected to drop for both grain- and grass-fed cattle. Their competitiveness will suffer due to Mexico's increasing drought, financing pressure and growing demand for imports. McGivern says, "The Mexican cattle herd has been declining since 1994. Going forward, we expect increasing social and environmental burdens to affect the industry, as well as credit restraint."

The increase in Mexico's imports stems from a growing middle class that is increasing consumption of beef with preference toward leaner cuts, McGivern reports. However, Mexico may turn to importing beef from grass-fed systems in Australia and New Zealand to get the leaner cuts it demands, which would result in a loss of export market share for Canada and the United States.

Export opportunities

From the study, Sparks concluded that future agriculture negotiations within the World Trade Organization (WTO) are expected to reduce trade barriers and open more export markets. Japan and Korea are expected to continue to be important markets as their imports rise in volume and in proportion to consumption.

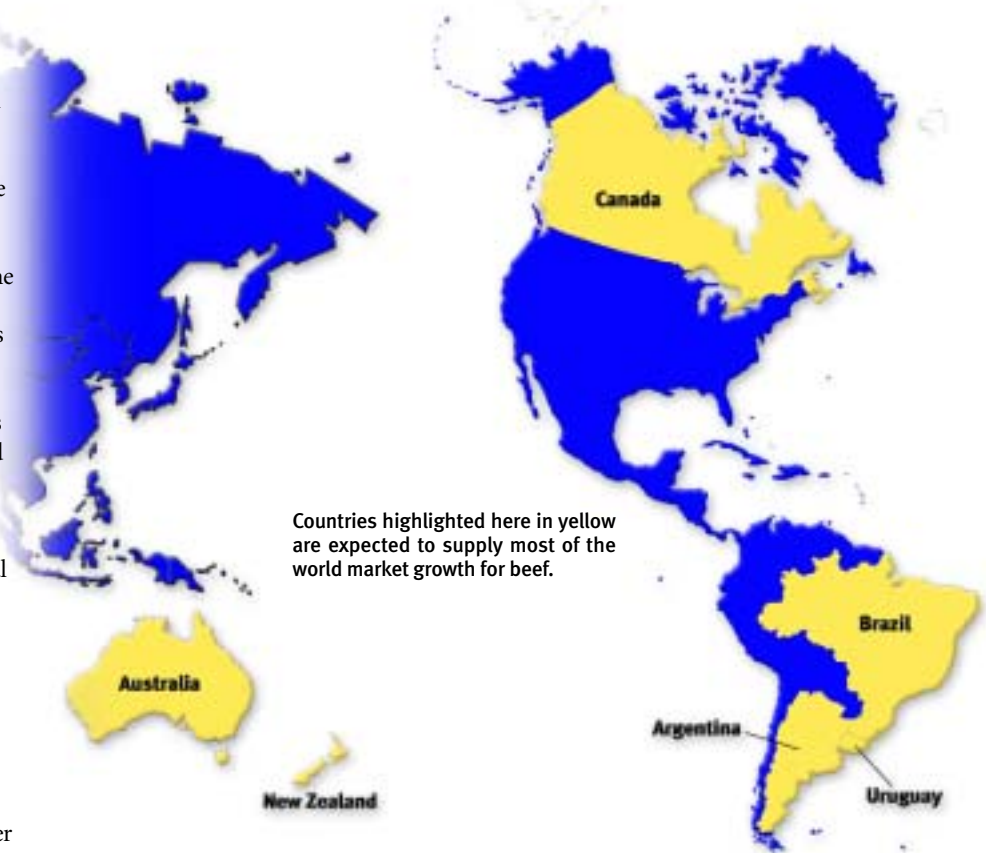
Currently, Australia is the leader in world beef exports, followed by the United States, Brazil, Canada and New Zealand. By 2012, Australian beef exports are projected to have grown by 20% or more.

But at the same time, Brazilian exports are expected to increase by more than 50%, which will result in competition with Australia for the role of top beef exporting nation. This will likely move the United States into third place for world beef exports.

Moreover, Australia and South America are expected to become key competitors of Canada and the United States for new export markets appearing in Asia and Mexico. Growth is also predicted for Uruguay, which is expected to more than double its current level of exports and increase its presence as a world beef exporter.

Additional factors

McGivern says a country's future competitiveness in beef markets will continue to be influenced by production and labor costs, economies of scale, as well as



Countries highlighted here in yellow are expected to supply most of the world market growth for beef.

availability of transportation and distribution outlets. Additionally, food-safety requirements and traceback capabilities are beginning to make an impact.

For example, Canada already has an animal identification (ID) system, and Brazil plans to have one in place by 2007, while Japan and the EU are developing ID programs as well as monitoring animal welfare and environmental practices. "Russia and China are lax with respect to animal welfare, food safety and environmental regulations, which in turn has reduced their competitiveness," McGivern says.

Grass-fed beef is also expected to become more popular as the productivity and quality of grass-fed cattle improves. This

may result in grain-fed beef facing increased competition from the grass-fed sector — especially if grass-fed beef can be produced cheaper than grain-fed beef. McGivern adds that consumers in many countries have not had a lot of exposure to grain-fed beef and, thus, they prefer grass-fed.

If the grass-fed sector gains steam, it's an area where North American countries are again less competitive — mostly because grass-fed beef is primarily a byproduct of the dairy and cull beef industry in Canada, the United States and Mexico.



Editor's Note: This information was presented at the International Beef Industry Conference in Calgary, Alta., Canada, in July 2003. For the full proceedings from the meeting, visit www.livestockcongress.com/pdf/IBICreport.pdf.

Competing at home

Given the global outlook for beef supply and demand, American beef sectors must continually strive to remain competitive. But, with consolidation rapidly occurring in both the U.S. beef and food industries, how can each sector of the beef industry remain profitable in times of consolidation and concentration?

That was the focus of discussion at the 2003 International Livestock Congress in Houston, Texas, earlier in 2003. The group in attendance concluded that despite continued concentration and consolidation of U.S. beef and food industries, ample opportunities exist for those in each sector of the beef industry to both survive and thrive. But they must:

- have a relentless focus on the customer and the consumer;
- deliver raw materials and products (cattle/beef) that are consistent and high in quality;
- consider involvement in vertically aligned beef supply chains, especially those that produce branded beef; and
- develop a mind-set conducive to the transfer of valuable information up and down the supply chain, with focus on both customers and consumers.

This summary information was presented by Colorado State University's (CSU's) Gary Smith at the International Beef Industry Conference in Calgary, Alta., Canada, in July 2003. For a full proceedings from the meeting, visit www.livestockcongress.com/pdf/IBICreport.pdf.