

Ready For The World?

Beef producers must set the stage for Asian beef trade boom.

by *Laura Nelson*

Producers can't wait for profit to knock on the door; they must seek it out, do the knocking and grab opportunities when those doors open. According to one economist, that means now.

"It's time," Dan Basse says. "It's time that the beef producer think globally and sell his very-high-quality product overseas." The president of AgResource Co., Chicago, says failing to act in the near term will literally cost a fortune.

"Producers need to be acutely aware of the export opportunities and the real economic might those carry," he says, projecting an 8% boost in trade volume would raise cattle prices by \$9 to \$13 per hundredweight (cwt.).

Basse says beef consumption in the U.S. is at its lowest level in 12 years, but demand around the world is increasing with population and affluence. There's agreement from the research director at the Hudson Institute, which says the bulk of that demand will come from China, India and Southeast Asia.



► "We must have people thinking globally and talking about the advantages we have relative to other countries that are trying to sell beef," says Dan Basse, president of AgResource Co. "We have to tell the world's consumers about the safety and quality of U.S. beef."

"The first thing people do as they increase their incomes is not to go out and buy a big-screen TV or a new cell phone. No," Alex Avery says, "when you go from dirt poor to a little better than just poor, you want more diet diversity. That means grain diversity, fried foods, then meat, milk and eggs. Dietary improvement is a consistent relationship with rising affluence."

Until 1998, the average Chinese person made less than \$1,000 a year. Today, it's \$3,900 and rising, Basse says.

The two trade analysts were speakers at the November Feeding Quality Forums co-sponsored by Certified Angus Beef LLC (CAB), Pfizer Animal Health, Land O' Lakes Purina Feed LLC and *Feedlot* magazine at Garden City, Kan., and South Sioux City, Neb.

"The bottom line is, meat consumption has been skyrocketing in that part of the world," Avery says.

Barriers and expansion

However, China is still considered untapped potential because of trade barriers.

"Global trade is probably the biggest opportunity for the beef industry," Geof Bednar, CAB international director, says. "But the really difficult part of that equation is gaining the access we need to get into those markets."

Although China's borders are currently closed to U.S. meat, Bednar says it's an important border for producers and beef marketers to watch, along with other Asian trade doors.

"In any of the world markets, our biggest issue today has nothing to do with people



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wanting our beef," he says. "It's the access problems we have because of governmental controls. As soon as China opens up, it will be a very significant market for the beef industry and for CAB."

The world's largest branded beef company has found its way into other Asian markets. South Korean sales set a record in 2009 at 6 million pounds, and although sales to Japan are slowly rebounding from the 2003 trade disruptions, CAB didn't waste time finding other markets to fill the gaps.

"In 2003, Japan made up 52% of our international sales," Bednar says. "Today, it would make up about 4%. But what's significant is that this division is finishing up an extremely good year, up 4% without what used to be our

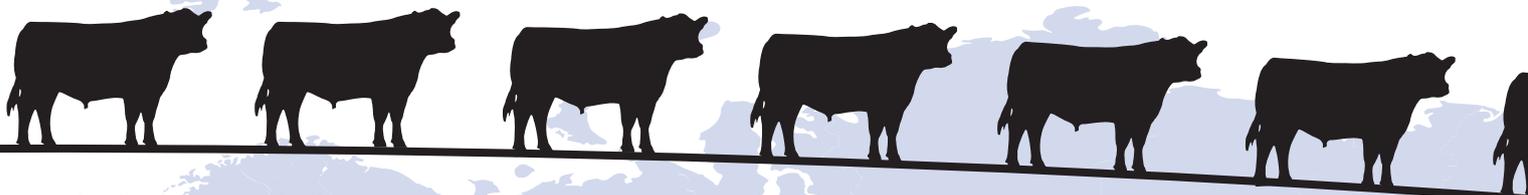
most important player [Japan]."

That has come by expanding efforts in Taiwan, Vietnam and Hong Kong, countries that are open and hungry for high-quality beef. Bednar says U.S. branded beef offers a distinct advantage over U.S. alternatives, despite wide recognition of the USDA Choice grade.

"Our brand is able to withstand more turmoil — not from a political standpoint, but certainly from an economic standpoint versus commodity beef," he says. "That's because of the relationships we build through licensing and the way we go to the market, let alone the quality level."

Positioning

CAB-licensed distributors sell product in more than 60 countries, through a growing network of licensed partners in foodservice and retail. The brand often licenses high-end hotel restaurants, serving not only travelers



who already favor U.S. beef, but also political leaders and international influencers who make trade decisions.

Wilson International, a leading meat distributor in Hong Kong, is a new CAB partner.

"Hong Kong has been gaining considerable momentum in our markets," Bednar says. "But a key fact there is that Wilson International also has five business units in five major Chinese cities. So that's positioning us well, ready if China's markets ever open up, too."

Although Britain returned Hong Kong to China in 1997, it functions almost independently as a "Special Administrative Region." Meat demand there has risen quickly, even faster than in the whole of China, Avery points out.

"Look no farther than Hong Kong to prove the need for more beef as affluence increases," he says. "Hong Kong is very wealthy in comparison to the rest of China. The average Hong Kong person eats twice as much pork, four times as much poultry and four times as much beef."

Demand is about more than numbers, of course.

"As we think about global marketing, we also have to start thinking about the customers and their position in being from a country that is not a 'net food producer.' Being net importers makes them much more interested in where food comes [from]," Bednar says. "Food is a very emotional issue for them. To win international markets, we have to start looking at those individual consumers: What are they asking of us?"

Basse says it will take a focus on opening the doors, followed by intense consumer marketing campaigns to fully realize the economic potential of international trade.

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Asian consumers in particular are more interested in a "story" behind their food, something that Bednar says the *Certified Angus Beef*® (CAB®) brand provides. "Japan and Korea imagine the U.S. beef industry as a factory industry. They just can't image the rancher back in Iowa or wherever it might



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be," he says. "To get the most out of these markets, we have to tell our production story. That's an advantage we have over commodity."

Identity and verification

To meet other consumer demands around the world, Bednar says cattlemen must consider the value of animal identification (ID) as well.

"Our strongest competitors against U.S. beef are developing these resources or already have the ability for source- and age-verification and animal ID. That's what is being asked for by our most important trading partners," he says.

Being in beef production himself for 20 years prior to the career with CAB, Bednar says, "I understand why some cattlemen

continue dragging their feet on animal ID and source verification." But now, from a perspective on the other side of the industry, he says it's a must.

"It's very frustrating from the standpoint of what I do today that our producers are not providing me with what I need to bring value to them by selling their beef in the export market," he says. As of 2009, export markets added about \$115 per head through increased beef and beef-byproduct demand, according to the U.S. Meat Export Federation (USMEF).

If any country were to mandate source-verification for imported beef, Bednar says, "It would kill us, as an industry and as a brand. If the idea spread, we would lose more export markets, and without them we're leaving that \$115 on the table."

Avery, Basse and Bednar agree that U.S. beef producers must keep knocking on doors and making inroads to international markets. "That's the way to our future in the beef industry," Bednar says.

