International Trade Front

USMEF CEO discusses beef export competition and potential.

by **Kasey Brown,** *associate editor*

Are we prepared to meet international demands? More importantly, U.S. Meat Export Federation (USMEF) CEO Phil Seng, amended his question, are we prepared to compete to meet international demands? Competition will be very important as the beef industry moves forward in the international market.

Seng spoke to the attendees of the 2014 International Livestock Congress (ILC–USA 2014), which was hosted Jan. 14 in Denver, Colo., in conjunction with the National Western Stock Show.

Competition

Many in the United States don't think about our competitors in the global market, but they are formidable, he emphasized. Australia, Canada, Mexico and New Zealand each are sophisticated and strategic. As a whole, these four countries each put more emphasis on exporting their own beef than the United States does.

Australia uses the fact that it is an island to its advantage in food safety. Its location in relation to Asia makes it a key exporter to largely populated areas that enjoy beef. Australia has five key points in its aggressive export market: the Clean and Safe campaign, a strong traceability program, guaranteed Halal, consistent supply, and a wide range of cuts.

Canada is a direct competitor of grain-fed beef, and it uses the slogan "Present from Great Nature" to its advantage. Mexico's exports have increased by 45% for the past several years. It promotes its low-stress handling to a great extent. New Zealand borrows from the USMEF model and works at the consumer level, especially promoting its beef as grass-fed and lean.

Seng noted that these four main competitors, though the European Union is rapidly emerging as competition, are very export-focused. For instance, Australia exports 60% of its beef products, and New Zealand exports 80% of its beef production. Specifically, they produce to market requirements. Each of these countries has aggressive marketing budgets and a strong traceability program.

Conversely, Seng said, the United States is mostly focused on domestic markets, though that is beginning to change.

Global demand will continue to grow as the population growth and the GDP of many nations increases. Ninety-six percent of the world population is outside the United States, and about 80% of the world's buying power is also outside the United States. The largest projected amount of growth is in the Asia Pacific region.

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Role of USMEF

The USMEF is working on that retooling. Seng said that its mission statement since 1976 is, "To increase the value and profitability of the beef, pork and lamb industries by enhancing demand for their products in export markets through a dynamic partnership of all stakeholders."

It continuously works to expand trade access, and works to educate exporters, traders and buyers, as well as end users and processors in each market. The USMEF uses a great deal of global consumer outreach, and is well-placed throughout the world. There are USMEF offices or representatives in 19 countries.

The roles of the USMEF revolve around trade access, technical services, issues management, marketing support, trade servicing, in-market facilitation and buyer teams, Seng noted. There are many avenues used to reach consumers, retailers and buyers like educational seminars, retail promotions, foodservice promotions, chef trainings, restaurant promotions, consumer outreach and education, and social media efforts.

INDUSTRY AT A CROSSROADS

Beef exports reached a record level in 2013, increasing 11% from the previous year and eclipsing $6 billion in sales. More than $239 per head goes back to producers, he said. Comparatively, $136 went back to producers in 2003. Many trade agreements are in the works to open more markets and increase that value for producers.

Seng explained that beef value is optimized through exports. Many cuts that are not as popular in the United States bring a premium in other countries. For instance, tongues to Japan and Mexico are sold for $4.40 per pound (lb.). In the United States, they go for $2 per lb., so a $2.40-per-lb. premium adds $8 per head. Livers to Egypt add $4 per head, short plates to Asia add $4.13 per head, and bone-in chuck short ribs to Asia add $3.60 per head. These multiple small premiums add up quickly to add value to a whole carcass.

The curse of BSE

The bovine spongiform encephalopathy (BSE) instance in December 2003 was a scourge on the U.S. beef export market. He said it is estimated to have cost the industry anywhere from $16 billion to $24 billion. Additionally, the cost of recovering consumer confidence in advertising and trade teams, lost growth opportunities, export verification programs and audits, and U.S. government costs inflate that estimate to $30 billion.

Little known to Americans, Japan announced the discovery of BSE in a Japanese cow just one day before the Sept. 11, 2001, attacks in the United States. Japanese consumer confidence plummeted — stores publicized sales of imported beef, but total beef consumption dropped by 60%, Seng explained.

The United States announced an imported case of BSE in December 2003, and U.S. and Japanese government officials met for the first time in January 2004. A joint working group was formed to discuss technical issues at the suggestion of USMEF to de-politicize the issue. In December 2005, Japan opened its markets to U.S. beef, but quickly closed it in January 2006 after finding banned materials in imports.

"The U.S. side was under the impression once Japan ran out of inventory, out of U.S. beef, they would come running back to get more. It was a very wrong assumption," Seng added.

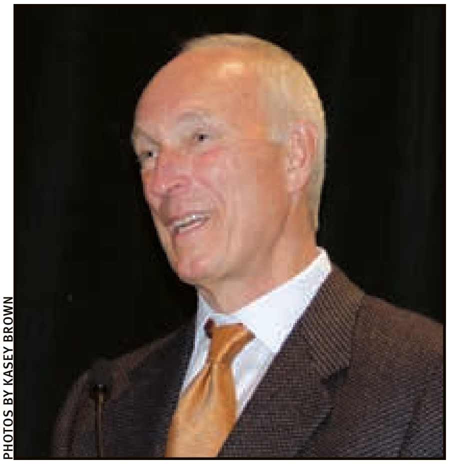
During this time, Australia was quick to take advantage of an open market with one less competitor.

USMEF has a host of activities to regain consumer trust. Two successful campaigns have been in Japan and South Korea. The "We Care" campaign in Japan has increased consumer confidence in U.S. beef from 22.9% in 2007 to 64.1% in 2012. The "To Trust" campaign in South Korea has increased consumer confidence from 5.3% in 2010 to 38% in 2012.

The Japanese market was opened to U.S. beef up to 30 months of age in February 2013, and Japan is again the No. 1 export destination of U.S. beef, Seng noted. Volume is up 52%, and value is up 34%.

However, some markets are still closed to U.S. beef due to BSE — the People's Republic of China, Australia, Saudi Arabia, Ecuador, Uruguay and South Africa. Limitations still exist in Japan, Mexico and South Korea and more.

The lessons learned are the lone positive



PHOTOS BY KASEY BROWN

►"We need to be doing more to understand these consumers in Asia Pacific," U.S. Meat Export Federation (USMEF) CEO Phil Seng emphasized. "Our strategy may need to be retooled to be a serious player in these markets."

from a bleak encounter. The "all or nothing" approach is prevalent, but not always productive.

"We have to understand that every country has its own rule-making process. We have our own rule-making process, and they have their own process. We have to know this and acknowledge this," he noted.

It is necessary to qualify and verify information sources, because spokespeople are not always industry insiders. He added, "A lot of people have opinions, but when did that become fact? We have to be cautious of our spokespeople."

Logic should be used vs. leverage, because leverage is usually counterproductive. International guidelines, like World Organization for Animal Health (OIE), aren't perfect, but they become very important. One of the biggest lessons Seng acknowledged is the wide impact of social media in consumers' perceptions.

"It would do our industry good to have these organizations get together and think about 'What can we do today to ensure that we don't make those same mistakes again?' $30 billion — that's a number you need to remember," he emphasized. "We can't afford to make those mistakes again."

Trade agreements

The North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico is in its 20th anniversary, and it has increased each country's exports exponentially. The United States exported less than $660 million in red meat in 1994 to Canada and Mexico. In 2013, the United States exported product valued at more than $2 billion.

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"We don't want to do anything that will cost us or incur any kind of retaliation that would jeopardize those sales. Probably 40% of our exports go either north or south of us," Seng recommended.

There are many trade agreements in the works to expand U.S. beef exports in other markets, too. A proposed transatlantic trade and investment partnership (TTIP) with the European Union (EU), which was our largest export market in 2012 comprising $458 billion in goods and services, and they exported a similar amount to us. He warned that we must be conscious of this half-a-trillion-dollar relationship when we start making demands on agricultural trade. A TTIP with the EU could build upon the current beef agreement and would provide immediate opportunities for the U.S. pork industry.

Seng noted that major factors driving the TTIP include the need for economic stimulus for both U.S. and EU economies; a shared interest in achieving "regulatory convergence," or mutually beneficial agreement, between the two sides; and developing an agreement that can be used as the basis for global rules and standards.

There are differences to approach in establishing a TTIP, he illustrated. The United States maintains a comprehensive approach to negotiating the ag portions of the trade agreement. This means that virtually all tariffs and quotas would be eliminated eventually, with few exclusions.

The EU's approach is to protect its sensitive ag products. To demonstrate the hesitancy, in the EU-Canada free trade agreement (FTA), which is currently all but finished, the EU is only liberalizing 93.5% of its agricultural tariffs. The biggest challenge of a TTIP would be sanitary and phytosanitary (SPS) measures.

"We have a long history of unresolved SPS disputes, three of which are still at some of the WTO (World Trade Organization) dispute-settlement process," he explained.

The EU applies its precautionary principle as the center of its risk-management protocol, and the U.S. agricultural coalition has said that the precautionary principle "would undermine sound science and ultimately the TTIP itself." However, Seng added that both sides have indicated that the precautionary principle will not be negotiated.

Another battle is over geographic indicators, he said, like French champagne. The issue is which geographical designations for food and beverages should be protected? These are key points for the EU. Seng hopes that some agreement could be realized to move forward, and potentially be the basis for a global approach.

He highlighted the key factors of the U.S. approach to agriculture in the TTIP. The United States brings a strong record of negotiating for comprehensive liberalization in FTAs. The SPS agenda should be achievable in the negotiating timeframe envisioned.

Other trade priorities include pathogen reduction treatments in Japan, the EU and others; beta-agonist bans in the EU, Russia, China, Taiwan and others; China beef access; BSE-related restrictions in other markets; mandatory country-of-origin labeling (mCOOL) in the Farm Bill and WTO compliance; and a timeline for starting two-way beef trade with Brazil.

In regard to the Trans-Pacific Partnership (TPP), these 12 countries — Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam — account for almost 40% of global output and about one-third of all world trade. Negotiations are ongoing, particularly involving tariffs and the timeline of negotiation. Japan has not mentioned tariffs going to zero, but that begs the question, do we have to get to utopia, or what point signifies a good deal?

Of the negotiations, Seng pointed out, "In all trade policy, you have to read every word — words do matter."

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Editor's Note: *ILC–USA 2014, themed "The Cattle Industry at a Crossroads: How Do We Adapt to Change?" was hosted at the Renaissance Denver Hotel Jan. 14 in conjunction with the National Western Stock Show in Denver, Colo.*