

## World Beef Overview

### Total Beef Exports to Drop 9 Percent in 2004; U.S. Beef Exports Drop 83 Percent

**World Trade:** Total beef exports for major exporting countries are forecast at nearly 5.9 million tons for 2004, revised down 15 percent from the previous October 2003 forecast due to the impact of BSE in the United States. Due to uncertainties about the length of time before importing countries lift trade restrictions on U.S. beef, trade forecasts for beef are based on the country's current policy--import bans remain in effect and no assumption is made about when trade could resume. The Department expects to revise its trade forecasts to reflect subsequent changes in import policies. Brazil is forecast to surpass Australia as the top world exporter of beef, with exports expected to approach a record 1.4 million tons. Brazil has made outstanding strides in increasing its production, which is forecast to grow 4 percent in 2004. Australia is expected to increase its exports in 2004 to Asian markets that have banned imports of U.S. beef. Canadian exports are forecast to rise 47 percent in 2004 over 2003 exports, as exports primarily to the United States recover to pre-BSE export levels. The United States remains the world's largest import market. In 2004, Japan, which has not recovered to its pre-BSE import volumes, is expected to fall to the fourth largest beef import market as imports from the United States and Canada are currently banned. The bans on U.S. beef in Asia have resulted in Russia and the EU moving to places two and three respectively. Russia is still not importing at its historical high in 1999 and with its limiting tariff-rate quota, is not expected to be an expanding import market in 2004. Meanwhile, the EU is likely to remain a net importer, as prices remain high and its exports have never fully recovered from the BSE discoveries. Japan and Korea's bans on U.S. and Canadian beef are expected to constrain imports in 2004 likely pushing import beef prices higher.

#### Key Exporters:

- **United States:** On December 23, 2004, the United States suffered a major trade disruption upon finding one case of BSE, which resulted in the closing of more than 70 foreign markets to beef imports from the United States. As markets are assumed to remain closed until importing countries announce a change in policy, beef exports for 2004 are forecast at 195,000 tons, just 17 percent of 2003 exports. Cattle supplies were already tight prior to the discovery of BSE, resulting from ongoing herd liquidation since 1996 because of drought in many areas and strong demand for beef. Lower production and robust consumer demand are helping to support cattle prices. The forecast for live cattle exports in 2004 has been lowered to 5,000 head. Canada did relax its testing requirements for anaplasmosis and bluetongue on U.S. feeder cattle, which promises to expand market access in Canada after requirements are modified for importing cattle from countries with low risk of BSE.
- **Brazil:** After a decade of expanding its beef production, Brazil is forecast to become the world's largest beef exporter in 2004. This strong growth in the beef sector will lead to record beef exports, forecast at nearly 1.4 million tons in 2004.

Brazil has doubled the number of countries it exports to in recent years and is likely to fill some part of the beef deficit left by import restrictions on the United States in Hong Kong and smaller markets looking for substitutes for U.S. beef. Brazil cannot compete to fill the deficit in Japan and Korea, due to its FMD status. However, the bulk of Brazil's exports of fresh and frozen beef go to the EU, where U.S. beef does not compete for market share. The strong Euro will help Brazil have a competitive edge in exporting to the EU, where it currently has 25 percent market share. Brazil's expanded beef output, expected to reach a record 7.7 million tons in 2004, is due to improved genetics, better management, and higher profitability in cattle production. Growth in production is further expected to be supported by a rebound in domestic demand due to decreased unemployment and federal programs to fight hunger and improve nutrition.

- **Australia:** Total beef exports are forecast to increase to 1.3 million tons in 2004 as Australia takes advantage of U.S. beef being shut out of Asia. Japanese and Korean importers are likely to call upon Australia to supply additional beef. While grass-fed beef does not completely substitute for grain-fed beef, Australia has steadily increased its grain-fed beef production from 15 percent in the early 1990's to currently around 30 percent of total production. Reduced U.S. cow slaughter and the continued ban on imports of Canadian cows into the United States are factors underlying Australia's exports of beef to the United States for manufacturing and processing. Australia's beef production is forecast at more than 1.9 million tons, mostly unchanged from 2003. Normal weather has returned to Australia, allowing producers to increase cattle inventories as they retain stock on improving pastures. Live cattle exports are expected to reach 800,000 head in 2004.
- **Canada:** In 2004, Canadian beef exports are expected to rebound from 2003 levels to 565,000 tons, due to increased exports to the United States and Mexico, its two largest markets. Canada suffered a major trade disruption with the discovery of one case of BSE in May 2003. Canada's exports reached only 384,000 tons in 2003 after it was shut out of most export markets in the second and third quarters of the year. In September, Canada resumed exporting boneless beef products from cattle less than 30 months of age to the United States and Mexico. Boneless beef exports completely replaced what were formerly bone-in exports. Canadian cattle are still prohibited from importation into the United States. USDA published a preliminary rule on cattle imports that proposes to open the U.S. border to Canadian cattle under 30 months of age. The comment period will end on April 7, 2004.
- **New Zealand:** Even with possible export growth opportunities due to BSE in the United States and Canada, exports are anticipated to fall 3 percent in 2004 to 560,000 tons. The New Zealand dollar has grown stronger, and returns to producers are falling. The United States, which takes half of New Zealand's beef exports, shows no weakening demand for New Zealand's frozen beef, particularly as U.S. cow slaughter is expected to decline. New Zealand's beef production is

forecast to show about a 1 percent decline in 2004 due to declining slaughter rates as dairy calves are retained for beef production.

- **European Union:** Beef exports for 2004 are forecast at 360,000 tons down 10 percent from 2003 exports, due mainly to the Russian TRQ. Higher beef prices are expected to make it more difficult to compete with South American suppliers. In 2003, beef exports declined from the previous year by 22 percent when the Russian TRQ and strong Euro exchange rate hampered exports from mainly Germany and Ireland. The summer drought in 2003 had a minimal impact on beef production, which is forecast to grow by less than 1 percent in 2004. Competitively priced imports from South America have edged into some of the EU's traditional markets, while its presence in export markets has not fully recovered from BSE. In 2003, the strong Euro negatively impacted cattle exports, which fell 11 percent from 2002, but in 2004, cattle exports are forecast to increase by 4 percent.

#### **Key Importers:**

- **United States:** Beef imports for 2004 are forecast 11 percent higher than 2003 at a record 1.5 million tons. Consumer demand remains strong, which has helped support prices after the closure of most U.S. export markets. Consumption is expected to expand by 4 percent in 2004. U.S. beef production is forecast to fall 4 percent, as cattle inventories decline. Declining cow beef production is expected to support demand for imports of lean manufacturing beef to mix with fat trimmings. The lack of Canadian beef and cattle imports, in conjunction with already tight U.S. supplies and strong demand, drove both beef and cattle prices dramatically up in the latter part of 2003. However, imports of Canadian beef have recovered to pre-Canadian-BSE levels, although only boneless product is imported. Cattle and beef prices dropped after the announcement of the U.S. BSE case, but have remained high during the first quarter of 2004. Additionally, tight cattle supplies after a season of poor feeding conditions reduced production in the fourth quarter of 2003 and into the first quarter of 2004, helping offset impacts from lost export sales. Imports of live cattle are forecast at 1.1 million head and will come primarily from Mexico since Canadian live cattle are still banned from import.
- **Russia:** Beef imports for 2004 are forecast at 650,000 tons, up 10 percent from 2003. Traditionally, imports have largely consisted of low-grade, frozen beef for further processing into sausage. Russia announced a new TRQ for 2004 in November 2003. The frozen beef and chilled beef TRQs were set at 420,000 tons and 27,500 tons, respectively, with the United States allocated 17,200 tons of the frozen beef TRQ. The CIS, which supplies 25 percent of Russian imports of frozen beef, is exempt from Russia's TRQ. A poor grain harvest is expected to cause a reduction in Russian beef production by limiting feed for cattle, and resulting in increased slaughter rates and reduced slaughter weights in 2004.

Russian beef production is forecast at 1.6 million tons, a 4 percent decrease from 2003.

- **European Union:** The EU will remain a net beef importer in 2004 with a 200,000-ton trade deficit. Beef imports in 2004 are forecast at a record 560,000 tons, up 10,000 tons from 2003. Argentina, Brazil, Uruguay and Poland are the top exporters to the EU. In 2003, South America was so price competitive that it was able to ship beef above the TRQ with the full tariff rate applied. The expansion of the 10 additional member countries into the EU is effective May 1, 2004. Poland, the fourth largest supplier of beef to the EU and a supplier of 4 percent of EU imports, will be absorbed in the expansion and subsequently increase EU production with its healthy livestock sector. Consolidated EU-25 reporting will not begin until the 2005 forecast is released in October 2004. EU cattle imports in 2004 remain virtually unchanged from the 2003 level.
- **Japan:** In 2004, Japan's imports are forecast down 36 percent from 2003 at 520,000 tons. The ban on U.S. beef imports, if continued, creates a supply deficit that Australia and New Zealand are not expected to completely fill, due to the combination of already tight supplies in Australia and Japanese demand for grain-fed beef. Japan will have to compete with Korea for beef from Australia and New Zealand unless additional North American beef is allowed into these markets. Consumption is forecast to decline by about 20 percent due to shortages of imported high quality beef. Japan continues to demand that all beef exported to Japan from BSE countries come from animals that have been tested for BSE and that have had specified risk materials (SRMs) removed regardless of age.
- **Mexico:** In 2004, beef imports are forecast to decline 32 percent from 2003 to 250,000 tons due to the impacts from finding BSE in the United States, Mexico's largest supplier. The trade restrictions on U.S. beef, now relaxed for boneless beef from cattle less than 30 months of age, will allow a resumption of beef imports, but are expected to constrain Mexico's ability to import lower-value cow beef. U.S. beef must compete on price and lower transportation costs with Canada to regain lost market share, but factors such as the strong U.S. dollar and high U.S. beef prices may make this a difficult challenge. Therefore, Canada has an opportunity to increase its market share. Mexico's cattle herd further declined to 19.5 million head on January 1, 2004, 35 percent below a decade earlier.
- **Korea:** Beef imports for 2004 are forecast to drop by 55 percent to 200,000 tons due to the ban on U.S. beef after the finding of BSE in the United States. This ban has had major impacts on the market, such as decreasing consumption of beef by about 27 percent and increasing consumption of pork and fish. In Korea, U.S. beef usually accounts for 60 percent of imports. Korea is also maintaining a ban on Canadian beef, which previously supplied 4 percent of Korean beef imports. It is not anticipated that Australia and New Zealand will be able to offset the decline in beef imports from the United States, which was 292,000 tons in 2003. Without the imported beef, demand for domestic beef remains strong although

domestically produced Hanwoo beef is 4.5 times more expensive than imported beef.

