World Pork Overview

U.S. Exports Are Forecast to Reach a New Record in 2004.

World Summary: The shadows of the BSE and avian influenza outbreaks have already enveloped world pork trade for 2004. Unshaken consumer confidence in pork could create a positive windfall for growth in both production and consumption. In trade, world pork exports are expected to reach almost 4.2 million tons in 2004. Nevertheless, there is an increasing awareness that meat trade flows are becoming largely dictated by sanitary conditions and regulations. Exporters worry that market access, driven by trade policy, as well as veterinary and food safety controls, can become easily susceptible to non-tariff trade barriers, especially when controls are not based on sound science. Within this very uncertain environment, exporting countries are vying to maintain a competitive edge in lucrative markets. At the same time, importing countries are striving to ensure fairness for their domestic producers, while also safeguarding the health and economic needs of their consumers.

Key Exporters:

- **United States**: U.S. pork production is forecast to increase by 1 percent in 2004. Imported Canadian feeder and slaughter pigs have helped sustain U.S. pork production at record levels. At the same time, U.S. hog farmers, alarmed by the inflow of Canadian animals, have filed anti-dumping and countervailing duty petitions with the U.S. government. The investigation should be completed within a year, but preliminary duties could become effective by June 1, 2004 for the countervailing duty case, and by August 12, 2004 for the anti-dumping case. Meanwhile, U.S. pork exports continue to grow, with Japan, Mexico, and Canada accounting for almost 80 percent of exports in 2003. Foreign demand for U.S. pork is expected to remain strong in 2004, especially as lingering concerns over BSE and avian influenza continue to affect trade in beef and poultry. The relative weakness of the U.S. dollar should further enhance the competitiveness of U.S. pork. In addition, the United States recently concluded negotiations on several free trade agreements. U.S. pork is expected to gradually develop new market opportunities, particularly in Chile and in the five Central American countries of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The United States and Australia recently completed a risk assessment that now allows U.S. processed pork products into Australia.

- **Canada**: Canadian pork production is forecast to grow by less than 1 percent in 2004, to 1.9 million tons. High feed grain prices, declining profitability and falling domestic consumption will reduce incentives to expand production. Despite a weakened U.S. dollar, Canadian exports of feeder and slaughter pigs to the United States have been very strong, reaching over 7.4 million head in 2003, an increase of 30 percent from 2002. Hog exports in 2004 are forecast at 7.8 million head, but the anti-dumping and countervailing duty cases could potentially affect live animal shipments to the United States, inducing Canada to expand processing capacity as some plants go to double shifts. The May 2003 BSE crisis in Canada disrupted domestic pork consumption, as Canadian consumers responded to lower beef prices by increasing their purchases of beef. Exports, which now account for more than 50 percent of Canadian pork production, grew by more than 12 percent. In 2004, pork exports are estimated to reach 1.05 million tons, ensuring Canada's place as the world's largest pork exporter after the EU. The U.S. continues to be the major market for Canadian pork, absorbing over 56 percent of Canada's total pork exports in 2003.

- **Brazil**: Brazilian pork production is forecast to decline by 3 percent in 2004. During the previous two years, Brazil exported 23 percent of its domestic pork production, with more than 65 percent of these exports destined to Russia. Under the 2004 Russian quota system, Brazilian pork will compete for a share of the 179,500-ton quota reserved for "other countries". Although Brazilian pork is expected to remain very competitive in the Russian market, this quota is considerably lower than the 300,000 tons (pwe) Brazil shipped in 2003. To compensate, Brazil will continue to look to other markets, building upon its recent successes in Singapore, South Africa, the Netherlands, and Argentina. The forecast 30 percent decrease in exports will provide opportunities to expand domestic pork consumption, which remains still notoriously low. Falling retail pork prices due to oversupply could ease some of the Brazilian consumer income constraints. However, at the same time, if production costs rise, lower hog prices could also squeeze the profitability of Brazilian hog farmers recovering from the 2002 price lows.

- **European Union**: Lower beginning inventories and reduced sow numbers continue to affect the 2004 outlook on EU-15 production. Production levels remain unchanged from 2003, as improvements in productivity appear to offset rising production costs. Producer prices have also been rising due to tighter supplies, and there is some evidence of strengthening consumer demand, particularly in Germany. French producers, still recovering from the effects of the 2003 drought, will receive a $18 million aid package for market restructuring, research, and to promote quality and branded products. In January 2004, concerns over rising feed prices, as well as the relative strength of the Euro vis-à-vis the U.S. dollar, brought the EU Commission to announce that it would reintroduce export refunds for pig carcasses and cuts. The decision, which was later rescinded in March, would not in any case have applied to the 10 accession countries entering the EU on May 1, 2004. With accession, the EU Commission estimates that the new EU pork production number will immediately increase by up to 25 percent. At the same time, pork consumption in many accession countries is very high, and is likely to continue to increase as incomes rise.

Key Importers:

- **United States**: In 2003, the United States imported a record 538,000 tons of pork, an 11 percent increase from 2002. Imports, however, are expected to decrease by 1 percent in 2004, due primarily to the relative weakness of the U.S. dollar. U.S. consumer demand remains strong, especially for competitively priced pork loins, ribs and bellies. Pork imports must comply with USDA's Food Safety and Inspection Service regulations. As for the proposed Country-of-Origin Labeling regulations (COOL), the 2004 Omnibus Appropriations Bill has delayed mandatory implementation until 2006. For further information on COOL, please refer to the following internet website: http://www.ams.usda.gov/cool/.

- **Japan**: Although Japan is still the world's largest pork importer, imports declined by nearly 3 percent in 2003. Accumulating inventories of frozen pork helped to weaken import demand, particularly for pork processing. At the same time, 2003 Japanese domestic production reversed earlier trends by growing 2 percent over the previous year. In 2004, domestic production is expected to increase again by almost 1 percent. Nevertheless, declining stocks and strong consumer demand are expected to push 2004 pork imports to 1.3 million tons, a new record and almost 15 percent above 2003 levels. The safeguard duty on pork imports, which raises the gate price for carcass imports from 409 Yen to 510 Yen per kg ($1.54 per lb to $1.92 per lb), and the gate price for pork cuts from 546 to 681 Yen per kg ($2.05 per lb to $2.56 per lb), will expire on March 31, 2004. This special safeguard provision is designed to trigger when quarterly imports exceed the average of the three previous corresponding quarters by 19 percent or more. A surge in imports could once again trigger the safeguard.

- **Hong Kong**: With the disruptions in beef and poultry supplies, Hong Kong's 2004 pork trade is expected to remain vigorous as imports are forecast to increase by more than 10 percent. Although growth in pork demand could taper later in the year if beef and poultry meat supplies increase, the Hong Kong pork market is forecast to import 335,000 tons of pork in 2004. It is estimated that about 19 percent of Hong Kong's pork imports will be re-exported, primarily to China. The USDA forecast for Hong Kong does not include re-exports. This re-export trade however continues to decline, as more and more shipments appear to be going directly into northern China instead of through Hong Kong. China and Brazil are Hong Kong's two largest suppliers, each respectively accounting for 43 percent and 20 percent of all imports. Brazilian pork has been very competitive both in price and in meeting the gradually more exacting retail specifications.

- **Mexico**: Mexican pork production is expected to reach 1.15 million tons in 2004, an increase of almost 5 percent above the 2003 level. Live hog imports, which fell by more than 50 percent in 2003, are expected to grow by 25 percent in 2004. The Mexican pig crop and slaughter are also expected to rise to meet growing consumer demand, due to the BSE situation. While Mexican beef imports from the U.S. have now resumed, pork consumption is expected to remain strong, growing by nearly 4 percent in 2004. The productivity and profitability of the Mexican pork sector appears to be improving; nevertheless, Mexico's consumption growth continues to outpace domestic supply. Mexico's imports are therefore expected to grow by 4 percent in 2004. The United States, which accounts for more than 80 percent of Mexican imports, is expected to continue to be the major pork supplier. At this time, the Government of Mexico has not yet made a formal decision on the Mexican pork producers' petition for anti-dumping tariffs on U.S. pork.

- **Russia**: On November 29, 2003, the Government of Russia announced guidelines for the 2004 tariff rate quota (TRQ) on pork. The pork TRQ system, which covers HS code 0203 (fresh and frozen pork), sets the following country specific limits: the European Union (including the 10 accession countries) – 227,300 tons; the United States – 42,200 tons; Paraguay – 1,000 tons; all other countries (except CIS countries) compete for the remaining 179,500 tons. The tariff is set at 15 percent, but no less than € 0.25 /kg (14 ¢ / lb) for volumes within the TRQ. Above that level, the tariff becomes 80 percent, but no less than € 1.06 /kg (60 ¢/ lb). With the TRQ in place, Russia's pork imports are expected to decline by 6 percent in 2004 to 560,000 tons. CIS countries are exempted from the quota system, as are pork imports not under HS 0203. This will benefit countries like Poland and Hungary, which are very competitive in prepared and preserved pork products. Brazil, which over the last three years accounted for as much as 54 percent of Russian imports, will almost certainly be pressing very hard to find a way to recapture its lost market share.