



Does the Meat Follow the Money? Global Meat Trends, Statistics and Global Trade Opportunities for Improved Profitability

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The following is a summary of the remarks made by Kevin Grier at the Canadian Meat Council's 94th Annual Meeting in Toronto, May 8, 2014.

Introduction

Does the meat follow the money is a question of whether Canadian beef and pork products flow to the highest prices and best returns? For most industry participants, the answer is of course it does. Canadian packers, processors and traders ensure that product moves to the highest priced market whether locally, nationally, to the U.S., or overseas.

Many producers, academics, government officials and consultants however, believe that Canadian packers, processors and traders are missing out on profitable opportunities, particularly internationally.

Not only is the charge that the industry is missing out on profitable markets, but the assertion is that packers are missing opportunities due to a lack of marketing proficiency. Failure to capitalize on the Canada brand, the Canadian safety record, traceability or to market product using "traditional" production methods is seen as a trading loss for the industry. In addition it is often stated that Canadian traders are far too reliant on the U.S. as an easy destination. Furthermore, the often stated charge is that Canada cannot trade to its fullest benefit because it is simply not competitive in the meat industry.

In other words, the concern is that while it is true that meat might follow the money, not nearly enough meat is following not nearly enough money.

A case in point was the comments of Dr. Michael Bloom, of the Conference Board of Canada, another speaker at the Canadian Meat Council meeting in May. Bloom asserted that Canadian exporters need to market internationally using the Canadian brand and Canada's food safety

system. Bloom argued that an important strategy was to build a Canada Brand to reinforce food brands and products using positive images of Canada's natural environment and culture, and our reputation for product quality and safety. Another key according to Bloom was to "Promote more comprehensive food traceability for food supply chains and value chains." Furthermore "Make premises identification mandatory," was also seen as important. An emphasis on sustainability was also seen as a benefit for the industry, according to the speaker.

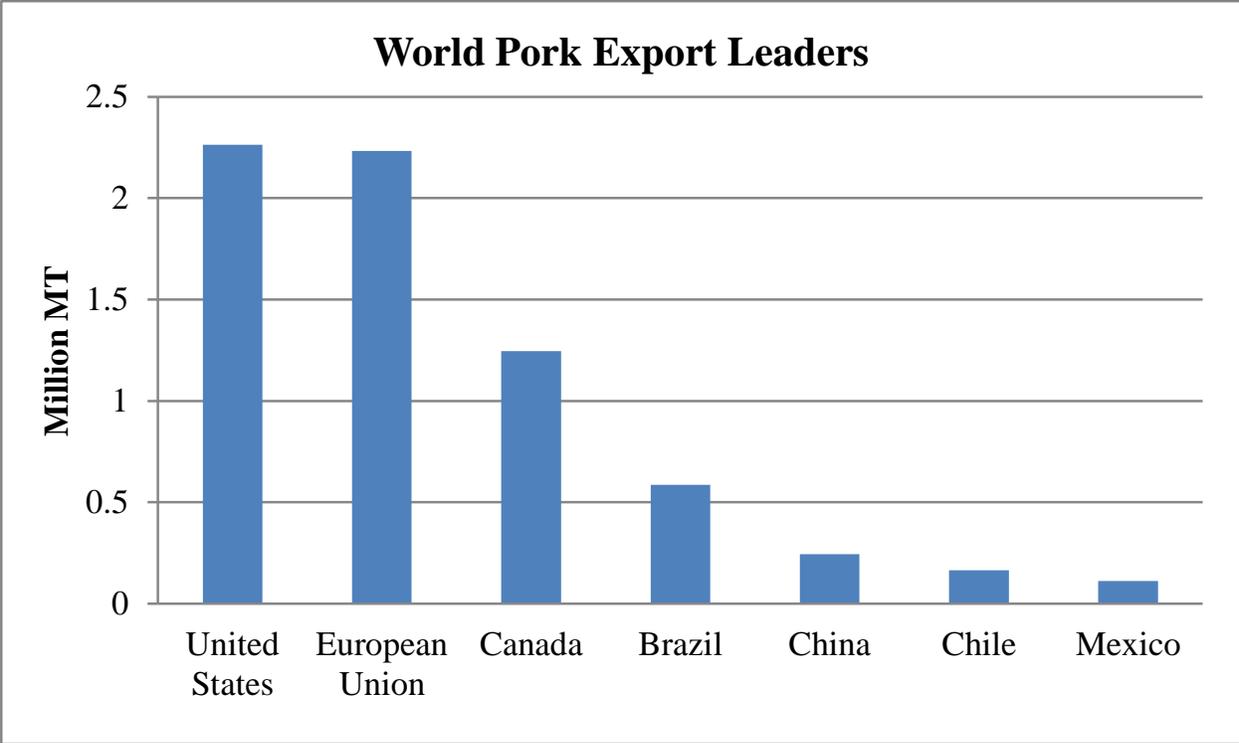
Of course meat industry conferences have been hearing that kind of advice from consultants for at least ten years. These are not new ideas. No doubt every company can and should do better on the trade front. The question however, is whether the old advice from the consultants and academics is right or not.

This is an important question because typically, like the speaker above, those that advance the premise that the Canadian meat industry does a less than stellar job in exporting are often advocates of certain policies and marketing strategies that they believe would correct the problem. This paper looks at whether in fact there is a problem in the Canadian meat export performance. It also looks at the efficacy of some of the solutions to the perceived problems.

Looking at the Data

To start off, it is important to assess what the data says about how Canada is doing as a global meat market participant. In that regard, the story appears quite good.

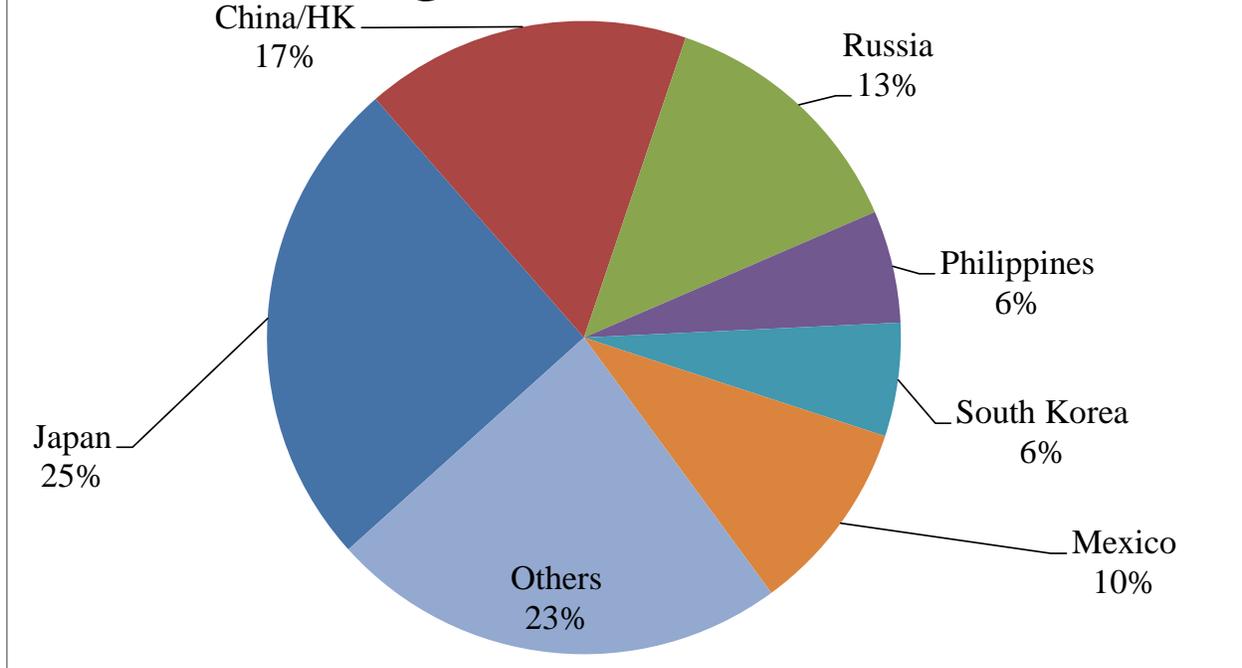
First of all, Canada is the seventh largest pork producing nation in the world but the third largest exporter. Canada has been a major global pork trader for decades. It has held that second or third place in the world for many years. As the third largest global exporter, it is hard to argue that Canada is not globally competitive in the pork industry.



Canada has between 10-20% share of most of the major pork importing nations of the world such as China, Russia, Japan, Mexico, Korea and Australia. Overall Canada consistently has grabbed about 15-20% share of total global pork import markets. In other words no matter how you look at it, Canada is a major global competitor.

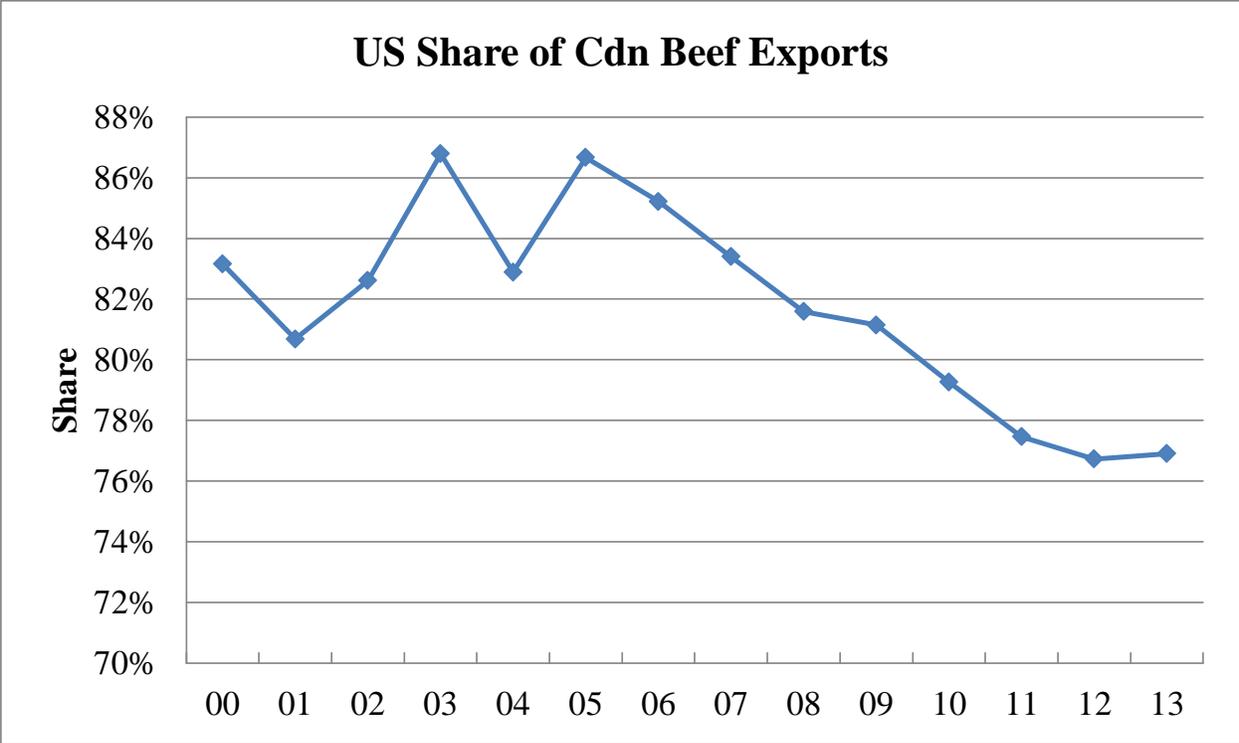
Furthermore, the US share of Canadian exports has fallen from about 50% ten years ago to just 30% in recent years. Canada is less dependent on the U.S. than it was ten years ago. It is hard to argue that Canada is simply shipping to the U.S. as an easy alternative. Canada ships to a wide range of global destinations, not simply the U.S. default.

2013 Leading Non-U.S. Pork Markets

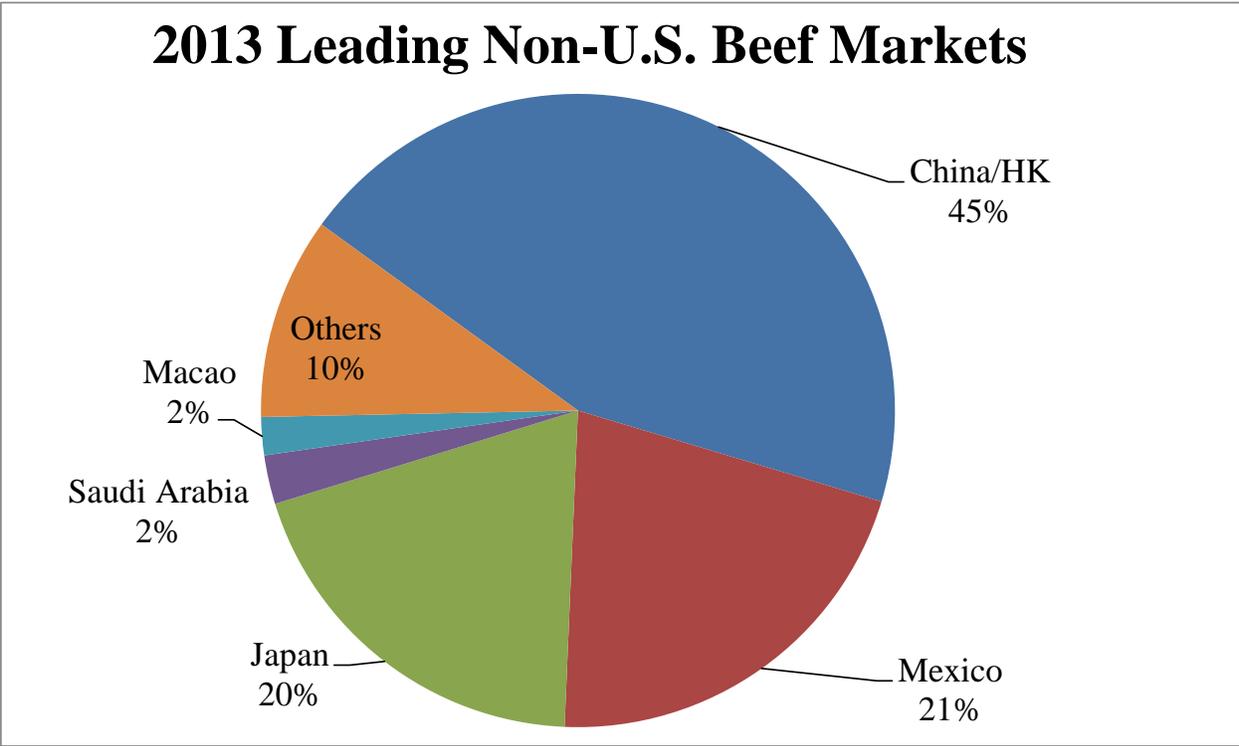


On the beef side of the equation, Canada is the eleventh largest beef producer in the world, yet it is the seventh largest exporter. Those two numbers suggest right off the start that Canada is an outstanding exporter relative to its production. Canada more than holds its own as a global presence as it ranks higher as an exporter than as a producer.

With that noted, Canada is admittedly much more focused on the U.S. market in beef than it is in pork. That however, is more of a function of the fact that the U.S. is, relatively, a huge importer and its domestic production just barely meets its domestic consumption. Canada is more focused on the U.S. because it is the largest, most lucrative market in the world for grain fed beef, which is largely a North American product. Even with that noted, the Canadian share of exports going to the U.S. has been declining as Canada continues to gain new global access.



Not only is the U.S. share of Canada’s beef exports declining, but the non-U.S. destinations are varied and ever changing with China and a wide variety of other countries increasingly important destinations.



Clearly from a straight statistical perspective, it is difficult to make the case that the meat is not following the money. The data suggests that Canada is an impressive global meat player.

With that noted, the data is more supportive of the pork success than the beef success. As such, if the data does not convince critics that the beef follows the money, perhaps an assessment of the Canadian beef industry participants might be helpful. The reality is that the bulk of Canada's beef is produced by JBS and Cargill Foods. Both multinational companies have been exporting globally for decades. Both companies have a presence across the globe with extensive trading networks. It stretches credulity to argue that these two firms are not able to access the best possible markets for Canadian beef. These companies have forgotten more about trading globally than any consultant could begin to know.

The bottom line based on the trade data is that Canada is a global beef and pork trade presence. Where is the evidence that Canada cannot compete? Where is the evidence that Canada is not a leading global presence in a variety of markets? Where is the evidence that Canada ships to the US as a default? The criticisms don't hold water.

The reality is that there are no untapped, market jewels just waiting to be taken if only our packers would wake up to the opportunities.

Marketing and Branding Opportunities?

The question then becomes could Canada do better if the industry would only trade on the "Canada Brand", food safety, traceability, sustainably etc? That is, should the Canadian meat industry follow the advice of the consultants and spend time and effort on trying to differentiate Canadian beef and pork based on the Mounty-esque positive images of Canada. Should meat traders focus time and effort trading on Canada's food safety system, its traceability system or sustainability?

No, we shouldn't.

Individual Canadian firms have reputations based on their own product quality, service and pricing. Opportunities and success are not based on the "Canada Brand" but based on their own performance and pricing. The Canada brand cannot gain access or new markets simply because it is Canada. Ten years ago, Canada thought the world loved Canadian pork, because it was Canadian. Instead the industry found that Canada just had a very cheap dollar.

Can Canadian firms compete better by the industry as a whole trading on Canada's food safety system? The answer is no. Canada's two main competing pork producing nation or regions, the U.S. and the EU, have systems that can deliver safe pork. Safety is a given. Besides, given the

CFIA's performance during the XL Foods crisis of 2012, I am not sure that we can trade on our food safety reputation. The same is true of the other dubious recommendations like trading on food traceability, sustainability, traditional production, etc. These recommendations and programs definitely add costs, but where the value is remains to be seen.

The reality is that Canadian firms export pork and beef based on the same attributes that matter in the domestic market. That is, Canadian firms trade pork and beef based on price and product specification as well as intangibles such as service, dependability and relationships. Ultimately the things that matter domestically and internationally are price and quality. International buyers are not going to trade based on Canada's image, premise ID, sustainability, etc., they trade on real value factors.

The Mechanics of Trading

Beyond those considerations, Canadian meat traders work to piece together a complicated puzzle of supply, demand and price on a monthly, weekly, daily and hourly basis to ensure that product moves to its most profitable destination. Within that framework considerations are constantly being balanced regarding a variety of factors such as strategic sales versus commodity sales or concerns about gaining share or gaining margin.

Product Flow Decision...daily, weekly

Commodity vs. value add

Strategic vs. opportunistic, LT vs ST

Margin vs. share

New vs. established, retain or acquire

Ultimately meat follows the money after putting together the puzzle on a constant basis. The meat follows the greatest return based on corporate objectives on a short and long term basis.

It is a small world. Importing traders know each exporting company and what they can deliver based on what they need. Product trades on price, quality and service. Based on that, Canadian firms have done very well, without heeding the advice of the academics or consultants. Perhaps more importantly, if the industry and government spend time and money pursuing tactics and strategies that do not matter in the real market, they the industry is wasting time and money. More importantly, the industry is wasting resources in not focusing on real challenges that actually enhance value for domestic and international customers.

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