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IMS economics workshop in Paris

The 6th IMS Economics Workshop took place at INAPORC's HQ in Paris from 9 – 11 May, hosted by the four French organisations – INAPORC, IFIP, INTERBEV and IDELE.

The Workshop was oversubscribed but accommodated 60 participants and plenary speakers from the following countries: Argentina, Australia, Belgium, Brazil, Canada, China, Denmark, France, Germany, India, Ireland, Japan, Netherlands, New Zealand, Paraguay, Spain, United Kingdom, the United States and Uruguay.

Delegates were welcomed to the Workshop by Guillaume Roué, President of IMS and President of INAPORC; also by Alexandre Merle, Chairman of the Veal Section of INTERBEV. In the first day's sessions, the participants were split into two groups - Beef and Sheep or Pigs. During the day, there were a total of 37 country presentations which mainly focussed on the latest market situation as well as on issues of importance for their respective industries over the next two years. In addition, there was a special session on the halal meat situation as well as two contributions on international costs of production.

This article provides a brief summary of key points from these first day's presentations.

Greater convergence of beef prices throughout the world

In the Beef and Sheep Group, moderated by Pablo Caputi, Knowledge Manager from INAC, Uruguay, it was notable that beef prices on world markets had not risen in recent months as much as other meat categories; despite this, confidence in beef producers had remained positive mainly due to continued lower feed costs and improved demand especially in some Asian markets.

In view of this it appears that global beef production will be increasing in 2017 - mainly because of strong growth in the US, the world's largest beef producing country as well as in South American countries, notably Brazil and Argentina. The exceptions to this overall trend amongst major producers were Russia and Australia, although in the case of Australia lower production was resulting from herd rebuilding. Another interesting feature of the global situation was the growing convergence of beef prices around the world - Europe no longer having the highest price levels of major producers.

Continued importance of Asia for beef market growth

China is now one of the world's major destination for beef exporters - with 600,000 tonnes being imported in 2016, mainly from South American countries, Brazil and Uruguay being the two largest suppliers. Consumption was currently increasing by over 2% per annum and some further growth was envisaged in official projections. An increasing number of countries have been approved for exporting beef to China in recent years. There is also much



Workshop participants and speakers



Guillaume Roué, IMS President and Erin Borror, Chair, IMS Economics Committee welcome delegates to the workshop

potential for increased beef imports into other parts of Asia; an example of this is Indonesia, which currently has the world's 4th largest human population and by 2030 could have become the 7th biggest global economy. In the short-term, the exporting country with the best prospects for building up beef export business in Indonesia was likely to be India.

Positive developments in the sheep sector

Global sheep prices have risen in recent months partly due to reduced export availability from Australia and New Zealand, the world's two major export supplying countries. However, sheep numbers are increasing again in Australia and a steady growth in lamb exports is forecast to take place from 2018 onwards. New Zealand sheep numbers are stabilising with the longer-term land use switch from beef and sheep into dairying having been halted. The decline in EU sheep production in recent years has been reversed with some small growth in the past two years, although in the longer-term stable levels of production are expected.

Growing importance of Halal meat sector

In the halal meat session, there was recognition of the size and growth of this sector which already supplies over 2 billion people worldwide. Moreover, much of the major growth in meat consumption is occurring in regions where demand for halal meat is strong. These include some Asian countries, parts of Russia, the Middle East and North Africa. In future, Sub-Saharan Africa might also become a fast-growing market. Concerns were expressed about the differing requirements of the many certifying bodies as well as the discrepancy in attitudes towards issues such as reversible stunning. It was indicated that IMS might have a growing role to play on some of the animal welfare challenges.

World pig prices have risen over the past 12 months

The pigmeat session was moderated by Jürgen Preugschas of Canada Pork International. Pig prices in many major producing countries had reached a low in the first quarter of 2016, having been at comparatively depressed levels since 2014 when Russia introduced its African Swine Fever-related restrictions on EU imports and its subsequent ban on food imports from North American and EU countries. Since April 2016, prices had risen and by April 2017 were over 20% higher than a year earlier. As a result, most global pig industries are now in a more profitable situation than for some years, particularly as production costs have generally remained stable.

A major factor causing better prices had been the major growth in import demand from China, which was particularly marked from April 2016. All told, 3.3 million tonnes of pigmeat was imported into China last year, almost 60% more than in the previous year. Although increased imports have continued into the 1st quarter of 2017, import volumes for the year as a whole are not expected to exceed the 2016 record levels. This growth in Chinese imports is not merely due to higher internal demand but also results from reductions in the national pig herd since 2014.

Over 4 million tonnes of EU pigmeat exported in 2016

EU pigmeat exports in 2016 rose by over a fifth and were in excess of 4 million tonnes in 2016 – over half of which were sent to the Chinese market. Although Germany was the major supplier within the EU, Spain has emerged as the 2nd largest European exporter in the past 12 months. There has been greater concentration within the EU pig slaughtering sector with the top four companies together accounting for 25% of EU pig slaughterings.

Of the other major exporting countries, both the US and Brazil are expecting increased production and greater exports in 2017 building on record export volumes in 2016; Canada's production levels, however, have been relatively stable in the past two years, although their exports reached record levels in 2016. Consumption of pork

has increased in several countries over the past year with some notable milestones including the fact that in Japan consumption at retail now exceed fish consumption - and Australian consumers now eat more pork than beef.

Countries addressing important challenges

Delegates spoke about challenges facing the pig industry in their countries; these included the consumer concerns about antibiotic use in feed ingredients; also, a range of animal welfare issues are being raised by lobby groups and sometimes leading to increased costs for complying with new legislation. Declining public trust in the industry is resulting in additional measures taken to improve traceability and authenticity. Finally, the higher costs associated with environmental legislation is an increasing challenge. However, countries are addressing these various issues and it was encouraging to see that global pigmeat consumption is expected to increase further in 2017.

A report on the second day's presentations will be made in a forthcoming issue of the Newsletter. Thanks to our French hosts and the other organizers for an excellent first day as well as evening program, where the participants enjoyed a meal with stunning views from the restaurant on the first floor of the Eiffel Tower.

Bob Bansback
IMS Advisory Council

BSE negligible risk status discussed at recent OIE annual assembly

One of the issues discussed at the November 2016 meeting of the IMS Beef Committee in Punta Del Este was related to efforts seeking a review of the OIE criteria for BSE negligible risk status.

Since that time, I have discussed the matter with beef producer and meat processor organizations and companies in several countries and have encountered a high degree, if not unanimous support for advancing a common objective. I have attended the OIE annual assembly in Paris the week of May 22, 2017 and I am pleased to advise that our collective effort on this matter has produced important progress.

A document reporting on the OIE Scientific Commission meeting in February was tabled at the Assembly. I draw your attention to point 4.5 on page 13 of the report along with Annex 18 on pages 123-127. It is this Annex 18 that proposes changes to the BSE chapter particularly related to the criteria for negligible risk status.

In a nutshell, the Scientific Commission discussed two conceptual options around categorization. Under the first, they express the view that categorization should be based qualitatively on the strength of controls and surveillance while the 11 year criterion should no longer be a determining factor. The second option discusses consolidating the controlled risk and negligible risk categories into a single category.

As this report was considered at the Assembly, several countries made interventions with the consensus being that there is insufficient support to consolidate the controlled and negligible risk categories into a single category, and there is support to revise the BSE chapter. The result is that the Assembly agreed to the creation of a working group to draft a significantly revised BSE chapter. The Canadian delegation stated its desire to take a lead role in the development of the revised chapter.

It would be my hope that we could continue our mutually supportive individual efforts by communicating support to our respective authorities for the work to revise the chapter in a manner consistent with the Scientific Commission's suggestion:

> "that the duration of implementation of an effective feed ban and the time elapsed since the birth of the youngest indigenous case of classical BSE could be qualitatively taken into consideration in the risk assessment. The occurrence of a BSE case younger than 11 years old would therefore not systematically impact the BSE risk status. The distinction between the controlled and the negligible BSE risk status would therefore rely on the outcome of the risk assessment and the surveillance. "

I will be glad to discuss further directly with IMS members if any additional clarification is needed.

Respectfully submitted,
John Masswohl
Chair, IMS Beef Committee

Editor's note: IMS Species Committees (Beef, Veal, Sheep, Pork) meet regularly just prior to the IMS General Assembly (and World Meat Congress). The Beef Committee also meets at other IMS events, including the annual Sustainable Meat and Animal Care Committees which are usually held in the fall at IMS Headquarters in Paris.

Brazil rebuilding confidence and markets following meat scandal

In mid-March this year, the Brazilian meat sector was rocked by a scandal concerning alleged bribery and corruption and the sale of unsanitary and adulterated meat products.

The problems for the sector arose when the Brazilian federal police announced that it was investigating the alleged corruption at a number of major meat processors. The police accused executives from several large meat processors of paying politicians and meat inspectors from Brazil's Ministry of Agriculture to overlook unsanitary conditions and practices in the plants and to allow them to manufacture adulterated meat products.

In an operation named Carne Fraca, a total of 21 meat processors came under investigation. Eighteen of the plants were located in Paraná, two in Goiás and one in Santa Catarina. Three of the plants - one in Goiás and two in Paraná that saw work suspended were run by the processing giant BRF.

The Brazilian government sent in auditing teams into the plants and in all 33 government officials came under investigation. The repercussions for the Brazilian meat industry were immediate, with a number of countries either suspending imports of Brazilian meat or placing enhanced checks on the imports.

In all just over 20 countries, including major destinations such as Chile, South Korea, China, Japan and many Middle East and Caribbean countries, initially either placed a temporary suspension of imports of meat from Brazil or increased import inspection and regulation.

The Brazilian government also withdrew export licences from those companies under investigation until the official audits had been carried out and cleared the operations. And Brazil's largest beef processor, JBS, scaled down operations until the dust had settled.

In 2016, Brazil's total meat exports reached $12.6 billion - about 0.7 per cent of the country's gross domestic product, with China and Hong Kong accounting for about a third of this. Between 19 and 26 March - the week after the first announcement - Brazil exported 18,000 tonnes of beef, which was 41 per cent less than normal.

Brazil is the world's leader in poultry exports responsible for 42 per cent of imports in Japan, 50 per cent in Saudi Arabia, 75 per cent in China, and 53 per cent in the European Union.

Initial reaction to the scandal among market analysts was that it could have a serious effect on the country's economic recovery with Fitch painting a worst case scenario that losses across the entire Brazilian agribusiness chain could reach R4 15 billion ($4.76 billion).

However, Fitch added that it saw the crisis as manageable. "It's a migraine, but a manageable one," the market analysts said.

The police investigation and the announcement of the scandal did have an immediate impact on the share prices of the major meat companies - JBS and Brasil Foods (BRFS) in particular - with Brasil Foods recording an initial 17 per cent drop in share prices before recovering days later.

Brasil Foods implication in the scandal brought a stern response from the company in the immediate aftermath of the announcement. A statement from the company said: "BRF does not stand for illicit practices and categorically refutes any insinuation to the contrary.

"If any act inconsistent with current legislation and regulations is verified, the Company will take the necessary measures and with the necessary rigour. BRF does not tolerate any deviation from its transparency manual and Brazilian legislation and regulations and the countries in which it operates.

"At no time did BRF market rotten meat and has never accused of it. The references to non-specific products, within the scope of the Operation, concern other companies, as can be proven in the material disclosed by the Federal Police."

JBS made 10 of its plants idle as the bribery allegations hit meat sales in Brazil and only resumed production towards the end of April and the beginning of May after the company had carried out refurbishments and replaced some equipment to adjust and improve production.

In May, it was reported that JBS had suspended production at 33 of its 36 plants amid growing allegations of corruption within the meat sector with repercussions going right up to the top of government as well as the industry. While production was again expected to restart by the beginning of June, the investigations are continuing and reports in Reuters indicate that fines could reach several billions of dollars.

Despite the initial impact on the meat sector as a whole, recovery appeared to be swift, thanks to quick action to stabilise the situation by the government. Prices in fact were little affected. Pork and poultry prices actually rose by one per cent in the week following the start of the crisis and beef prices were stable.

The Brazilian government stressed that the food safety inspection tests in place in the country had generally been working well and that only a small number of plants and workers were involved.

The Brazilian president Michel Temer immediately held emergency talks to issue reassurances over the safety of Brazil's meat products. He said that 99 per cent of the meat processors were doing things correctly. The actions he put in place included accelerating the auditing process of the plants under investigation, issuing reassurances to foreign trade partners and strengthening the relationship between the agriculture ministry and the police.

Mr Temer said: "Map (Ministry of Agriculture) has a strict inspection service of animal products. "This standard of excellence opened the doors of more than 150 countries, with permanent audits, monitoring and risk assessment. In addition, when they arrive at their destinations, the products are also subject to local inspection."

"In 2016 alone, 853,000 consignments of animal products from Brazil were shipped abroad and only 184 were considered by the importers to be out of compliance, often because of non-sanitary issues such as labelling and certification."

The Brazilian Beef Exporters Association (ABIEC - Associação Brasileira das Indústrias Exportadoras de Carne) said that none of its 29 member-companies' beef plants had been named in the scandal involving meat packing plants and Federal Veterinary Inspectors in the sale of adulterated foodstuffs.

The association added: "ABIEC's members follow the strictest domestic and international rules and standards for beef, whether intended for the domestic market or for the more than 133 countries to which we export. Brazil is the world's largest beef exporter and is recognized for the quality and health status of its product, which is inspected by the Brazil's competent authorities as well as the Sanitary Authorities of those countries that import Brazilian beef.

"ABIEC emphasises that the cases recently made public in Operation Carne Fraca are isolated incidents that do not represent Brazil's enormous beef production chain."

As the results of the audits on the plants that had been implicated started to appear and the improved sanitary checks in the sector took effect, the restrictions placed on Brazilian meat exports started to be eased.

The audits have shown that of the 302 sampled examined around 10 per cent that showed discrepancies were due to technical issues such as wrong formulation, while 2.6 per cent were found to have problems with contamination such as salmonella.

Plants under investigation were closed during the audits and the government has introduced upgraded sanitary measures and regulations and enhanced fines for breeches of the rules.

The government has now launched a charm offensive around the world with major trading partners to boost confidence in Brazilian meat products.

At the end of April, Odilson Ribeiro e Silva, secretary of International Relations of Agribusiness at the Ministry of Agriculture, Livestock and Supply met with representatives of the embassies of Jamaica, Haiti, Trinidad and Tobago, Guyana, Suriname and Barbados and trade restrictions in the Caribbean were expected to be lifted by the end of May. Last year, the Caribbean countries imported $49 million worth of beef and poultry products from Brazil and in the first quarter of this year those imports had reached $12 million.

May also saw a large mission from the EU visiting Brazilian beef and poultry plants to inspect their processes and safety practices.

Brazil's agriculture minister Blairo Maggi organised a trade mission to the UAE and Saudi Arabia to reassure the countries of the safety of Brazil's meat products, where exports were worth $1.3 billion to Saudi Arabia and $578 million to the UAE. The two countries had imposed a partial ban on Brazilian products, with an embargo on exports from plants implicated in the investigation.

A mission has also been planned for China, where Blairo Maggi said it was important to have transparency.

From January to March, Brazil has already exported to the global market $3.7 billion of all meat, compared to $3.2 billion in the same period of 2016.

Chris Harris
Agriculture and Food Journalist

What will the Nafta of the future look like for U.S. Meat?

When it comes to its most important trade deal, the U.S. meat industry continues to look for signs of consistency from the president.

During last year's American presidential campaign, candidate Donald Trump made plain his disappointment with the North American Free Trade Agreement, or Nafta as it's generally called. "Nafta is the worst deal, one of the worst deals our country has ever made, from an economic standpoint … one of the worst deals, ever," he said at a campaign stop back in May 2016.

The next month he called the agreement "a disaster for our country." In August he said, "I see the carnage that Nafta has caused, I see the carnage. It's been horrible." In October, with typical Trumpian hyperbole, he called it "perhaps the greatest disaster trade deal in the history of the world." Later in October he put Nafta in the category of "the most incompetent deals ever made." Throughout the campaign, Trump was often criticized for inconsistent statements and proposals, but on Nafta he was remarkably consistent over the course of the long campaign. It is, he said again and again, "a disaster."

Such descriptions worried the U.S. meat industry, which has, in general, been just as consistent in its support of Nafta, dating back to the agreement's antecedent, the 1988 Canada-U.S. Free Trade Agreement. On the occasion of Nafta's 20th anniversary, in 2014, Phil Seng, president and CEO of the U.S. Meat Export Federation, writing in *National Hog Farmer* magazine, stated:

"If there is one important lesson for us to take away from the Nafta experience, it is the benefit the domestic pork industry (as well as other industries) receive from our enhanced ability to export products to the broadest possible range of international markets. Agriculture is one of the few areas of the U.S. economy that has a positive balance of trade – a US$37 billion surplus in FY 2013 – and it supports nearly 1.2 million American jobs. Expanding our ability to export through free trade agreements has a very direct, beneficial impact on the U.S. economy."

Renegotiating

President Trump has taken a somewhat different view of Nafta than Candidate Trump, however. Last April, following conversations with President Enrique Peña Nieto of Mexico and Prime Minister Justin Trudeau of Canada, Trump announced he would renegotiate Nafta rather than scrap the agreement. "I decided rather than terminating Nafta, which would be a pretty big, you know, shock to the system, we will renegotiate," he told reporters on April 27. "We're going to give renegotiation a good, strong shot."

But what would a renegotiated Nafta look like? There's a strong possibility that, from the perspective of the

American meat industry, the differences would be minor — maybe. Carla Hills, who was the U.S. Trade Representative when Nafta was negotiated in the late 1980s and early 1990s (sidebar: As a candidate, Trump frequently blamed the Clintons for the "disaster" of Nafta, but in fact the agreement was negotiated by the George H.W. Bush Administration, which was Republican, and was signed by President Bush in 1992; it took effect in 1994, when Bill Clinton, a Democrat, was president), recently said that while parts of Nafta should be reviewed and updated, not everything in the agreement should be rebuilt from scratch. "When you look back at what the NAFTA actually did, it eliminated tariffs on all industrial products. We want to keep that," she commented on the public radio program "Marketplace" at the end of May.

Where she'd like to see some additions made is in the area of intellectual property, which has grown enormously since Nafta was originally negotiated. "You know, we negotiated the terms of the Nafta in the early '90s. You didn't have a cell phone. I didn't have a cell phone. We didn't talk about digital trade flows," she said. "I think we need to deal with those issues and make it even stronger." She added: "North America has become one of the most competitive regions in the world, and we wouldn't be there by moving individually. We benefit from the supply chains that have linked our economies, and we want to keep that going."

Don't "Jeopardize the Success"

Meanwhile, the National Cattlemen's Beef Association and its cattle-industry partners in Mexico and Canada sent a joint letter to Trump, Nieto, and Trudeau, urging them, if Nafta is renegotiated, not to "jeopardize the success we have all enjoyed as partners of the North American Free Trade Agreement."

The letter emphasizes: "Recent statements about the possible dissolution of Nafta or potential renegotiation of Nafta are deeply concerning to us because of the unnecessary risk it places on our producers. While there may be general agreement among the countries to improve some parts of the Nafta trade framework, we urge you to recognize that the terms of the agreement affecting cattle producers are strongly supported as they currently exist and should not be altered."

The polite diplomatic language of joint letters aside, the U.S. beef industry has real reasons to be worried if Carla Hills proves wrong about leaving the good parts of Nafta alone and the agreement is renegotiated to penalize Canada and Mexico for the benefit of the United States. Mexico is the single biggest foreign customer for U.S. beef, and Canada is fourth on the list. Moreover, since 1993, overall U.S. beef exports have increased 78 per cent by volume, thanks in large part to those two countries. In 2016, U.S. beef production increased for the third straight year, putting pressure on companies to export what can't be sold domestically.

"Americans are not going to eat more beef at the same price," Kent Bacus, director of international trade and market access at the National Cattlemen's Beef Association, told Bloomberg News back in February. "If there's a surplus, we have to move that product to other countries, and to sustain the expansion, we need to expand export markets."

Pork shares the same boat. "Canada and Mexico are top pork export markets. We absolutely must not have any disruptions in exports to our No. 2 (Mexico) and No. 4 (Canada) markets," said National Pork Producers Council president Ken Maschhoff, a pork producer from Carlyle, Illinois, as reported by AgDaily.

The Industry's Trump Card?

The industry will have an opportunity to make its Nafta case soon. On June 27, the Office of the U.S. Trade Representative will hold a hearing in Washington, D.C., to gather comments on objectives for renegotiating Nafta.

Ultimately, the U.S. meat industry's best trump card, as it were, in the trade-agreement card game might not be the value and importance of exports but jobs, a favorite hobby horse for the U.S. president. According to the U.S. Department of Agriculture, "every $1 billion of U.S. agricultural exports in 2015 required approximately 8,000 American jobs throughout the economy," stated Barry Carpenter, president and CEO of the North American Meat Institute, back in January.

"Agricultural exports in 2015 required 1,067,000 full-time civilian jobs, which included 751,000 jobs in the nonfarm sector. U.S. beef consumed in Japan can generate jobs and taxes that funds schools, roads and police and fire departments in towns like Garden City, Kansas, and Schuyler, Nebraska; lost trade opportunities abroad can mean lost jobs at home."

Steve Bjerklie, Contributing Editor, *Meat & Poultry* Magazine; correspondent, *The Economist*