International Meat Secretariat
www.meat-ims.org | 580 | July | 2017

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The importance of having strong supply chains

One of several subjects covered in the second morning of the IMS Economics Workshop

The second morning of the IMS Paris Workshop in May focussed on supply chains, consumer issues and the animal health and structural issues affecting world meat trade. There were five presentations during the morning from:

- Justin Sherrard - Global Strategist on Animal Protein for Rabobank International, Utrecht, Netherlands
- Christine Roguet - Agro-economist and Project Manager for IFIP - Institut du Porc, Rennes, France
- Jean-Luc Angot - Chief of the French Official Veterinarian Profession, Ministry of Agriculture, Agri-food and Rural Areas, Paris
- Knud Buhl - Director, Brussels Office, Danish Agricultural Council
- Marcia Dutra de Barcellos - Associate Professor at the Federal University of Rio Grande do Sul, Porte Alegre, Brazil

Moderators for the sessions were: Phil Seng, President, US Meat Export Federation and Ted Haney, President, Ranch 4 International, Canada

Increasing Consumer and Societal Challenges

There was widespread recognition of growing consumer challenges for the meat industry in a variety of areas, ranging from animal welfare concerns through to environmental, dietary and food safety and provenance challenges. In addition to this, the global political climate was becoming more complex, with 'establishment' conventions under threat and much of the perceived wisdom on subjects such as free trade, globalisation and protectionism facing significant challenge.

Currency fluctuations were generally greater than before with associated marked changes in the competitive position of exporting countries. The digital revolution was providing opportunities for improving efficiency levels - but also posing a greater potential for disruption. On-line sales were the biggest growth area for the retail sector but this made for challenges to their conventional outlets. Food service companies were facing a baffling multiplicity of convenience channels with a growing 'snacking culture' - particularly in North America.

Essential Qualities of Robust Supply Chains

With all these forces increasing the complexity of running meat businesses, there were two important strategic actions facing meat companies seeking to maintain and grow profitable businesses. Firstly, there was a need to distinguish between changes which were genuine trends from those issues which were temporary distractions.

Having identified these, it was then important for businesses to plan their responses to the important permanent trends which were confronting the industry. Secondly, it was vital to strengthen meat supply chains in order to cope more effectively with these challenges. Key features of a robust supply chain were:

1. a ***growing flexibility*** within the chain to deal with the increasing pace of change in the external environment.
2. an ***increasing resilience*** from all parts of the chain to be able to cope with potential shocks and crises.

3. a ***satisfactory alignment*** along the chain which ensured that investments, incentives and rewards were shared by all those involved.

Socio-Economic Research Contributing to Effective Industry Communication with Consumers

There was an increasing interest from urban consumers in the livestock production element of our meat supply chains. Their questions included: Under what conditions are animals produced? What are they being fed on? What supplements are given to enhance growth or prevent disease? Why are large-scale and intensive livestock systems increasingly dominant? Vociferous lobby groups had also been putting in challenges, which invariably exceeded the concerns of the average consumer. The industry, Governments and retailers have all been put under increasing pressure from these issues.

In Western Europe in particular, the situation has led to greater regulation and higher cost structures for some livestock sectors. The result of this has been a halt (or even a decline) in the growth in production – an example quoted was the German pig industry which had been stable since 2010 after successive years of steady growth.

The workshop looked at the various steps taken to engage with consumers and other stakeholders on the range of livestock farming issues – and ways in which socio-economic research could aid this process. It was important to communicate effectively with consumers and respond responsibly to their demands. There were instances where the industry needed to raise basic production standards at the same time as providing minority consumers with additional enhancements; in this context, effective labelling and objective quality assurance was vital.

Seventy-five Percent of Emerging Human Diseases are Zoonotic

Turning to animal health and disease control, it was noted that at present a total of 21 billion animals were produced to help feed a global population of over 7 billion; good animal health was therefore a key component of food security and food safety. This was particularly essential for some countries in parts of Africa and Asia where over a billion poor farmers survive thanks to the role that livestock plays in their local economy. It was concerning that a fifth of animal production worldwide was impacted by diseases of some sort.

Economists should be aware that good animal health was therefore vital to the future health and wellbeing of the world community. The other important issue was the growing importance of zoonotic diseases. Currently 60% of current human pathogens are zoonoses – with the figure for emerging animal diseases rising to 75%.

Of specific concern on the animal disease front has been the spreading outbreak of African Swine Fever (ASF) into European countries and the Workshop was given an up-to date report on the latest situation. The latest outbreak had started in Georgia and then spread to Russia and surrounding countries. It first entered the EU (Lithuania) in 2014 and since then had been found in Latvia, Estonia and Poland.

As a result of this, Russia banned imports of EU pigmeat from January 2014 with major repercussions for the EU pig sector. At present the disease was not spreading as ASF could be controlled relatively easily through classical measures and good biosecurity; there are, however, concerns resulting from the epidemiological reservoir of the virus in the wild boar population.

Brazilian Beef Exports Forecast to Rise Significantly over the Next Ten Years

In turning to future world production and export availability, South American countries have a key role to play in the future of global meat supplies, particularly for beef. Already, 2016 figures show that South America accounted for over a quarter of all meat exports with climatic and natural resource factors suggesting that this figure will grow steadily in the medium to longer-term. In a recent report on the beef situation from Rabobank, it was stated that 'South America is the only major beef-producing region expected to exhibit strong new growth.'

The report went on to suggest that although Argentina and Uruguay were likely to be increasing their export volumes, Brazil would be the major player. Despite the current problems in the Brazilian industry and continued concerns on the need for infrastructure improvements, current estimates from ABIEC (the Brazilian Beef Exporters Association) suggest that Brazilian beef production could rise by 20% over the next 10 years without the need for greater land use. Beef exports could increase at an even faster rate. Better productivity through higher stocking rates and increased carcase weights would be the main contributory factors.

The final report on the Workshop will be made in a forthcoming issue of the Newsletter.

Bob Bansback
IMS Advisory Council

OIE adopts new animal welfare strategy

The World Organisation for Animal Health (OIE) held its General Session of the World Assembly of OIE Delegates in Paris (21-26 May 2017). An important outcome was the decision by country members to adopt the first **OIE Global Animal Welfare Strategy** .

This strategy was first endorsed during the 4th Global Conference on Animal Welfare (held in December 2016 in Guadalaraja, Mexico). It aims to achieve "a world where the welfare of animal is respected, promoted and advanced, in ways that complement the development of animal health, human well-being, socio-economic development and environment sustainability".

The Global Animal Strategy is based on four pillars:

1. Development of animal welfare standards.

   OIE animal welfare standards will continue to be developed and updated with the input from international experts, based on relevant scientific research and taking into account associated ethical considerations and practical experience. Additional work is currently in progress on standards for pig production systems and also the slaughter and killing of farmed reptiles used for their skin and meat.

2. Enhancement of capacity building and training of veterinary services.

   Veterinary services, including public and private sector veterinarians, need to have appropriate new capacities beyond classical health and diseases.

3. Communication with governments, national and international organisations and the public to raise awareness on issues related to animal welfare.

   Ensuring the welfare of animals is a responsibility to be shared among numerous stakeholders. Mutual recognition and constructive engagement among parties are necessary to achieve sustained improvements to animal welfare. Members countries are encouraged to support the development of national programs for raising awareness of animal welfare and educating key players, particularly livestock owners, animal handlers, religious and community leaders and any other key groups, such as school students.

4. Progressive implementation of OIE standards on animal welfare and their corresponding policies. In this respect, members countries are urged to integrate OIE standards into their national legislations (included in the Section 7 of the Terrestrial and Aquatic Codes).

A new forum to include all stakeholders

This will provide a platform which will bring together members of the animal welfare research community, the global animal welfare movement (including NGO's) and the global animal-source food sector to:

- discuss animal welfare policies, issues and activities at global level;
- identify sources of expertise, educational programs and other animal welfare related activities;
- provide overall guidance in supporting communication and advocacy activities related to animal welfare;
- identify areas for the development of additional animal welfare standards; and
- influence and support the implementation of animal welfare standards.

The dissolution of the Animal Welfare Working Group (AWWG)

The OIE Animal Welfare Working Group (AWWG), which was established in 2002, provided significant advice to the OIE Director General and to its Specialist Commissions, in particular, through the development and updating of relevant chapters in the Terrestrial Code. This working group was made up of organisations with which the OIE has cooperative agreements, including the IMS.

The OIE Council considers that the AWWG has achieved its objectives and that the standards setting work in animal welfare is now well integrated into the work of the OIE. Therefore, the mandate for the Working Group will not be renewed. The new forum (described previously) will continue to provide the opportunity for

ongoing engagement with the different organisations from the industry and the NGO sector in the development and review of animal welfare standards.

Cooperation with ISO

An example of the ongoing engagement is the official launch of the new ISO Technical Specification (TS) on Animal welfare **ISO/TS 34700:2016**. It is based on OIE principles, as expressed in the OIE CODE (Chapter 7), and therefore does not yet include species for which specific chapters are currently under development (such as pigs).

As has been reported in previous newsletters, (506 Dec. 2012, 526 Nov. 2013, 562 Jan 2016, 564 March 2016 and 573 Dec 2017), the IMS provided important input as part of the working group that developed this ISO technical specification on animal welfare management. This working group brought together more than 130 experts from all regions of the world, and included a broad range of stakeholders (private sectors, competent authorities, NGOs). An important question is how this technical specification will be updated to reflect the eventual adoption of new OIE species chapters for animal welfare.

Jacques Servière
IMS Scientific Advisor

Rise and rise of Indian beef exports

India, already the largest beef exporter in the world, looks set to see its beef trade boom, despite internal religious pressure and a crackdown on some illegal slaughterhouses.

This year, beef and buffalo beef production is expected to rise by four per cent to 4.35 million tonnes and the country's exports of buffalo beef are expected to reach 1.95 million tonnes.

Last year, the value of India's beef exports hit Rs263 billion (around $4 billion) and beef has overtaken rice as the country's main agricultural export. India, which is vying with Brazil as the biggest beef exporter, has about 20 per cent of the total world trade in beef.

According to the USDA, the rise in exports is being driven by demand from the Middle East, Africa and South-East Asia, with Viet Nam the major destination, particularly for buffalo beef. The bulk of India's beef exports are to Asian countries with 11 of the top 15 destinations in Asia.

After Viet Nam, the next largest destination for Indian beef is Malaysia, where exports last year were worth Rs26 billion or $400 million just over 135,000 tonnes or nine per cent of the total. Exports to Egypt are similar to those to Malaysia. In all India exports beef to around 70 different countries.

Because of the presence of foot and mouth disease in the country, there has been one market that has been closed to India – China. Despite this market officially being closed because no health status agreements existed, it has long been believed that illicit exports of Indian beef were making their way into China through Viet Nam.

Trade with Viet Nam accounted for just under half of the beef exports with more than 605,000 tonnes worth Rs131 billion or $2 billion, according to figures from India's Agricultural and Processed Food Products Export Development Authority (APEDA) and reports in the India Express say that Chinese traders are using Viet Nam's port of Haiphong to bring in consignments of buffalo beef loaded on small vessels.

However, in 2015 a visit to China by the Indian prime minister Narendra Modi helped to pave the way to open the Chinese market to Indian beef. Following a Chinese government delegation of inspectors sent to visit India's abattoirs, in January this year China was reported to have finally allowed imports of Indian beef.

With the opening of the Chinese border to Indian buffalo beef exports to Viet Nam are expected to fall slightly this year, although the USDA reports that to date there has been no official confirmation of approval of any Indian abattoirs by the Chinese inspectors.

The concerns over foot and mouth disease have been reduced through control programmes that have been endorsed by the World Organization for Animal Health (OIE) that are implemented across 351 districts, 13 states and six union territories and no major outbreaks have been reported recently.

The Indian beef and buffalo beef trade has also recently received a further boost as the market with Indonesia opened up and this has helped to offset a slight fall in trade with other markets, particularly in the Middle East.

There are now also prospects for India to grow export markets for its beef in Russia – at present 15th on the list of export destinations - and Mr Modi was

visiting St Petersburg at the beginning of June to hold talks over a potential free trade agreement under the Eurasian Economic Union (EAEU).

Both Russia and India have accepted a report prepared by the Joint Feasibility Study Group on India-EAEU FTA and the formal negotiations are expected to begin by July.

EAEU comprises Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan. India's FTA with EAEU is expected to open up a market with a trade potential of $37-62 billion. The current trade between India and the five Eurasian countries is $11 billion.

The buffalo beef that is exported is largely as frozen boneless cuts that either goes to the wet markets or to further processing or canning. There is only a small trade in chilled beef.

As buffalo cattle are a major source of milk for the dairy sector in India, accounting for 50 per cent of production, the buffalo beef tends to come from the spent dairy cows and as a by-product of dairy production. The USDA reports that spent dairy cows can fetch between Rs150-160 per kg and young bulls Rs130-140 per kg and prices have been rising by between eight and 10 per cent year on year.

Towards the end of last year, the beef trade within the country was hit temporarily by the government's decision to withdraw Rs500 and Rs1000 notes from circulation in a demonetisation policy. The policy was intended to crack down on and prevent fraud, counterfeiting and illegal transactions, but it also meant that funds were depleted hindering cash transactions. The beef export trade was most affected in December last year, but has since bounced back.

The Indian beef sector relies on the export market because domestic consumption is low at about 2kg per person, although buffalo beef is the second most consumed meat after chicken, because it is affordable. Consumption of chicken meat is around 3.6kg per person. Consumption is growing, however, because of the growth in population and is expected to hit a total of 2.4 million tonnes this year compared to 2.35 million last year.

Domestic consumption and exports have also been affected over the last year by the religious rows surrounding the slaughter of cattle, with concerns about cow slaughter as the cow is considered sacred in the Hindu religion, and also because of the closure of illegal slaughterhouses. The main region to be hit was the state of Uttar Pradesh, which is the largest producer of buffalo beef. Exporters reported that Rs40 billion (nearly $620 million) worth of export orders were lost as the Yogi Adityanath government closed 17 of the 41 meat processing and export plants in a clampdown on illegal trading. As Uttar Pradesh is one of the largest exporting states in the country, there were concerns in the sector that trade would be permanently damaged.

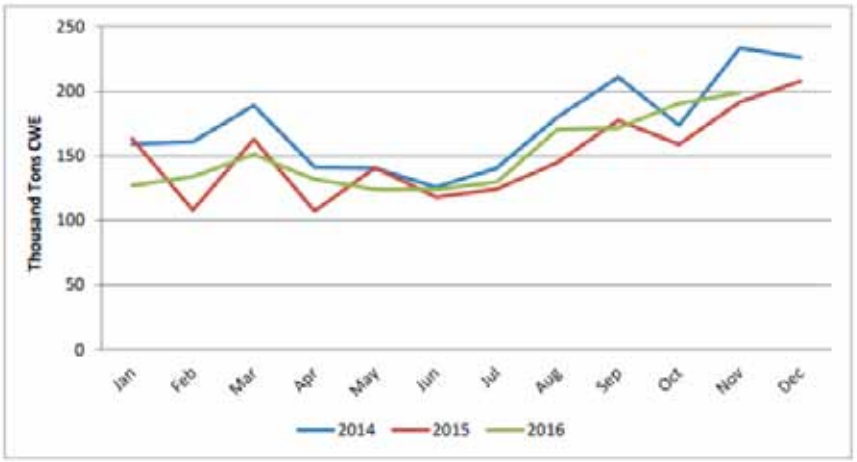
The action by the government also coincided with religious campaigners – self-styled cow protection gangs - protesting over cow slaughter, preventing animals being transported to slaughter, which led to the cancellation of orders and a lay-off of around 30,000 workers.

The religious protests that were tinged with violence, have led to threats to personalities and officials, with one Bollywood star, Kajol, even having to issue a message of explanation over a video of her at a meal where buffalo meat was on the table, spelling out that it was not cow meat but legally available buffalo meat.

Despite the protests and crackdown in the state, the picture for buffalo beef exports is expected to improve as the issues are resolved. The chairman of Apeda, Mr R. Singh reported in May that while the demonetisation policy and the crackdown on illegal slaughterhouses in Uttar Pradesh impacted shipments to an extent, "we expect buffalo meat exports to revive".

Chris Harris
Agriculture and Food Journalist

Indian Buffalo Beef Exports



Source: Global Trade Atlas/USDA FAS

What the resumption of beef trade with China means for U.S. meat

Will this be another good news/bad news scenario, or is the news all good?

After a 14-year suspension dating back to the end of 2003, exports of U.S. beef to China have resumed. China accepted its first shipment of American beef, from Tyson Foods, on June 19. As reported by CNBC, the Tyson shipment, bought by Cofco Meat Holdings, will be sold on Cofco's e-commerce platform Womai.com, according to China National Radio.

The occasion was marked by U.S. Agriculture Secretary Sonny Perdue and U.S. Ambassador to China Terry Branstad in Beijing. “Beef is a big deal in China and I'm convinced that when the Chinese people get a taste of U.S. beef, they're going to want more of it,” said Perdue, as reported by Farm Futures. “This is also a good harbinger of the kind of relationship that can be developed. We hope there are other things we can cooperate on and we're going to use U.S. beef as the forerunner.”

When China instituted the ban at the beginning of 2004, following the discovery of bovine spongiform encephalopathy, or BSE, in a U.S. beef animal, the U.S. had supplied up to 70 per cent of the beef China imported. However, due to some requirements and restrictions in the new beef trade agreement, it may take a while to reach pre-2003 levels again.

Sticking Points

As John Nalivka of Sterling Marketing pointed out in a recent article in *Drover’s Journal*, a couple of sticking points may make the path of beef exports to China a little bumpier than in the past. One of those points, writes Nalivka, is “is China’s requirement for source and age verification for U.S. beef, a food safety concern and ultimately their reason for stopping importing U.S. beef in 2004 following BSE. The U.S. does not have a mandatory cattle ID program, and furthermore, I don’t think we will in the near future. So, China will have to accept our voluntary system and they probably will. The number is somewhat fluid, but a couple of years ago I estimated about 15 per cent of U.S. cattle were age and source verified.”

Nalivka also notes that China may also may demand hormone-free and/or GMO-free beef. “Non-GMO has been a major consideration for other agricultural product shipments to China. While GMOs are not directly specific to beef, the issue concerns feed. We can meet either or both stipulations,” he writes.

“I do not know what the final trade agreement will say concerning hormone-free or GMO-free, but the potential supply of beef for that specific market is significantly reduced. USDA has not revised their country list of Export Requirements to again include beef for China but I expect that to coincide with release of the final proposed rules.”

As reported by *Meat+Poultry* from USDA sources, the full set of requirements for export of U.S. beef to China include:

- Beef and beef products must be derived from cattle that were born, raised and slaughtered in the US, cattle that were imported from Canada or Mexico and subsequently raised and slaughtered in the US, or cattle that were imported from Canada or Mexico for direct slaughter;
- Cattle must be traceable to the US birth farm using a unique identifier, or if imported to the first place of residence or port of entry;
- Beef and beef products must be derived from cattle less than 30 months of age;
- Chilled or frozen bone-in and deboned beef products are eligible for shipment; and
- Carcasses, beef and beef products must be uniquely identified and controlled up until the time of shipment.

"Excited to Supply"

Another U.S. company jumping on restored China beef trade is Iowa Premium, based in Tama, Iowa. The company "maintains strict cattle procurement guidelines. Cattle are sourced only from family farmer-feeders in Iowa and neighboring Midwest states. All cattle are under 30 months of age and have been born, raised and finished in the United States," reports *Meat+Poultry*.

"We are excited to supply Chinese consumers with consistent, high-quality, family farm-raised, Black Angus beef products," Jeffrey Johnson, CEO of Iowa Premium, told the magazine. "Iowa Premium believes China will be an excellent export partner and we look forward to building a long sustainable relationship. Our beef is in demand, and we have had an extraordinary amount of inquiries from interested Chinese import companies."

Beef trade with China could be lucrative for U.S. exporters. According to Fortune magazine, beef is the fastest-growing meat category in China, "outstripping stagnant demand for more widely eaten pork, with consumers seeking healthier sources of protein and adopting Western eating habits." Fortune notes that those "Western eating habits" come at a price for Chinese consumers, especially for beef. One Chinese shopper at a Sam's Club (Walmart) store in Beijing plunked down 211 yuan, or approximately US$31.13, for a package of U.S. steak. "This looks tasty, worth a try," she told *Fortune*'s reporter.

Tremendous Potential

John Nalivka believes that in terms of products and cuts, "China's demand for U.S. beef would probably mirror many of the items shipped to other Asian countries. These include some primal beef cuts for retail as well as food service," he writes in Drover's Journal. "Also, there will demand for selected variety meats. So, at this time it is somewhat difficult to address specifically the impact, but generally, additional export business does and will further support wholesale beef prices."

"China has tremendous potential for this industry, but it's a long-term project," Derrell Peel, an economist at Oklahoma State University, told AgWeb. "We've got access and now we know the details. There are some restrictions in the short run that really limit the available supply. More importantly, now the market can start to work. Over time we'll figure out what the restrictions are for specific products and those relations will develop. Right now, it's going to cost more to get ready for this market and to get qualified, relative to the value of the products we are sending over there. But there is tremendous opportunity to grow this market. It just doesn't happen immediately."

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

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Symposium: Future Industrial Meat Production, 18-19 September 2017
More information: click here
https://www.dti.dk/specialists/k33039

Regional Marketing Workshop, 6 October 2017
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