International Meat Secretariat
www.meat-ims.org | 647 | February 2023

CONTENTS

- IMS Economic Workshop: Europe, Sub-Saharan Africa
- U.S. Pork in 2023: Optimism and Pessimism
- Save the dates, IMS meetings in 2023

I.M.S.
5 rue Lespagnol
75020 Paris
FRANCE
Tel:
33 (0)1 44 93 60 20
Fax:
33 (0)1 44 93 60 01

Editor: Hsin Huang
© I.M.S. All rights reserved

No part of this publication may be reproduced in any form or by any means without the prior permission of I.M.S.

www.meat-ims.org

IMS Economic Workshop: Europe, Sub-Saharan Africa

After the twenty-two country reports on the first day of the Workshop, the second day was devoted to some more in-depth analyses on specific subjects.

The two areas reported here are:

- The medium-term situation for the European meat industry, which included contributions from a number of delegates.
- The current meat situation in Sub-Saharan Africa (SSA) which opened with a presentation from Jean-Pierre Garnier, formerly Head of Exports at AHDB and now an independent analyst based in France

Medium -Term Challenges for the European Meat Industry

The medium-term developments for the meat situation in Europe need to be seen against the context of some of the **current** issues being faced by the industry which were covered on Day One of the Workshop. In summary these included:

- The fact that European countries have been disproportionately affected by the Russian war with Ukraine with its impact on energy costs, feed prices and labour shortages which have had a major impact on the profitability of production - particularly for the intensive meat sectors.
- The generally poor 2022 harvest mainly linked to the drought situation experienced in many parts of Europe.
- The continuing impact of the gradual spread of African Swine Fever (ASF) west into Europe and the consequential major trade implications particularly for Germany. This might have been partly mitigated if the import volumes of pork into China in 2022 had been close to the very high 2020-2021 volumes; in reality, Chinese pork imports in 2022 were, however, at less than half the levels of 2021 and there was a resulting excess of production in the EU market with resulting low prices lasting into the third quarter of 2022. The loss-making situation for many producers has resulted in a significant downsizing of the European pig herd.
- The impact of Highly Pathogenic Avian Influenza (HPAI) increased during 2022 resulting in EU production and exports of poultrymeat declining.
- Although the higher costs of production also affected beef and sheep producers, the impact on their profitability was less severe due to relatively high price levels throughout much of 2022.

Turning to the medium term outlook there were a number of underlying challenges facing the EU meat production sectors in the current decade:

- **Societal Environmental and Climate Change Issues** - these mainly affect the more intensive livestock sectors. They include water and air pollution due to excessive use and accumulation of nitrates, ammonium, and phosphates. Other issues have included odour, noise and pharmaceutical residues. The image of bioscience in general has not been positive in some Northern European countries with continued negative reactions to GMOs. The European livestock industry is also under pressure to meet EU net-Zero targets by 2050.
- **The EU Farm to Fork Strategy** - political reaction to these societal pressures resulted in the EU Commission with the support of the European Council addressing some of these issues with its Farm to Fork (F2F) strategy as part of the EU Green Deal policy. Some of these proposals would have major cost implications for EU livestock producers. Non-EU countries also have concerns about the intention of the F2F policy potentially requiring countries exporting to the EU to comply with these environmental standards.
- **Animal Welfare Concerns** - this used to be the preserve of north European countries but is now more prevalent

throughout the EU. The pressure for change comes from society at large but also from some highly effective NGOs on issues such as gestation crates, livestock densities, animal transport, castration, tail docking and teeth clipping. The likely changes will also add to EU costs of production in a variety of ways.

- **Anti-microbial Resistance** – this is seen as an increasing threat to public and animal health. Although there has been a significant reduction in the use of antibiotics in European livestock, there is pressure to go further. For the most part, however, the industry is finding ways to comply which are not significantly adding to cost.

Finally, the EU has an increasing problem of farm succession – with an ageing labour force and younger members of farming families being more reluctant to return to the family farm adding to the growing labour shortages and rising costs. Even in France, a farming career in livestock production is reported to be not as attractive to younger people as it has been for previous generations. Some EU countries' industries have been finding creative solutions to this problem - for example the 'industrialization' structure to family farming in the Danish pig sector.

Reduction in European Beef and Pork Production Likely over next Decade

In summary, the outlook for European animal numbers and meat production over the next 10 years is for a decline for both beef and pork; although there is projected to be an increase in poultrymeat production, even here the industry has experienced a reduction in confidence with the growing impact of HPAI in recent months. In overall terms, though, it is clear that with the increasing cost pressures on EU producers, it will be more difficult for European exporters to be competitive on global markets.

EU Consumers Responding to Health-Related Concerns but Cost of Living Issues will be more Influential

Turning to demand factors, EU meat consumption is also forecast to decline in the medium-term with growing demand-side pressures. Consumers are increasingly influenced by some of the health messages coming from international organisations, lobby groups and anti-meat bodies. They are also reacting to the sustainability issues of meat and livestock production. However, of greater importance are the cost of living issues which are likely to remain key factors in the foreseeable future.

The EU has had lower economic growth than other countries and the greater austerity likely to occur in the next few years following the impact of Covid-19, the higher energy costs and the generally higher inflation will inevitably impact on meat demand. The process of downward pressure on meat demand starts with the impact of lower disposable incomes leading to 'downtrading' in meat and cuts. This in turn leads to reduced meat content in dishes – and eventually an overall decline in meat volume.

European Meat Industry Decline only very Gradual

However, ***these negative trends need to be put in perspective***. The latest projections from OECD/FAO suggest that the declines in both EU meat production and consumption are likely to be less than 0.5% per annum up to 2031. Moreover, the EU is still projected to be 113% self-sufficient in meat by 2031 and remain with a net export balance of around five million tonnes. Added to this, it needs to be remembered that the average level of meat consumption per head in the EU is more than double the world average; it is also around average consumption levels in the developed economies of the world.

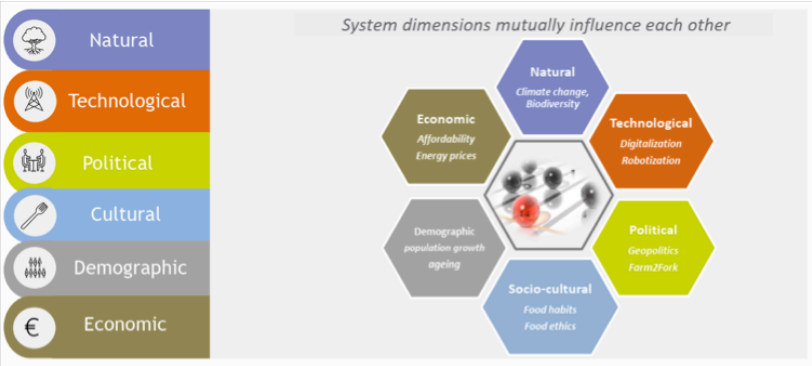
Positive Opportunities from New Technology

The world is changing at great speed in a number of ways and the Workshop heard how European meat producers and processors need to look in more depth at some of the **positive** opportunities from some of the current trends and developments; these include not just economic factors but also natural, technological, political, cultural and demographic influencers. Examples include the fact that sensors are getting smaller, faster, cheaper, and more accurate; there are big advances in the combination of big data with vision and DNA technology as well as developments such as Self Sovereign Identification (SSI) and Blockchain.

Big data could be obtained from a range of equipment for the purposes of analysing, controlling, sharing and benchmarking. Meat companies can greatly enhance their efficiency and competitiveness by deploying these impressive tools. For example, 'best practice' companies were using artificial intelligence (AI) and other advanced technologies to build trust with customers by authenticating products more concisely, personalising nutrition information, and building in better quality controls.

However, there were traps to avoid and companies need to be aware of the potential for misuse and misinterpretation of techniques and data. Added to this, the world was moving to a situation where markets were becoming less predictable due to a combination of the changing geo-political situation and greater government intervention. In this context, meat company profit margins could be at greater threat and sensible risk premiums needed to be built into their strategic planning processes.

Figure 1. Major Food System Dimensions



Companies need to understand Consumer Trends Better

Modern analytical techniques could provide a far more insightful understanding of consumer purchasing behaviour; there were examples shown of changing consumer attitudes which did not lead to major changes in purchasing habits - particularly when rising prices and cost pressures were the major concern of households. Interpreting consumer views in an increasingly pluralist society was becoming more complex, particularly due to the growing number of single issue lobby groups. From research on consumer priorities in different countries, it was clear, though, that **quality, price and taste** were the three priority factors for consumers in most countries with concern about animals and green issues appearing to be of lower priority.

Importance of Animal Protein Consumption for the Over-70s

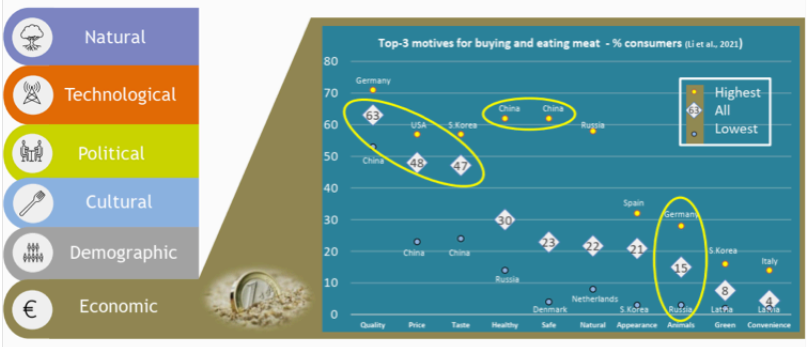
Understanding demographic trends was also important. Some European cities were growing in size while others were declining - this was having an influence on labour availability as well as income disparities. Demographic analysis also revealed a potential important opportunity for the meat industry - namely the growing concern about the deficit in animal protein requirements in the increasing population of over-70's in Europe.

Key Importance of Supply Chains

Finally, supply chain optimization was of major importance for the meat industry. There were many potential gains from a stable set of relationships that are built on a sound understanding of the consumer. However, there were dangers in not spotting disruptive influences from geo-political or other issues, which might occur at short notice - as was the case in 2022. This might require a speedy change from an established best practice supply chain to a totally new set of relationships. Sometimes, even well-structured supply chains had found it difficult to make the appropriate adjustments in these circumstances.

The Workshop concluded that although the European meat industry faced many challenges, there were ways to address these by facing up to them with all the tools available. 'An issue ignored is a crisis invited' might be the consequence if the attention of companies was not alert to these challenges!

Figure 2. Quality, Price and Taste are Important Motives



Future Trends in Sub-Saharan Africa

The growing interest in developments in SSA is principally because the current population is expected to more than double by 2050 at a time when population growth in the rest of the world is slowing down. SSA countries could in theory increase their agricultural output in calorific terms to match the population growth due to the vast reserve of uncultivated land (for example in the south of the Democratic Republic of the Congo (DRC), Northern Angola, and the Guinean uplands) and potential productivity gains. However, the current level of investment is far from sufficient to achieve that goal; in addition, some parts of the continent will experience major adverse pressure on productivity and economic growth as a result of the impact of climate change.

Potential for Increases in Domestic Production and Imports

SSA economies have suffered since 2020 due to Covid and more recently the higher energy prices. This has affected all countries, including the continent's two largest economies, South Africa, and Nigeria. In addition, inflation levels have exceeded 10% in many countries and sovereign debt levels are also rising rapidly. Despite this, the latest OECD-FAO medium term projections suggest potential for strong longer-term growth in overall meat consumption due to the rapidly growing population with higher incomes and an increased degree of urbanisation; this demand growth is projected to encourage higher domestic production - and higher import volumes. Beef and poultrymeat are the most important meat categories.

Figure 3. Current Population Growth is Exponential (1970-2018 data)

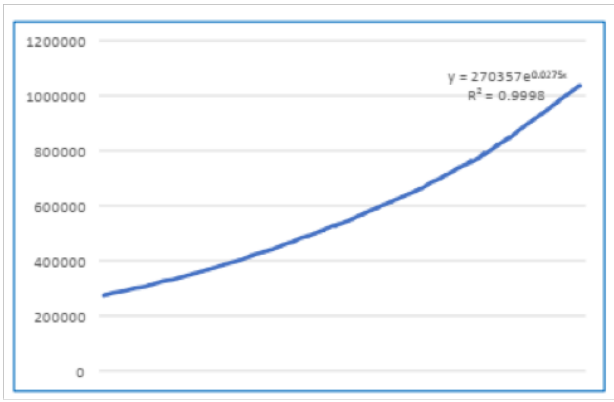
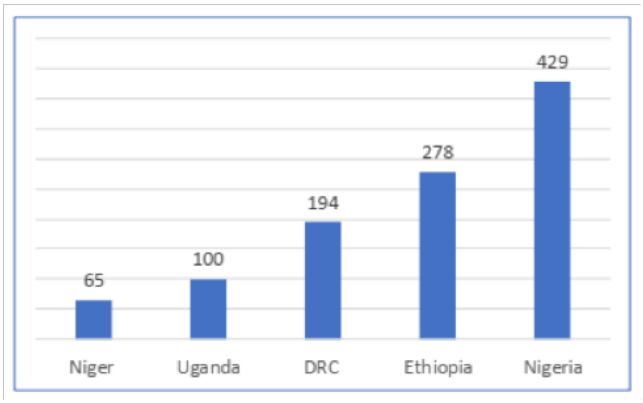


Figure 4. SSA Population Forecast 2050 (millions)



… but Big Challenges as Well

The major challenges, however, being faced in SSA countries are:

- ***Frequency of droughts:*** Particularly in the 'Horn of Africa' - Somalia and Ethiopia are currently experiencing very severe droughts.
- ***Violence linked to the competition for resources:*** North and West Africa recorded 36,000 violent pastoralist incidents between 1997 and 2020.
- ***Animal health and disease:*** This has been a notable factor for South Africa and Botswana.
- ***Political instability:*** This includes military coups, civil wars and religious violence.
- ***Underinvestment:*** Investment in livestock development has had lower priority in comparison with investment levels for crops and those commodities produced for export markets.
- ***Undernutrition:*** Currently increasing due to rising food prices.
- ***Malnutrition:*** Particularly due to dietary deficiencies in micro-nutrients such as protein and iron. This results in stunting of children in several African countries.

Trading Situation with SSA Countries

Imports of meat into SSA countries can currently be challenging with some import bans being applied and elsewhere high non-tariff barriers restrict trade. Inter-African trade remains small, at only16% of total African trade. Official attitudes to meat imports from outside the continent of Africa vary, with:

- Some SSA Government policies focussing on the ***advantages*** of banning imports, which include increased employment in food production, currency retention, better utilization of land potential and increased farmgate prices.
- Other countries' policies recognizing the ***disadvantages*** of import restrictions, including food shortages and malnutrition, lower tax revenue, food price inflation and lower food choice.

Many observers argue that a balance between home production and imports gives the best outcome.

Good Potential in Guinea – a Case Study

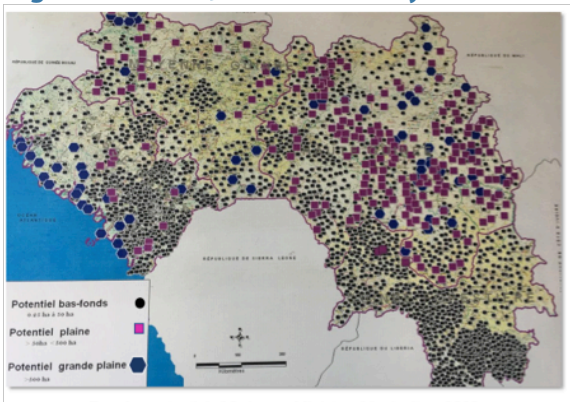
Guinea is an example of an SSA country with good potential for meat production. Its advantages are:

- A country with a land mass of over 550,000 square kilometres with a large proportion of uncultivated and ungrazed land
- A population of 13 million people of which over 50% are under 25 years old
- High rainfall and four climatic zones including temperate mountain areas.
- Mining revenues which should provide a sound basis for the economy
- A farming population accounting for 70% of employment
- Some significant backyard sheep, goat, poultry, rabbit and pig production enterprises
- The N'Dama beef cattle are robust, disease resistant and an easy-calving breed. On the other hand, the disadvantages are the small size of the cattle and their poor carcase quality.

In other respects, Guinea faces challenges, notably:

- A history of chronic

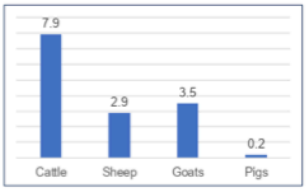
Figure 5. Guinea, Will the Country Fulfil Its Potential?



Farming potential of Guinea – Ministry of Agriculture 2008

Total Guinean GDP	98,286	100.00%
Agriculture	11,312	11.50%
Livestock production	4,290	4.40%
Forestry	3,159	3.20%
Fishing	5,085	5.20%

Contribution of land-based activities to Guinean GDP, 2018 (bn. GF– INS 2020)



Livestock census, 2019 (m.)
Source: INS 2020

underinvestment in agriculture
- Poor transport infrastructure
- A lack of cold chain and further processing facilities as well as poor revenues from the fifth quarter
- Poorly developed marketing and price reporting
- Low vaccination rates (a particularly high incidence of PPR – a disease of small ruminants)
- Some evidence of lack of interest in farming by the younger generation
- Competition for land with the mining industry

Evidence of Progress under the New Government

However, the new Government has doubled the agriculture budget with livestock, particularly beef, now a priority. It is encouraging that a new abattoir is being built in Conakry, Guinea's capital. Ideally, more meat plants are needed - three to four regional abattoirs need to be built supported by accompanying cold chain infrastructure and veterinary supervision. Nonetheless, the potential is there for building up a competitive beef industry capable of supplying the domestic market as well as starting to export by the end of the decade.

We will be resuming our Webinars on a Quarterly Basis – starting again on April 18, 2023 (for the 18th installment). You are most welcome to join the Economics Committee and attend future webinars. If you would like to do so, please contact the Chair, Erin Borror: eborror@usmef.org

Bob Bansback
IMS Advisory Council

U.S. pork in 2023: Optimism and pessimism

Despite some bright spots, the outlook for U.S. pork in 2023 presents a mixed picture.

A new report on the global pork market from Rabobank suggests that in the first quarter of the year worldwide pork supplies are expected to be tight, with inflation-hampered consumption a big question mark. On the positive side, the U.S. Meat Export Federation reports that for the January-November 2022 period, U.S. pork exports added more than US$452 in value per slaughtered head, a 13 per cent gain over 2022 and a new record high. At the same time, overall exported pork tonnage dipped 10 per cent.

In inflationary times, pork has a solid advantage over beef: It's cheaper. But that doesn't mean pork is immune from price pressures. "Pressure on household incomes, increased savings, and a potential decline in specific channels can all pressure consumption," states the Rabobank report. "Managing inflation will remain important for many governments, with interest rates needing careful calibration against consumer and business confidence."

Still, agricultural economist Dennis Smith sees some things to like in the outlook for U.S. pork. He cites an increase of about one per cent in total pork production; an expected slight decline in pork exports, leading to greater supply at home; significant drops in expected U.S. beef production and beef exports, making pork an attractive and economical alternative; and a drop in broiler production, forcing higher chicken prices.

Declining Production

"Total meat and poultry production is projected to decline by one per cent in 2023 compared to last year. This is very rare and given world population growth, it means competition for less meat," Smith wrote recently in *National Hog Farmer*. "In addition, in the case of pork, production is projected to fall substantially in Europe. We know for a fact that African swine fever continues to spread and cause severe production problems in most of Europe, Russia and most of Asia, including China."

He continues: "The exact situation in China is unknown. However, my sources believe that production was dropping hard, with pig prices jumping substantially, until the zero COVID policy was abandoned in early December. The dramatic 'demand shock' as COVID spread rapidly, has sent pig prices sharply lower over the last 30 days with prices now below breakeven. In the wake of the pandemic in China, judging by what occurred in the United States, the pent-up demand for meat will be huge. The key question is how long before or until this demand is unleashed. At the moment, no one knows."

The U.S. pork industry has also lately gone through some contraction, further complicating the picture. As Smith notes, overall market hog numbers in the U.S. are down six per cent from 2020, with contraction certainly to blame for at least some of the decline. "[P]ackers are worried about not having enough company owned pigs to run through slaughter plants," Smith comments.

"However, instead of new

expansion in breeding stock, buildings, equipment and labor, packers are simply buying out large independent producers. Consolidation is not expansion. In fact, it's rather alarming that these large independent producers are willing to simply exit the business. I'm expecting this trend to continue in 2023. Simply put, until or unless elevated corn prices decline substantially, one should not expect any kind of expansion in hog breeding numbers on the horizon. Finally, it also appears that the industry has sort of hit a brick wall in terms of efficiency. The pigs per litter seems to have plateaued at just over 11 pigs per litter."

Double Wildcards

Two wildcards could ultimately have a significant impact on the U.S. pork market, and right now no one can say how either card will play out. One is an economic recession: Economists have been predicting a global recession as well as an American recession for months, yet the U.S. economy stubbornly refuses to give in. While inflation remains high - though down from the 40-year-high levels seen in mid-2022 - job numbers and the employment rate continue to be attractive, lately leading at least a few economists to suggest that a recession, if it does come this year, may be mild, a "soft landing" in the parlance of the financial sector, following high inflation.

Julia Pollak, chief economist at the online employment recruiter ZipRecruiter, told NBC News at the end of January that encouraging signs in the economy may mean the economy is in, or is heading toward, a point where inflation is coming down quickly "without a huge economic cost," like higher unemployment. "We may now be on the cusp of a situation where wage growth is going to be faster than inflation for the foreseeable future and consumers get real wage increases after two years of real wage declines," she said.

What this means for the pork industry is that if consumers believe they have more dollars to spend, more of those dollars will be spent on pork than if there is an actual recession.

The other wild card is China. While Mexico and Japan are larger markets for U.S. pork exports, China is still a significant market - the third-largest, in fact -- adding an estimated US$10.90 per head in value (compared to Mexico's US$15.96 per head value). As Smith notes, it's difficult to read the health of the Chinese market at this point in the wake of COVID. The country is currently battling a major resurgence of the virus, but things are likely to settle down at some point.

"[When] China gets on the backside of the pandemic, the pent-up demand for pork and beef is likely to soar," comments Glen Smith. "My sources estimate that late in the first quarter or early in the second quarter such pent-up demand will begin to hit the world market." What happens then to domestic U.S. pork prices is anyone's guess, but it's certain that a greatly expanded Chinese market for U.S. pork would have measurable effect not just on hog prices but also on pork prices at the supermarket meat counter.

"China re-opening raises opportunities but also uncertainties - As China is the global largest pork market, its reopening will impact the global supply/demand balance," reports Rabobank. "But when, and by how much China's demand will rebound is uncertain. We expect demand to evolve unevenly, due to ongoing COVID waves, macroeconomic headwinds, and weak business confidence."

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

Save the dates, IMS meetings in 2023

5-6 October 2023, Marketing Committee, Dublin, Ireland

10 October (evening) 2023 (combined dinner and meeting), Species Committees (Beef/veal, Pork, Sheep), Maastricht, The Netherlands

11-12 October 2023, World Meat Congress, Maastricht, The Netherlands

Plans are also underway for the Human Nutrition and Health Committee 2023, to be hosted in Copenhagen, Denmark. Exact dates tbc.