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Dairy, Livestock, & Poultry Trade Update

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Impact of Foot-and-Mouth Disease on Meat Trade

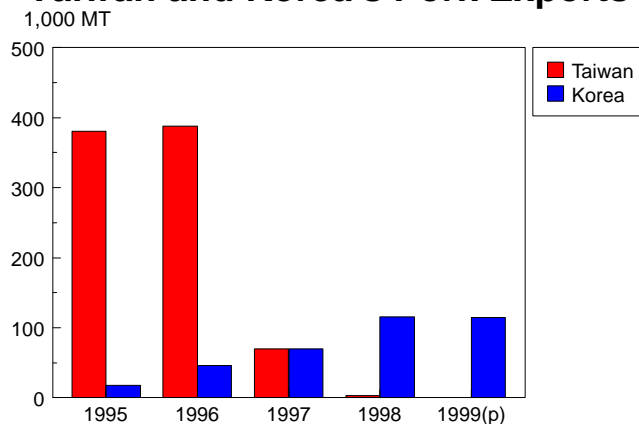
Summary

The confirmation of foot-and-mouth disease (FMD) in Korea on April 2 and in Japan on April 4 is unlikely to have as significant an impact on meat trade as did the 1997 FMD outbreak in Taiwan. With the exception of Korea's pork exports to Japan, neither country is a major player in meat exports and both countries appear to have implemented measures that are controlling the outbreak. Consumer reaction to date has been restrained. Under these conditions, and assuming the disease does not spread further, U.S. meat exporters have an opportunity to gain share in Japan's pork imports by replacing Korean pork. Additional sales in Japan will be at least partially offset by an anticipated decline in Korean pork import demand and possibly some short-term decline in beef import demand.

Perspective: The Taiwan Comparison

Coming only 3 years after the disastrous FMD outbreak in Taiwan, the recent Korean and Japanese FMD outbreaks invite comparisons and an attempt to draw conclusions about the current outbreaks from that earlier experience. As will be discussed below, the scale of the problem in Taiwan and its role in pork trade at the time of its FMD outbreak were quite different from the situation as it exists today in both Korea and Japan.

Taiwan and Korea's Pork Exports



Before FMD was detected in early 1997,

Taiwan had a substantial hog inventory of more than 10 million head and was a significant player in global pork trade, exporting nearly 400,000 tons annually. Taiwan's FMD outbreak struck its densely populated hog production centers and within a week of detecting the disease, officials were discussing plans to destroy 1.5 million hogs in order to control the disease. In contrast, the FMD outbreak in both Korea and Japan has, to date, been confirmed only in cattle and limited geographically in one prefecture on the island of Kyushu, Japan, and two provinces to the northeast and southeast, respectively, of Seoul, Korea. One week after confirmation of FMD, neither country has put forward plans for large-scale depopulation of livestock herds.

On the trade side, an interesting paradox exists. While the Korean FMD outbreak occurred in its cattle population, it is Korea's pork exports to Japan that have borne the financial consequences of the outbreak. Korea exported 90,000 (product-weight equivalent) tons of pork in 1999, with one market, Japan, accounting for 90 percent of the total. Ironically, Korea only began exporting appreciable volumes of pork to Japan following Taiwan's FMD outbreak. Japan is not a significant exporter of pork and neither country is a significant exporter of beef.

While the outbreak of FMD in Korea and Japan is a matter of great concern, the implications for the two affected countries and for global meat trade do not, at present, appear to be as serious as was the case with Taiwan. The most immediate trade impact is Korea's inability to export pork to Japan. Whether other pork suppliers can capture Korea's market share and the net effect of the outbreak on global meat trade will depend on several factors, including the ultimate scope of the disease outbreak, meat supplies, and consumer response to the outbreak in both Korea and Japan.

Japan's Pork Imports: Replacing Korea

Because Japan has halted imports of Korean pork and begun the process to delist Korea as an FMD-free country, this trade will cease until Korea regains FMD-free status. Japan has already indicated this will take at least 1 year and could take longer if the Korean outbreaks are not brought under control quickly.

Japan's pork imports are expected to total 860,000 tons on a carcass weight equivalent in 2000. In 1999, Korean pork exports to Japan totaled 80,499 tons (pwe). Of this amount, 21,725 tons were in chilled product and 58,774 tons were frozen. These exports were down 12 percent from the 1998 level as Korea lost market share in the frozen pork sector to Canada and Denmark. Because Japan's frozen pork stocks are currently at a high level, they will likely be drawn down to fill the void created by the loss of Korean frozen pork imports. Under this scenario, other suppliers, namely Canada and the United States, will likely be competing for Korea's portion of the chilled pork market.

Meat Supply: Assessing the Impact

Beyond the immediate impact of replacing Korean pork in the Japanese market, the FMD outbreak and the measures taken by Japan and Korea to control and eradicate the disease will have an effect on meat supplies in both countries with implications for the demand of imported pork and beef and the market for U.S. grains and oilseeds.

Japan

Kyushu is Japan's premier meat producing region, accounting for 34 percent of Japan's cattle inventory and 30 percent of its hog population. Control measures are thus far confined to the prefecture of Miyazaki. Assuming that the current situation does not worsen, the control measures implemented to date will not appreciably affect meat supply in Japan. In the event of a new outbreak, and if livestock and meat were prohibited from leaving Kyushu, Japan would likely be forced to look to imports to meet domestic demand.

Korea

Unlike Japan, Korea's measures to contain the FMD outbreak are nationwide. Korea has temporarily closed all of its cattle markets, initiated the vaccination of all animals near the outbreak area, and is contemplating a nationwide vaccination scheme. Since there are currently no plans to depopulate livestock herds, the control measures will have limited affect on meat supplies.

The loss of its pork export market in Japan will likely result in an increase in Korea's pork supply and plentiful pork supplies will weigh on meat prices. Since the announcement of the outbreak, pork wholesale prices have decreased 13 percent and beef wholesale prices have decreased 5 percent. The closing of the cattle markets is keeping cattle on feed. If markets reopen at the end of April as planned, it is likely these cattle will be brought to market as soon as possible, adding to the meat supplies.

Demand for imported pork is likely to decline in Korea and will be suppressed as long as Korea is considered an FMD country and shut out of export markets. The demand picture for imported beef will likely be less affected in the long term, but may see some short term declines due to abundant domestic meat supplies and lower meat prices.

Consumer Reaction

In Japan, the consumer reaction to the FMD outbreak has been muted. News coverage of the outbreak has been limited and reports are fact-based. It appears that those consumers aware of the situation have refrained from purchasing beef produced in Miyazaki prefecture where FMD has been detected.

In Korea, media coverage of the outbreak has caused many consumers to question the quality of domestically produced meat. The government is initiating programs designed to encourage consumption of domestic meat. It remains to be seen if lower prices help consumers overcome their food safety concerns.

Bottom Line: Impact on U.S. Trade

Assuming no change in the current situation, the net effect of the FMD outbreak in Korea and Japan on U.S. meat exports is likely to be limited. While there are opportunities to increase pork sales to Japan in the near term and to sustain those gains over the long term, it will require supplying the type of product the Japanese were purchasing from Korea. These potential gains will be at least partially offset by an anticipated decline in import demand in Korea for pork, and possibly for beef, at least in the short term. An active campaign to promote domestic product will also work to limit U.S. sales. However, the longer it takes Korea to regain FMD-free status, the more time U.S. pork suppliers will have to increase market share in Japan.

The FMD outbreak will also affect U.S. soybean exports. Korea is one of the largest importers of U.S. soybeans, annually importing on average around 1.3 million tons valued at about \$330 million. The U.S. accounts for 87 percent of the total imports of 1.5 million tons. Some of the soybeans (22-28 percent) are used for food while the rest are processed to produce soybean meal, which is fed mostly to swine and poultry, and soybean oil for domestic consumption.

Assuming no change in the FMD situation, little to no impact on U.S. soybean exports is expected in marketing year 99/00 (Sept.-Aug.), particularly since the disease has not yet spread to the swine population. Japan's import ban, depending on its duration, could substantially impact soybean meal demand in Korea next year with the potential to reduce soybean imports. Soybean exports could be impacted greatly in FY 00/01 if FMD increases in severity and also spreads to swine.

DLP Contacts: Tony Halstead 720-4185