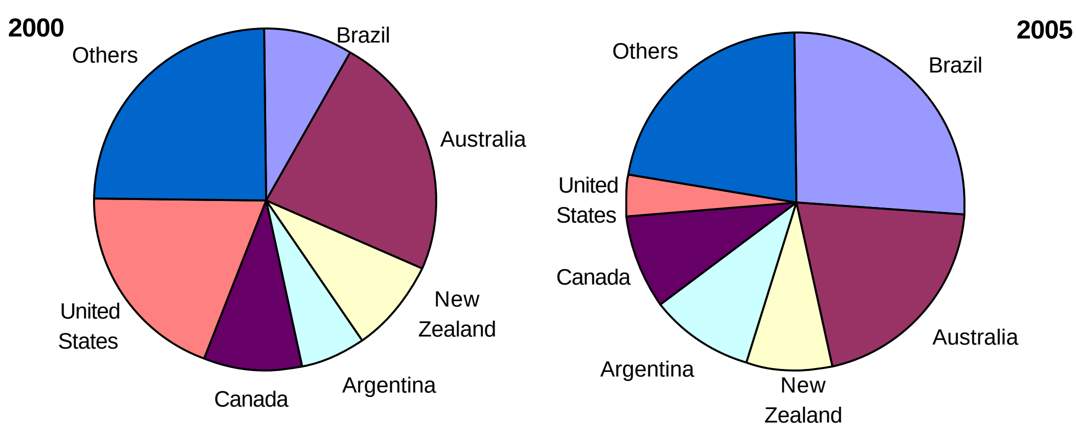
World Beef Overview

Beef Exports Will Increase to a Record 7 million tons in 2005; Imports Will Increase to 4.9 million tons, but Remain Below 2002 Highs

Beef exports by major beef exporting countries are forecast to increase 8 percent to almost 7 million tons in 2005. Changes in status of major beef exporters due to animal diseases, such as bovine spongiform encephalopathy (BSE) and foot and mouth disease (FMD), have shifted beef trading patterns in the last few years and those patterns are expected to continue in 2005. Due to BSE-related import restrictions on U.S. beef, the United States fell to the ninth overall beef exporter in 2004 and will remain there in 2005. At the same time, despite three cases of BSE, Canada is forecast to export a record amount of beef in 2005, because of continued strong beef exports to the United States and Mexico. FMD-related restrictions on beef from Mercosur countries limited beef exports in the past. However, some countries have lifted those restrictions, which will boost beef exports from Mercosur countries as will international or domestic shortfalls in some importing countries, in 2005. Beef from Mercosur countries will help overcome shortfalls experienced in the European Union and in secondary markets historically supplied by Australia and New Zealand as these latter countries shift a larger percentage of their exports to Japan and South Korea to partially substitute for U.S beef. In 2005, Brazil will continue as the largest and Argentina will remain the third-largest beef exporter.

World Market Share of Major Beef Exporters 2000 and 2005



Source: Production, Supply, and Distribution Database, FAS

Consumption in major beef importing countries is forecast to increase less than 2 percent in 2005 to 50.4 million tons, slightly above the 2002 record of 50.3 million tons, while beef imports will increase 4 percent to 4.9 million tons. Many major beef importers will decrease consumption in 2005 because of reduced supplies in many of these markets while demand remains strong. As a result, higher prices are expected to ration supplies. Beef production in the European Union, Mexico, and Russia will decrease in 2005. Supplies in Japan, South Korea, and other Asian markets will be reduced because of BSE-related import bans on U.S. beef. The United States, with the largest total beef consumption in the world, is projected to increase consumption by 4 percent in 2005.

Key Exporters

- **United States:** U.S. beef exports are forecast to increase 39 percent to 290,000 tons in 2005, but will remain well below pre-BSE levels. When BSE was discovered in the United States, many countries that were once major export markets banned U.S. beef due to BSE. After Mexico and Canada lifted most of their major import restrictions on U.S. beef, they became the largest destinations for the United States, accounting for 87 percent of U.S. beef exports in 2004. Beginning 2005 cattle inventories increased 1 percent, signaling a move toward increasing cattle inventories, following one of the longest periods of liquidation. In 2005, producers are forecast to continue rebuilding herd inventories. However, the increase in inventory will not mean a significant increase in slaughter during 2005 because of biological lags in the cattle sector. Cattle slaughter was reduced in 2004 by 8 percent due to declining inventories and low calf crops in 2002 and 2003. With continued tight cattle supplies and increased beef consumption in 2005, U.S. beef prices are expected to remain relatively strong throughout the year, even after Canadian cattle imports are resumed. When beef exports to major Asian markets are able to resume, higher prices and the length of time away from the market will likely impact the ability of U.S. beef to regain market share. (The current forecast assumes BSE import bans will continue in 2005.) U.S. cattle exports will remain steady at 30,000 head in 2005 and will not approach pre-BSE levels until cattle inventories decline in Canada, which is unlikely to occur until the U.S. border opens to imports of live animals from Canada.

- **Brazil:** Brazil is forecast to export almost 1.9 million tons of beef, thus remaining the world's largest exporter in 2005. Beef exports will grow almost 14 percent, which is lower than the 39-percent growth seen in 2004 because unfavorable exchange rate movements will limit sales opportunities. In 2004, Brazil increased beef exports to major markets such as Egypt, the European Union, Russia, and the United States, as well as to secondary markets, such as Algeria, Bulgaria, Iran, and Philippines. The composition of beef exports is changing. In 1999, 48 percent of beef exports were processed beef, but in 2004, 15 percent of beef exports were processed beef. In 2005, beef export growth will be slowed in part by a less competitive exchange rate but helped by a 6-percent increase in beef production to almost 8.5 million tons, domestic policies, production techniques, and aggressive marketing in the European Union and secondary markets. In 2000, less than 8 percent of beef produced was exported. In 2005, almost 22 percent of beef production is forecast to be exported. Beef production will also be spurred on by increases in domestic consumption. Favorable economic conditions will help improve consumption in 2005 as inflation and unemployment rates decrease, thus increasing consumer confidence and purchasing power, and demand for beef. Slaughter weights are improving because of genetics, improved feed management techniques, and improved pasture conditions due to higher rainfall.

- **Australia:** In 2005, world demand for Australian beef exports will compete with Australia's need to increase cattle inventories. Due to bans on U.S. and Canadian beef, Australia is the primary beef supplier to many major import markets in Asia. High prices in these markets make exporting beef appealing. On the other hand, high cattle prices and improving weather conditions are strong incentives for increasing cattle inventories. The increase in cattle retention will be helped by lower mortality rates due to improving weather conditions that began in the latter half of 2004. As a result, the calf crop is forecast to be almost 5 percent higher in 2005. The strong world demand for Australian beef is expected to drive an increase in cattle slaughter rather than cattle exports, which will allow beef production to increase. The beef produced from cattle normally exported will help meet record consumption in Australia. Additionally, slaughter weights are expected to increase due to improved weather conditions and growth in short-fed beef production. The increased number of cattle on feed and willingness of Japanese consumers to pay high prices resulted in an increase in exports of beef from grain-fed cattle to 44 percent of total Australian beef exports to Japan in 2004. In 2004, Australian beef exports to Japan were up 44 percent, which brought Australia's market share from 49 percent to almost 90 percent of total Japanese beef imports. The trend is likely to continue as long as Japan remains closed to U.S. beef. Australian shipments to the United States initially fell when BSE was detected as Australia redirected beef to the more lucrative Japanese market as a partial substitute for U.S. beef.

- **New Zealand:** In 2005, exports are forecast to decrease nearly 7 percent to 565,000 tons. Beef exports to Japan, South Korea, and other Asian markets increased in 2004, but will not increase in 2005 because of production declines. In addition, some markets found beef from grass-fed cattle an imperfect substitute for higher-quality beef from grain-fed cattle when imports from the United States were banned. However, exports to New Zealand's largest market, the United States, are expected to stay at the same level because U.S. demand for lean beef remains strong. During 2004, the number of beef cows declined due to higher cow slaughter rates in the previous two years and more favorable profits in sheep and dairy farming. A 6-percent decrease in beef production to 675,000 tons is forecast as a result of smaller cattle inventories at the beginning of 2005. Due to improved weather conditions, slaughter weights remain high relative to weights during the drought in 2002 and 2003, but not enough to offset reduced beef production due to the expected fall in number of cattle slaughtered in 2005.

- **Argentina:** In 2005, beef exports will reach levels not seen in over 25 years. Strong worldwide beef demand and export markets that opened to Argentine beef in 2004 will boost exports. The World Organization for Animal Health (OIE) identified Argentina as a country with an FMD-free zone where vaccination is not practiced and several countries lifted their bans on Argentine fresh beef in 2004. Also, Argentine beef exporters are forecast to take advantage of decreases in production within the European Union. However, price advantages will be limited by increasing production and processing costs. Though beef production is expected to decline by 4 percent in 2005, it will be 5 percent higher than 2003. Cattle liquidation due to drought conditions caused high beef production in 2004. In addition, land area devoted to cattle has decreased in Argentina, so more ranchers fed out their cattle with corn, which helped moderate forage problems. Use of corn in cattle finishing is expected to continue in 2005. High world beef demand and prices will draw Argentine beef into export markets instead of Argentine hands, thus beef consumption is forecast to decrease 9 percent in 2005.

- **Canada:** In 2005, beef exports are forecast to be a record 625,000 tons, in large part because of restrictions on cattle trade due to the discovery of BSE in Canada. In 2004, about 98 percent of Canada's beef exports were to the United States and Mexico as most other countries banned Canadian beef. Beef has partially offset the lack of cattle exports to the United States and Canadian processors will continue to focus on exporting beef as long as the United States restricts Canadian cattle. Beef export opportunities to Mexico will remain strong as long as Canadian beef remains price competitive with U.S beef, which is likely to continue until U.S restrictions on the import of live Canadian cattle are eased and supplies of cattle less than 30 months decline. Two markets open to Canadian beef, but not U.S. beef, are Macao and Hong Kong. Though Canada did not export beef to Macao in 2002, Canadian beef exports to Macao were over 6,000 tons PWE in 2004. Hong Kong recently reopened to Canadian beef ahead of U.S. beef, which places Canadian exporters in a prime position to gain a stronghold in that market. Canada's cattle inventory reached a historical high of almost 15.1 million head at the beginning of 2005, representing a 3-percent increase over 2004. Cattle inventories increased following U.S. bans on Canadian cattle imports due to the detection of BSE in 2003. As a result of increased inventories and delays by the United States in allowing imports of live Canadian cattle, Canada increased its slaughter capacity and is forecast to export record levels of beef in 2005. In 2005, the number of cattle slaughtered is expected to be 6 percent higher than 2004, which was 13 percent higher than the previous high in 1999. Inventories are expected to begin declining in 2005 due to the increase in slaughter and the expected reopening of the U.S. border. Ending Canadian cattle inventory is forecast to be 3 percent less than 2004 ending inventory. The United States had planned to permit cattle imports from Canada beginning March 7, 2005 under its minimal risk rule. However, legal action has delayed reopening the border. The uncertainty surrounding the U.S. border reopening has prompted the Canadian government to fund activities designed to support increases in slaughter capacity and reduce dependency on the United States as an export market.

Key Importers

- **United States:** The United States will maintain its position as the world's largest beef importer in 2005. Consumption increased nearly 3 percent in 2004 and is forecast to increase another 4 percent in 2005 over 2004. Production is also forecast to increase by 4 percent, but will remain almost 3 percent below 2003 levels. In 2004, beef imports increased by 22 percent over 2003. Most of the increase came from Canada and Uruguay, whose market share rose from less than 1 percent in 2002 to 11 percent in 2004 after FMD-related import restrictions on Uruguayan fresh beef were removed. The United States traditionally imports lean beef to mix with trimmings from grain-fed animals produced in the United States. Imported lean beef substitutes for lean beef from culled breeding and dairy cattle. In 2005, the slaughter of cows, bulls, and stags will be at lows not seen since 1963 as low inventories reduced the number of cattle for slaughter and improving forage conditions make it favorable to retain cows for herd expansion. Thus, beef imports will increase by almost 2 percent in 2005 largely because of low culled cattle slaughter and increased production of beef trimmings from fed cattle. Furthermore, until the border opens to Canadian cattle imports, imports of Canadian beef will continue to partially replace cattle imports that would have been slaughtered in the United States. With imports of live cattle for Canada resuming later this year, U.S. cattle imports from all sources are forecast to be just under 2.7 million head in 2005.

- **Russia:** Beef imports are forecast to increase by almost 3 percent to 750,000 tons in 2005 due to decreased production and increased consumption. Cattle numbers have been decreasing for 10 years and are expected to continue decreasing due to high feed prices, poor feeding conditions, and strong demand of cattle for slaughter. High beef prices have encouraged slaughter at lower weights, which also reduced production. Beef consumption will increase marginally as incomes increase, but will be limited by high beef prices. In 2004, imported beef prices increased by 48 percent and domestic beef by 39 percent. Difficulties with Russian tariff rate quota (TRQ) import licensing and high over-quota tariffs have changed importer decisions and therefore the makeup of imports. Under the TRQ system, importers prefer higher-valued boneless cuts in order to take full advantage of their quotas. Where bone-in beef accounted for 63 percent of bone-in and boneless beef imports in 2000, it fell to 21 percent in 2004. In 2005, beef from Brazil and Argentina will offset reduced imports from the Ukraine, where supplies available for export are reduced due to declines in production.

- **European Union:** The European Union will continue to be a net beef importer in 2005. Whereas beef imports are forecast to grow 13 percent to 550,000 tons, beef exports will decrease 14 percent to 300,000 tons. Beef exports are expected to decrease due to lower production and lower sales to Russia, a traditional major market of the European Union. Russian certification requirements and competition with Brazil and Argentina have been limiting sales. In 2004, the New Member States (NMS) benefited from accession to the European Union, in particular Hungary and Poland, which previously supplied beef to the EU-15. Sales from NMS to EU-15 member states increased until beef prices reached similar levels as prices in the EU-15. Reforms in the agriculture policy among member states attempt to separate payments to farmers from production decisions. However, differences in policy and when the changes in policy are implemented are causing uneven changes in production levels as producers try to adapt to the new system and take advantage of payments before reforms are implemented in their member state. In 2005, most countries are expected to produce the same or less beef than in 2004, with the exception of Italy, Portugal, and Spain. Overall, beef production is expected to decline almost 2 percent to slightly below 8 million tons. With decreasing production, the European Union is expected to increase beef imports, especially from Mercosur countries that have intensified their marketing efforts. Though the European Union does not ban U.S. beef due to BSE, beef imports from the United States are limited by bans on growth-promoting hormones.

- **Japan:** Beef imports are forecast to increase by 1 percent in 2005, but will be 23 percent lower than imports in 2003 due to bans on U.S. beef, thus reducing beef supplies and increasing beef prices. Beef imports from Australia have increased, but conditions in Australia and differences between Australian and U.S. beef will not support an expansion of imports to levels seen prior to the ban on U.S. beef. Prior to the ban, one-third of beef consumption in Japan was beef from the United States. As a result of the ban, Japanese owned meat packers and trading firms are desperately seeking alternatives and feeding operations in Australia are expanding. As a result, the Japan Koren Barbeque Restaurant Association reports that 2,000 members suffered from restaurant closures due to the ban. The

Japanese government has attempted to address consumer concerns over beef safety by implementing a program to trace domestically produced beef. As of December 1, 2004, beef must be traceable from farm to retailer and many establishments are reportedly displaying information for consumers. The Japanese fiscal year (JFY) will begin in April 2005 and JFY 2005 safeguard trigger levels will be close to the trigger levels seen in JFY 2003, the last time the safeguard was implemented. There are industry concerns that if U.S. beef exports resume in JFY 2005, the trigger levels will be exceeded and the safeguard implemented for the remainder of the fiscal year. (The current forecast assumes no imports from the United States because Japan has not completed the regulatory process required to allow beef imports from the United States to resume.)

- **Mexico:** In 2005, beef imports are forecast to increase over 11 percent to 320,000 tons, but remain below levels imported prior to the discovery of BSE in North America. Mexico has resumed imports of boneless beef from the United States and Canada. In 2004, Mexico imported 27 percent more beef from Canada and 59 percent less beef from the United States than in 2002, the last year of trade uninterrupted by BSE. Canadian beef is price competitive with U.S. beef because of the excess supply of cattle in Canada due to the U.S. restriction on Canadian cattle imports. Consumption will decrease 2 percent in 2005, in part because beef has faced stiff competition from poultry and pork. However as incomes continue to rise, per capita meat consumption is expected to increase.

- **South Korea:** In 2005, beef imports are expected to grow almost 6 percent, but remain at 52 percent below 2003 pre-BSE levels despite attempts by Australia and New Zealand to fill the shortfall left by the ban on U.S. beef. In 2004, beef imports from Australia increased 29 percent and beef imports from New Zealand increased 72 percent. Prior to the ban on U.S. beef, imports of U.S. beef accounted for about 50 percent of Korean beef consumption. In 2005, the bans on U.S. beef and reduced demand for beef are expected to lead to an 8-percent decline in consumption. Locally produced Hanwoo beef is filling part of the sudden shortfall in beef supply caused by import bans. However, Hanwoo beef prices are higher than imported beef, reportedly three and four times higher than the price of imported Australian beef, despite lowered cattle prices. As a result, consumers who formerly preferred high quality, reasonably priced imported beef have switched to other proteins such as pork and fish. Interestingly, feeder cattle imported from the United States prior to BSE-related import bans are now being slaughtered and the initial response to this “domestic beef” is positive. In order to increase consumer confidence, the South Korean government is implementing a trial traceability program, which will include imported beef in 2005.