

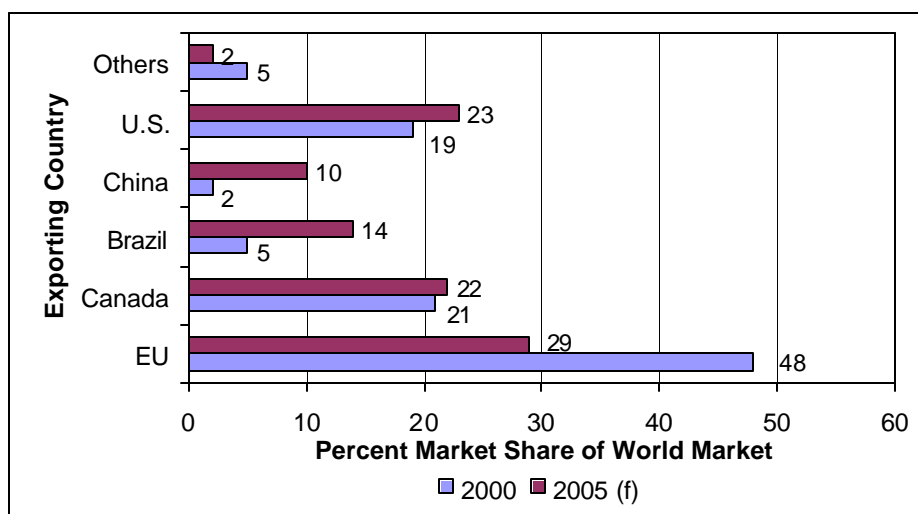
## World Pork Meat and Swine Trade Overview

### World Pork Exports to Reach a Record 4.6 million tons

World pork exports by major exporting countries are expected to increase by just over 2 percent in 2005 to a record 4.6 million tons. The largest exporter, the European Union, will see a slight decrease in total exports from nearly 1.4 million tons in 2004 to 1.3 million in 2005. The United States remains the second largest exporter in 2005 as exports reach a high of just over 1 million tons in 2005. As overall world demand for pork increases, Brazil, Canada, China and the United States are expected to reach record production and export levels in 2005. Pork production in China, the European Union, and the United States is expected to be slightly more than 80 million tons in 2005. These three nations will comprise 86 percent of production in major producing countries, which is projected to be nearly 94 million tons.

World imports will also rise in 2005 to 4 million tons, up nearly 6 percent from 2004. Japan's pork imports, which reached record levels in 2004, will increase slightly in 2005. Russia is expected to remain a major consumer of pork in 2005. Problems with Russia's administration of tariff rate quotas (TRQ) may result in slower growth in pork imports in 2005. Hong Kong is expected to have only a 1 percent growth in pork imports in 2005 following 10 percent growth in 2004. Recent efforts by China to combat smuggling will likely curb Hong Kong's transshipments to China. Mexico is also expected to increase imports of pork by 8 percent in 2005.

### World Market Share of Major Pork Exporters: 2000 and 2005



A number of factors have contributed to increasing trade in pork worldwide. The weak U.S. dollar, which is expected to persist at least through 2005, is likely to continue making U.S. pork products an attractive buy abroad. Disease-related closures—avian influenza (AI) for poultry, and bovine spongiform encephalopathy (BSE) for beef—in important Asian markets will also undoubtedly provide continued export strength this year. In North America, the North American

Free Trade Agreement (NAFTA) has facilitated continued integration in pork production and trade across Canada, Mexico and the United States. However, with increasing trade and integration of the NAFTA pork market, several trade issues have emerged between the partners. Mexico is currently conducting an anti-dumping (AD) investigation on U.S. hams. U.S. and Canadian trade forecasts do not reflect the April 6th determination by the U.S. International Trade Commission (USITC) of non-injury from imports of hogs from Canada.

### **Key Exporters**

- **United States:** In 2005, U.S. pork exports are expected to rise slightly to just over 1 million tons. Pork production marginally increases to 9.4 million tons in 2005. The majority of U.S. pork exports in 2004 were sent to Japan, 418,000 tons and Mexico, 243,000 tons. Lesser quantities were sent to Canada, Russia, and Taiwan. Mexico's domestic pork industry continues to seek protection against the increasing quantities of U.S. pork entering the market. Mexico is currently conducting an AD investigation on U.S. hog leg quarters (ham) that could result in extra duties on U.S. ham exports. In addition, Mexico is considering whether to implement legislation that would require increased inspection fees on meat imports. Both issues, if implemented, could make U.S. pork less competitive.

The United States is forecast to export 220,000 live hogs to the world in 2005, which is up 25 percent from 2004, when exports totaled 175,000 head. Mexico is the largest market for U.S. live swine (80 percent market share in 2004) and Mexico's demand for imports has continued to increase with development of its processing capacity and growth in pork exports.

- **Canada:** Canada's total pork exports for 2004 were 970,000 tons. Pork exports are expected to increase by 2 percent in 2005 to 985,000 tons. In 2004, Canada's top pork export markets were the United States and Japan, at 504,000 tons and 231,000 tons respectively. Prospects for increased Canadian pork exports to Japan are limited due to high Japanese inventories of frozen pork and competition from the United States and European Union. Canadian pork exports to the United States will remain strong in 2005 as the value of the U.S. dollar is expected to remain low against the Canadian dollar. Canadian live hog exports are expected to be 8 million head in 2005. U.S. and Canadian trade forecasts do not reflect the April 6<sup>th</sup> determination by the U.S. International Trade Commission (USITC) of non-injury from imports of hogs from Canada.
- **Brazil:** Brazil continues to develop as a major producer and exporter of pork and 2005 will be no exception with exports estimated at 640,000 tons. Brazilian pork production is forecast to increase by about 3 percent in 2005 to nearly 2.7 million tons. Domestic consumption is also expected to increase by 3 percent. Brazil's production has benefited from increased investment and Brazil is currently funding market activities aimed at developing potential export markets for its pork. Brazil has increasingly shifted exports to higher-valued pork cuts and these products now comprise 75 percent of exports. However, exports are being affected by the strengthening of the Brazilian Real. Brazil's top markets for pork are Russia and Hong Kong to which it exported 359,000 tons and 65,000 tons respectively in 2004. During the same period, Brazil's exports of pork to the world totaled 621,000 tons. Despite administrative problems with import permits and TRQ in 2004, Russia remained Brazil's

largest market.

- **European Union:** In 2004, EU pork production increased marginally while pork exports increased from 1.2 million tons to 1.4 million tons. Exports in 2005 are projected to decline to 1.3 million tons. Pork production and consumption are expected to decline slightly with increased shipments between the new and old member states. Export growth in 2004 was due to increased exports to Romania, Russia, and Asia, mostly Japan and Hong Kong. Increased exports to Asia followed in the wake of AI and BSE concerns. With the overall price for EU pork rising and the strengthening of the Euro, EU pork exports are expected to be less competitive in the world market. EU pork exports face uncertainties associated with Russia's administration of TRQ allocations and are likely to face increased competition in the Asian markets.
- **China:** China is the world's largest pork producer and consumer. In 2005, Chinese pork production is expected to reach a record 49.7 million tons. China's pork industry is gradually shifting from backyard farming to commercial production with increased foreign investment and the movement of the rural population to urban areas, which drives consumption. Pork prices have remained high along with consumption and demand is largely filled with domestic production. China is the world's fifth largest pork exporter with the majority of its products sent to other Asian markets. Exports have increased from 73,000 tons in 2000 to 383,000 tons in 2004, and are forecast to reach 450,000 tons in 2005.

### **Key Importers**

- **United States:** In 2004, the United States imported 499,000 tons of pork, a 7 percent decrease from 2003. The decrease in imports was due largely to the lower value of the U.S. dollar. Pork imports for 2005 are expected to reach 542,000 tons, the majority of which is from Canada and the European Union to meet consumer demand for particular cuts. Live swine imports are forecast to be almost 6 percent lower than last year, with the reduction attributable to required deposits/bonds, equal to dumping penalties, imposed on imported Canadian hogs and feeder pigs by the U.S. government in October 2004. U.S. and Canadian hog trade forecasts do not reflect the April 6<sup>th</sup> determination by the U.S. International Trade Commission (USITC) of non-injury from imports of hogs from Canada.
- **Japan:** In 2005, Japan is expected to remain the world's largest pork importer, importing a record 1.3 million tons, slightly above the previous year. The top five suppliers of pork to Japan in 2004 were Canada, Chile, China, Denmark, and the United States. In 2004, imports of beef and poultry were restricted by BSE and AI import bans resulting in increased pork imports to meet consumer demand for animal protein. However, in 2005 a high carry over of frozen pork stocks is likely to dampen imports. In the past, Japan has restricted imports of pork through its special safeguard and gate price system. However, the chances that Japan's special safeguard provision would be applied in Japanese fiscal year (JFY) 2005, which runs from April 2005 to March 2006, are remote, due to the relatively high trigger level for the first quarter of the JFY. In 2004, Japan signed a Free Trade Agreement (FTA) with Mexico, which will be implemented starting in April 2005. Japan established special TRQs for Mexican pork that is expected to result in an increase in Japanese pork imports from Mexico. The TRQ

agreement cuts the tariff on pork imports from 4.3 percent to 2.2 percent for Mexico and does not count in-quota imports against the safeguard trigger level calculation.

- **Hong Kong:** Pork imports grew by 10 percent in 2004 and are forecast to grow by 1 percent in 2005 to 335,000 tons. Consumers substituted pork for poultry in their diets during Hong Kong's temporary ban on imports of Chinese chickens due to AI. Importers also increased inventories of pork in an effort to avoid paying more at a later date as prices continued to escalate. A ban on U.S. beef due to BSE has also led to increases in pork imports from the United States. In addition to pork imported for immediate consumption, shipments destined for China are often transshipped or smuggled through Hong Kong. However, China is now taking efforts to combat smuggling through Hong Kong, which could lead to a decrease in Hong Kong's pork imports as more shipments are sent directly to China. Currently, Hong Kong prohibits imports of fresh pork from China but is working on a protocol that would allow imports of Chinese chilled pork that could create greater competition with other pork suppliers.
- **Mexico:** Mexican pork production is expected to reach almost 1.2 million tons in 2005, an increase of about 2 percent from the 2004 level. Mexico's imports are expected to grow by more than 8 percent. Rising imports and Mexico's increases in pork production is a result of sustained growth in consumer demand. As the income of Mexican consumers has risen, demand for higher quality and more expensive cuts has also increased. In addition, in 2004 Mexico geared up its production with the culling of less productive sows and integration of swine producer associations in slaughtering and marketing activities. Mexico's development of its hog slaughtering capacity will contribute to growth in live swine imports for slaughter. Mexico is forecast to import 200,000 head in 2005. Mexico is also seeking to further expand exports, which will likely increase total demand for pork. For instance, Mexico recently completed negotiations on the Japan-Mexico FTA, creating a TRQ for Mexican pork imports. Mexico is also working with the United States to expand the area eligible to export pork to the United States.
- **Russia:** In 2005, domestic pork production is expected to grow by about 2 percent to 1.8 million tons. With demand for pork remaining strong, imports are expected to increase 5 percent in 2005 to 500,000 tons. In 2004, pork production grew slightly, limited by high feed costs and rising meat prices that resulted in slaughter at lower weights. Imports of pork decreased 23 percent in 2004 due to several factors: a temporary ban on Brazilian pork due to food and mouth disease problems (FMD), rising pork import prices, and problems with Russia's administration of its TRQ regime. The TRQ establishes country specific quotas for the European Union, Paraguay, the United States, and a general quota for all other countries. In 2004, difficulties with Russia's licensing administration kept quota allocations from being filled. Furthermore, the TRQ contributed to a general increase in meat prices. Similar problems with Russia's TRQ administration are expected again in 2005. Several changes in the composition of Russia's pork imports have come about as a result of the TRQ regime. Imports of processed pork have increased since the TRQ does not apply to those products. Importers have also shifted to more boneless meat in order to maximize the use of import licenses with higher value and more profitable cuts.