



International Agricultural Trade Report

Weekly Market Report: Dairy, Livestock, & Poultry Division

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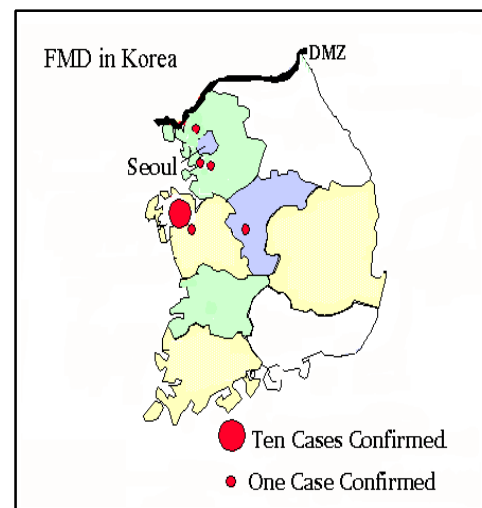
The Impact of Foot-and-Mouth Disease on Meat Trade: Update

Summary

As initially reported in the April 7 International Agricultural Trade Report “The Impact of FMD on Meat Trade,” the outbreak of foot-and-mouth disease (FMD) in Korea and Japan is unlikely to have a significant impact on meat trade. It now appears that both countries have managed to contain the outbreak and avoid a large-scale herd depopulation, such as occurred in Taiwan 1997. While the outbreak has been confined to cattle, speculation on the trade impact focused on pork as Korea will not be able to export pork for at least 1 year. Successful control measures in Korea and loss of the Japanese market will severely limit pork import demand in Korea. Relatively high frozen pork stocks in Japan will limit import demand until later this year when the United States, Denmark, and Canada will compete for the balance of Korea’s share.

Korea

To date, Korea’s Ministry of Agriculture and Forestry (MAF) has confirmed 15 positive FMD cases, and destroyed a total of 2,223 livestock on 181 farms in six quarantined areas. There have been no new suspected cases since April 16. As of April 20, a total of 615,865 head, 6 percent of the country’s total livestock, have been vaccinated against FMD. Although no suspected case has been reported for swine, MAF vaccinated herds from surrounding areas based on concerns that swine are susceptible to the FMD type found in Korea. In response to Korea’s FMD outbreak, Japan, the major buyer, halted imports of Korean pork, indicating that Japan will not import until Korea regains FMD-free status.



While the impact of FMD on the Korean swine inventory appears to be insignificant since there has been no massive slaughter, the pork industry is expected to come under pressure towards the second half of 2000. Pork stocks are expected to increase by a level about equal to the previous export volume of 80,000 tons (product weight equivalent), as pork formerly exported will remain in Korea. When the current breeding cycle ends in the mid summer, the supply of domestic pork will increase and add pressure to domestic prices. However, consumers are likely to respond favorably to low prices as the picnic season approaches and as the government and producers’ cooperatives continue to reassure consumers that FMD is not a threat to human health.

Despite a 58-percent increase in pork imports during the first 3 months of 2000 compared with the same time last year, Korea’s pork imports for 2000 are likely to drop substantially beginning in

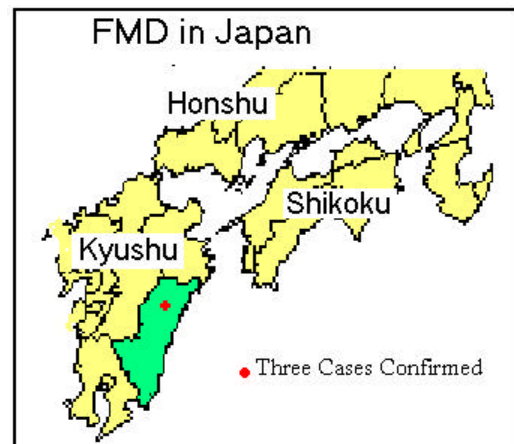
April as domestic stocks grow. During the first 3 months of 2000, Korea imported a total of 35,966 tons (product weight equivalent) mainly from Denmark, Canada, Hungary, France, and the Netherlands. Opportunities for significantly increasing U.S. pork exports to Korea appear to be minimal as Korea prefers frozen product over fresh/chilled, and prices currently favor EU pork exports. The United States can also expect increased competition in Korea from Canadian pork exports.

Japan

In the first week of April, the Japanese government confirmed three cases of FMD in cattle within the Miyazaki prefecture on Kyushu island. The Ministry of Agriculture, Forestry, and Fisheries (MAFF) established strict quarantine measures and destroyed a total of 33 cattle on infected farms. Since April 9, no new suspected cases have been reported.

As of midnight on May 2, MAFF lifted most restrictions on cattle movements, as all diagnostic tests results were found negative for FMD within the restricted area of the Miyazaki prefecture. However, MAFF will still prohibit entry to 71 farms, of which 27 are being re-tested, as local authorities continue to monitor cattle conditions.

Given the apparent rapid containment of the outbreak, and since Japan is not a significant meat exporter, the trade impact of Japan's FMD situation is expected to be minimal.



Japanese consumers do not appear to perceive the recent Miyazaki FMD cases as a food safety threat, and have not dramatically altered their preferences for meat. Wholesale pork carcass prices weakened slightly for a short period due to low demand from retail chains as concerns over FMD forced major retailers to revise their pork promotions.

The ban on Korean pork imports is expected to leave an estimated gap of 57,000 tons (18,000 tons for fresh/chilled and 39,000 tons for frozen) in Japan's pork imports for the balance of this year. At present, Japan is forecast to have sufficient stocks of frozen pork as importers built up frozen stocks earlier this year. However, Japan may face a shortage of frozen cuts later this year as stocks are drawn down. Korea was a major supplier of frozen ham parts to Japan.

U.S. suppliers may benefit from this new opportunity provided they can supply the Japanese market the type of cuts and quality specifications which Korea was able to meet after the exit of Taiwan in 1997. In addition, the United States will face stiff competition from other competing suppliers, namely Denmark and Canada. Denmark dominates the frozen pork market in Japan, while Canada is expected to become the leading international pork exporter in 2000.

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