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**CHALLENGES FOR INTERNATIONAL MARKETING IN THE
COMING DECADE**

**U.S. PORK EXPORT TRENDS: EXPORT MARKETING AND EFFECT
OF TRADE AGREEMENTS**

Bill Teeter
Vice President
International Marketing and Sales
Farmland Foods, Inc.



U.S. PORK EXPORT TRENDS

EXPORT MARKETING AND EFFECT
OF TRADE AGREEMENTS

FARMLAND INTERNATIONAL TRADE : SUMMARY

- ♦ **International marketing is a critical element of Farmland's growth strategy and access to international marketing is critical to American swine producers**
- ♦ **Emerging technologies continue to improve and increase US hog production**
- ♦ **But US per capita consumption of pork is relatively flat**
- ♦ **Exports have become an increasingly important outlet for American pork**
- ♦ **An integrated system helps Farmland to be competitive in the international market**



FARMLAND INTERNATIONAL TRADE: SUMMARY

- ♦ **NAFTA has had an important impact on US exports to Mexico, however other economic factors also intervene**
- ♦ **NAFTA impact on trade between USA and Canada less than with Mexico**
- ♦ **Despite numerous challenges , Farmland business in Mexico and Canada has been positively influenced by NAFTA**

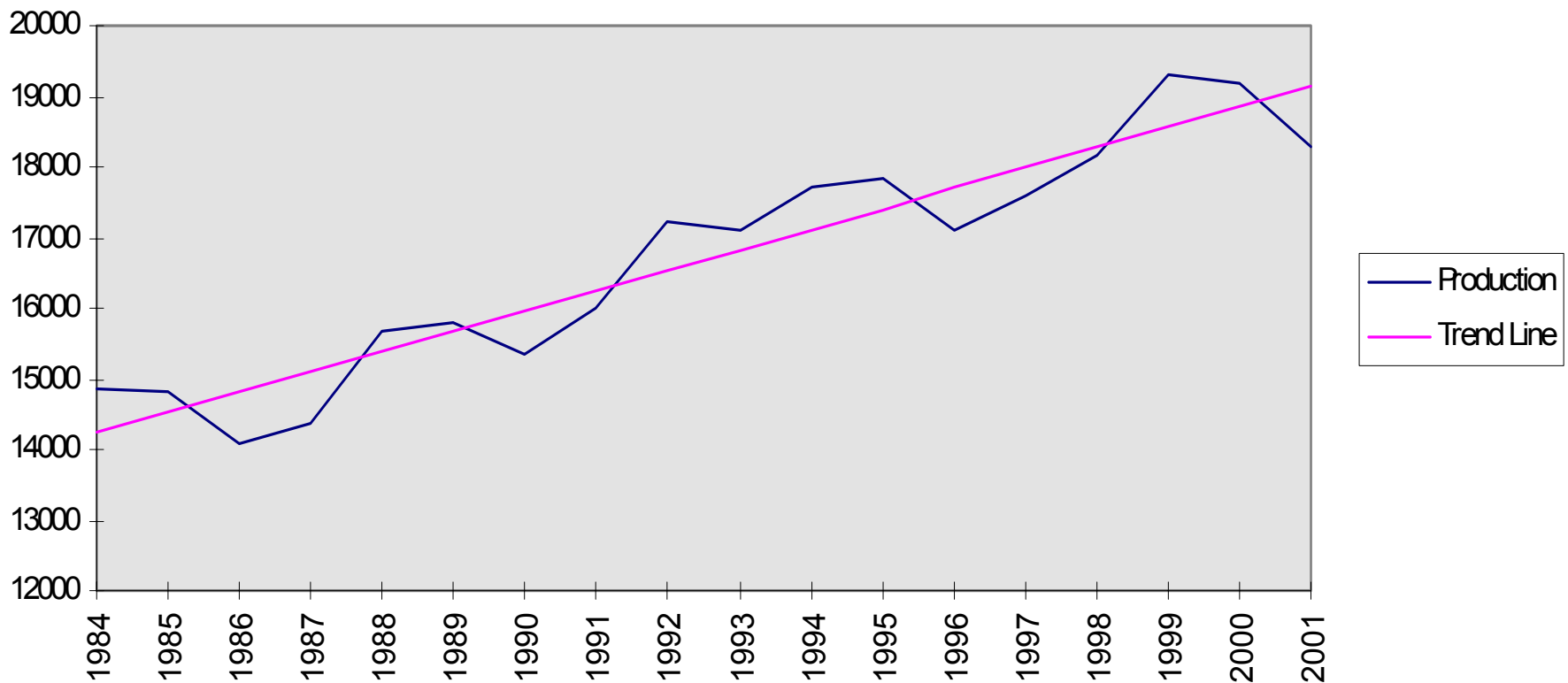




US PORK MARKET TRENDS

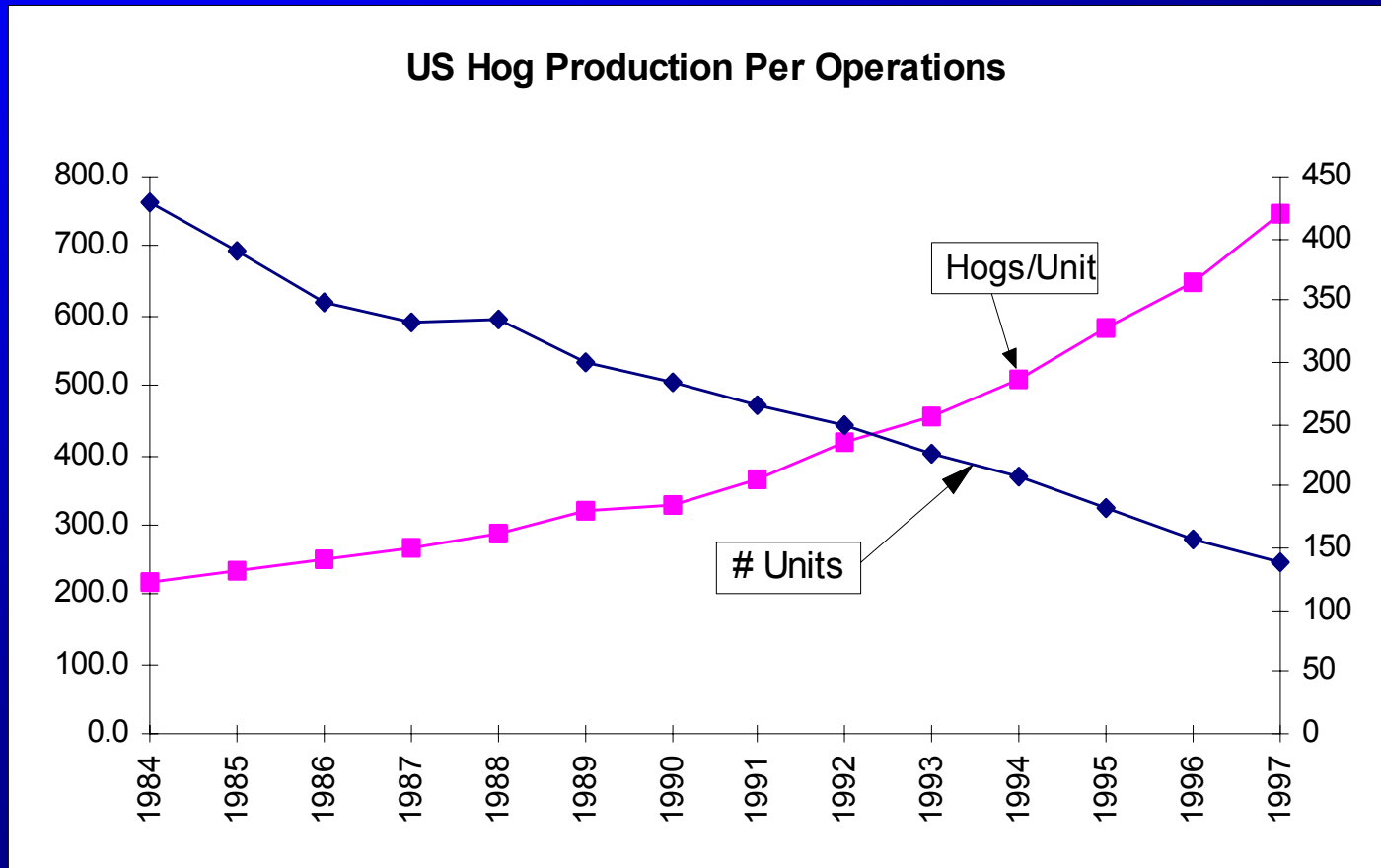
US PORK PRODUCERS ARE EXPECTED TO CONTINUE INCREASING THEIR PRODUCTIVITY AND MARKET DELIVERIES

US Pork Production



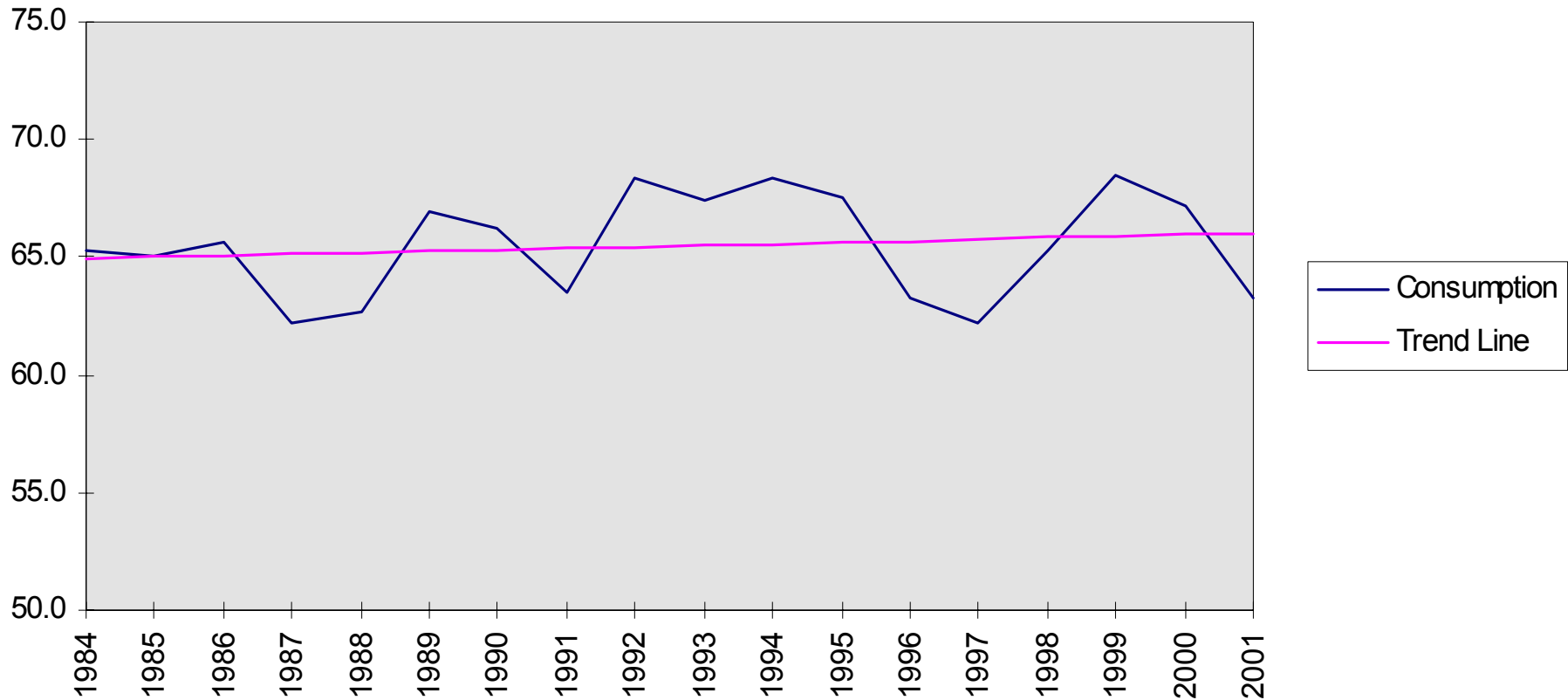
SINCE 1984, NUMBER OF PRODUCERS HAS DECLINED BY TWO THIRDS

NUMBER OF HOGS PER OPERATION IS ALMOST THREE AND ONE HALF TIMES LARGER



BUT PER CAPITA CONSUMPTION OF PORK MEAT IS GROWING AT A MUCH SLOWER PACE IN THE UNITED STATES

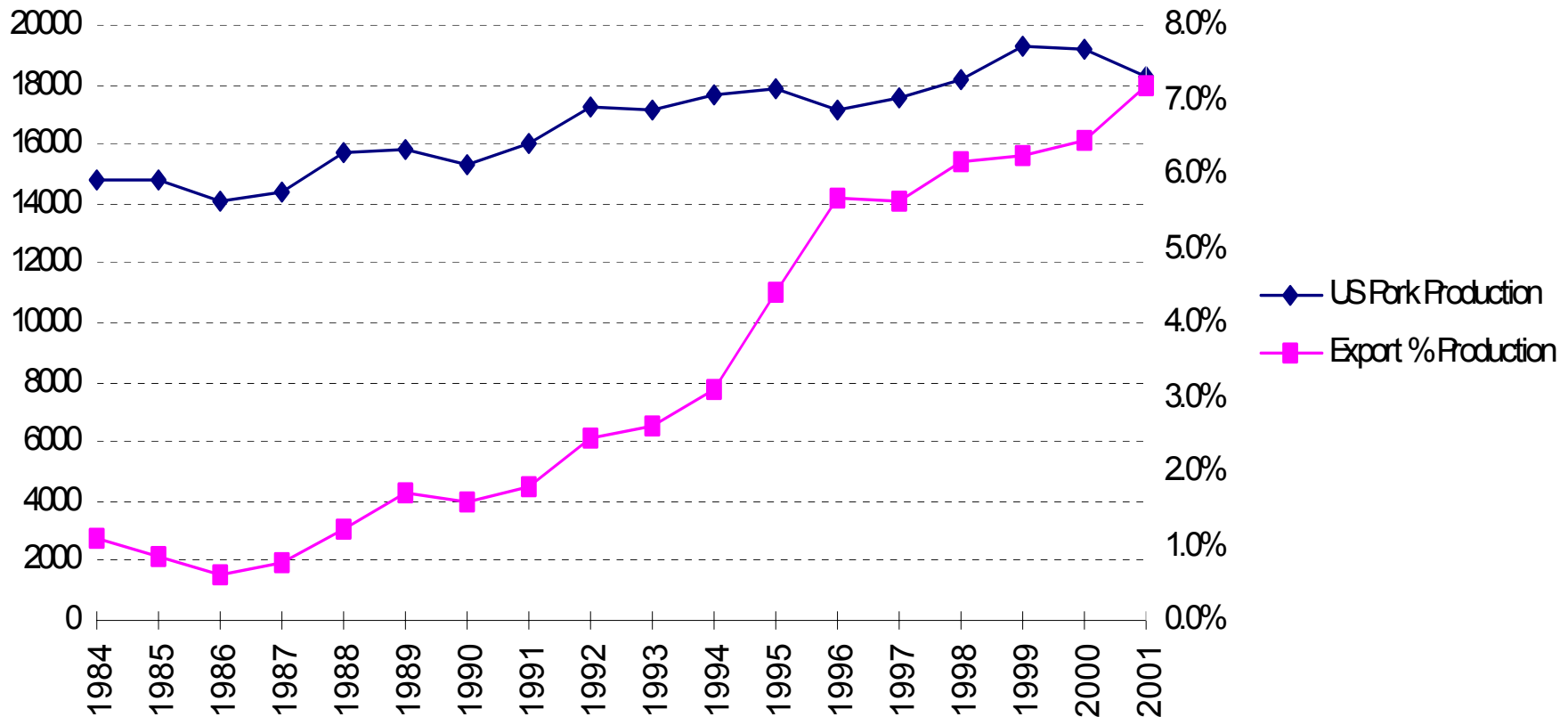
US Pork Consumption Per Capita



EXPORTS HAVE BECOME AN INCREASINGLY IMPORTANT OUTLET FOR AMERICAN PORK PRODUCERS IN RECENT YEARS.

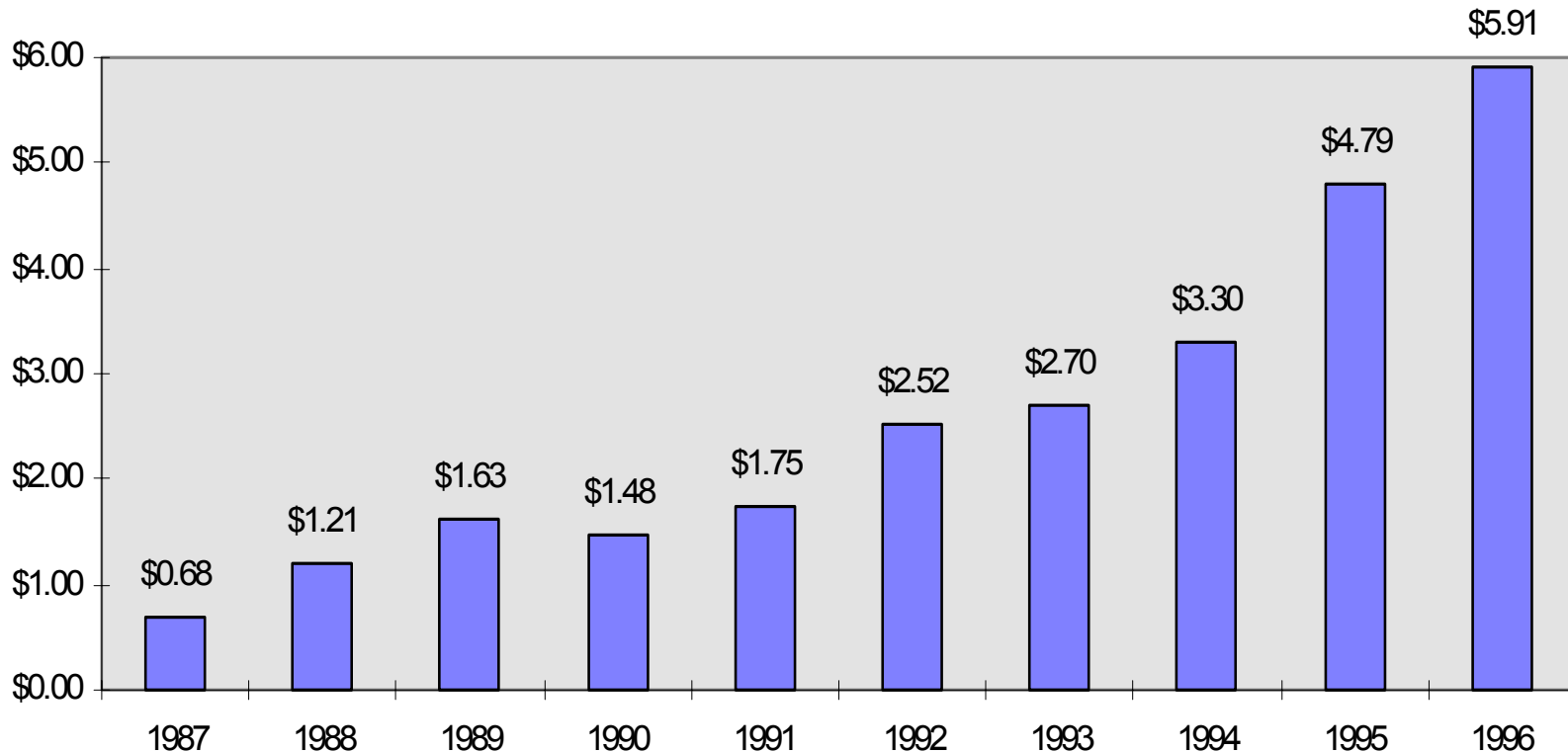
THEY WILL BECOME EVEN MORE CRITICAL AS WE MOVE INTO THE 21st CENTURY

US Pork Production & Exports



ACCORDING TO USMEF ESTIMATES, EXPORTS HAVE ADDED ALMOST \$6.00 PER HUNDRED WEIGHT TO THE PRICE AMERICAN PRODUCERS RECEIVE FROM THE MARKET

EXPORT VALUE ADDED TO US HOG PRICES





FARMLAND FOODS EXPORT SALES

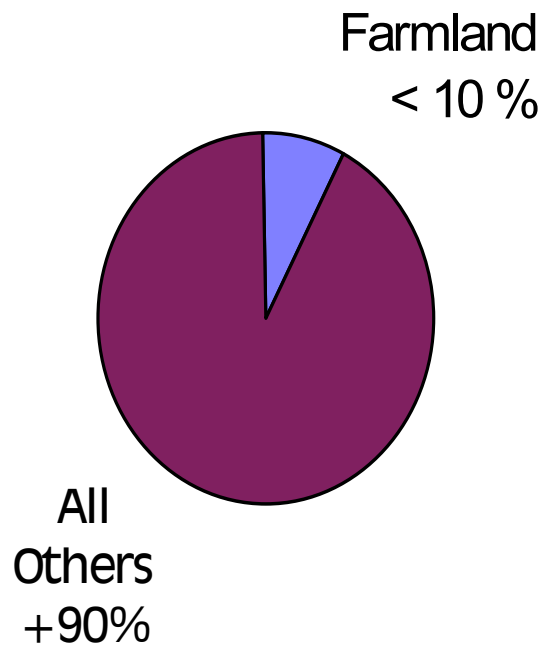
FARMLAND IS NORTH AMERICA'S LARGEST FARMER OWNED COOPERATIVE FOOD SYSTEM

- ♦ **Owned by more than 500 thousand farm and ranch families**
- ♦ **Integrated agricultural producer and marketer**
 - Crop Production
 - Agricultural Inputs
 - Livestock production
 - Grain marketing
 - Red meat marketing
- ♦ **The system exists to support its owners' economic well being**
 - Lower cost of production
 - Access to worldwide markets
 - Higher returns for grain and livestock

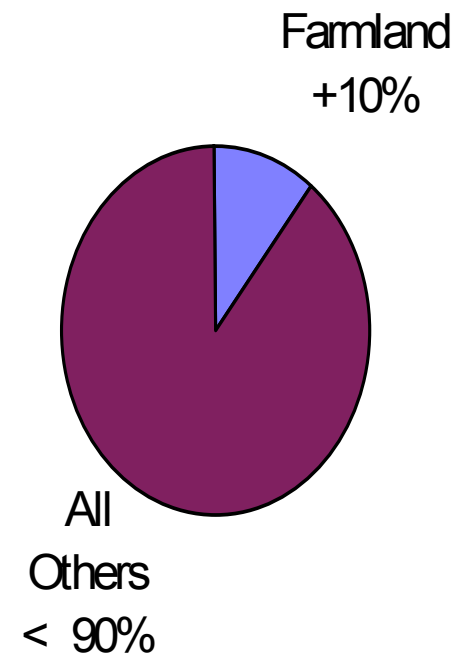


FARMLAND IS WELL POSITIONED IN THE US PORK EXPORT TRADE

Farmland Share of US Domestic Pork Market



Farmland Share of US Pork Export Market



WHEN DEVELOPING MARKETS, CONSUMER SEGMENTS MAY BE CATEGORIZED BY ECONOMIC DEVELOPMENT

<u>Economics</u>	<u>Country Type</u>	<u>Meat Product Preferences</u>
Poor	Developing	Lowest value cuts and processed products
Pre-Consumer tastes	Developing	Less expensive cuts, traditional & diets
Consumer	Developed	Quality, convenience and safety
Elite	Advanced	High quality specialty meats, high value added and convenient with innovative new products



FARMLAND'S DIVERSIFIED INTERNATIONAL MARKET PORTFOLIO ENABLES US TO REACH ACROSS CONSUMER SEGMENTS

♦ Russia, Poland, China

- Low cost hot dogs, boneless picnics, variety meats and offals

♦ Philippines, Mexico, Caribbean, Central America

- Value oriented prepackaged processed meats, deli meats, primals and offals

♦ Singapore, Hong Kong, Korea

- Quality meat products with some regional cut and style preferences

♦ Japan, Canada

- Highest quality processed and chilled meat products, special production for sophisticated consumers





NAFTA AND EXPORTS TO MEXICO

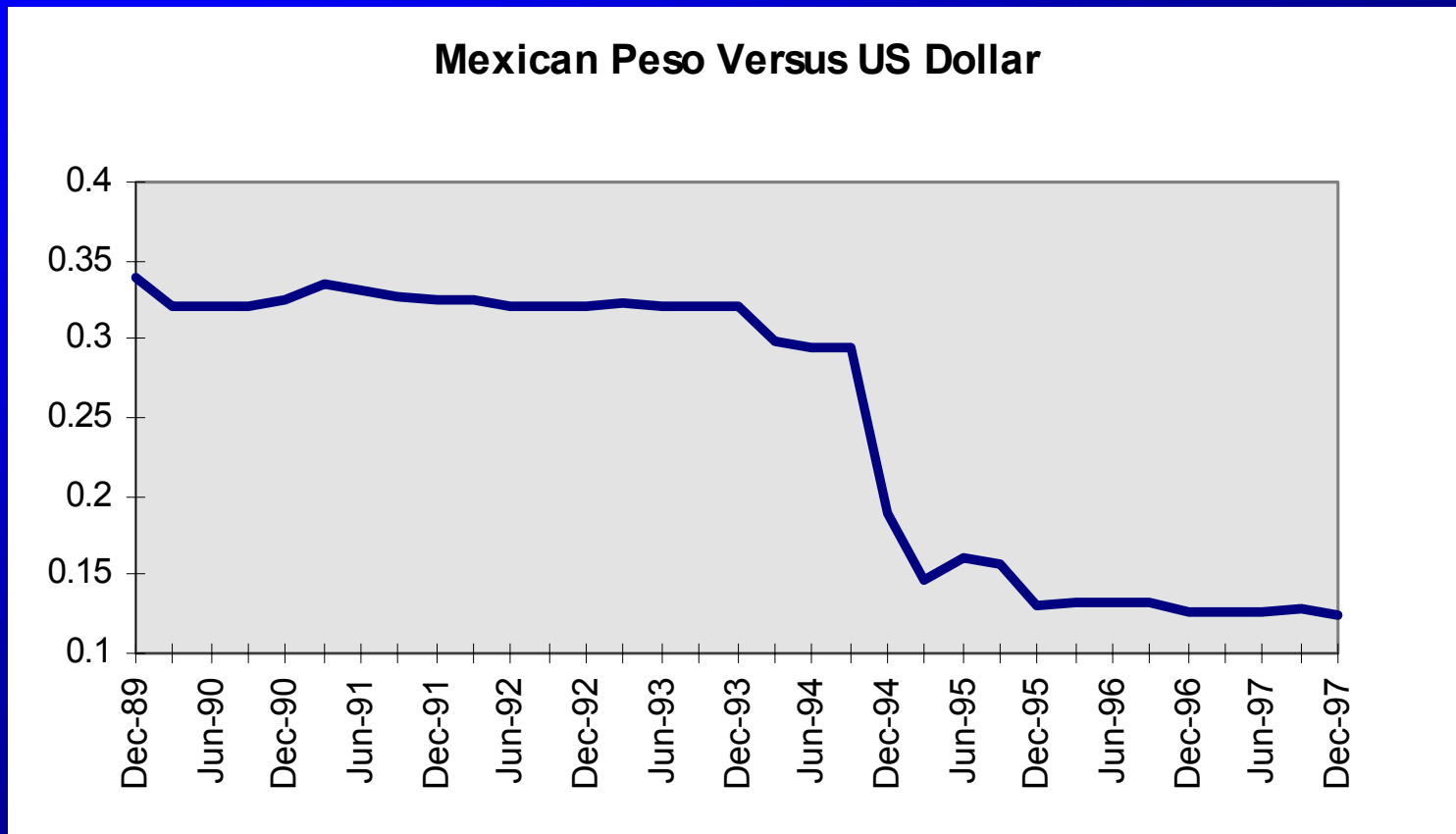
THE NAFTA HAS HAD A POSITIVE IMPACT ON TRADE OF AGRICULTURAL PRODUCTS BETWEEN THE MEMBER COUNTRIES

- ♦ **Meat product exports to Mexico from the USA have increased substantially**
 - All species
 - Late 1994 devaluation caused temporary disruption
 - Recovering economy has renewed growth

- ♦ **NAFTA impact on US/Canada trade has been less noteworthy**
 - 1987 Free Trade Agreement (FTA) already in place
 - FTA provisions “grandfathered” or deferred to GATT implementation
 - Strength of US dollar versus Canadian dollar has favored exports of meat products from Canada to USA



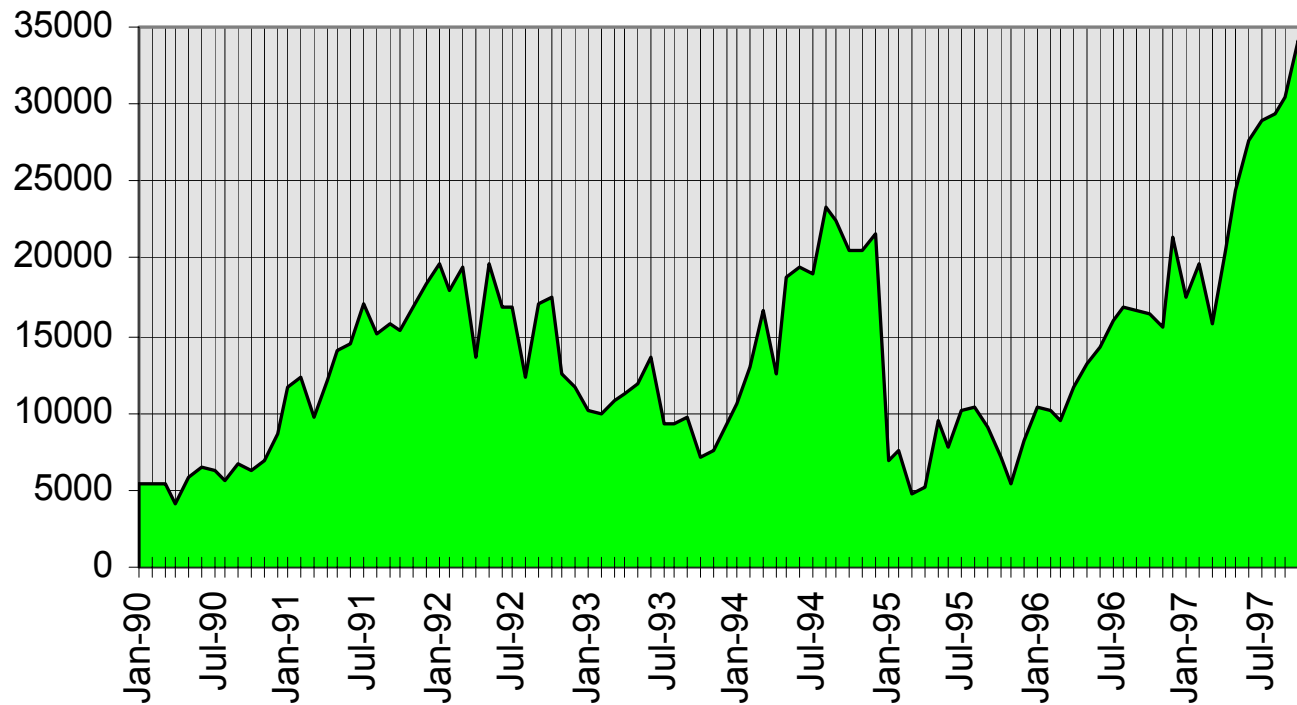
THE MEXICAN CURRENCY SUFFERED A MAJOR DEVALUATION VS THE US DOLLAR SHORTLY AFTER IMPLEMENTATION OF THE NAFTA IN 1994



EXPORTS OF US PORK MEAT TO MEXICO HAVE INCREASED SUBSTANTIALLY SINCE NAFTA

- The late 1994 devaluation depressed demand temporarily
- Economic recovery in 1996 fueled growth

US Pork Exports to Mexico



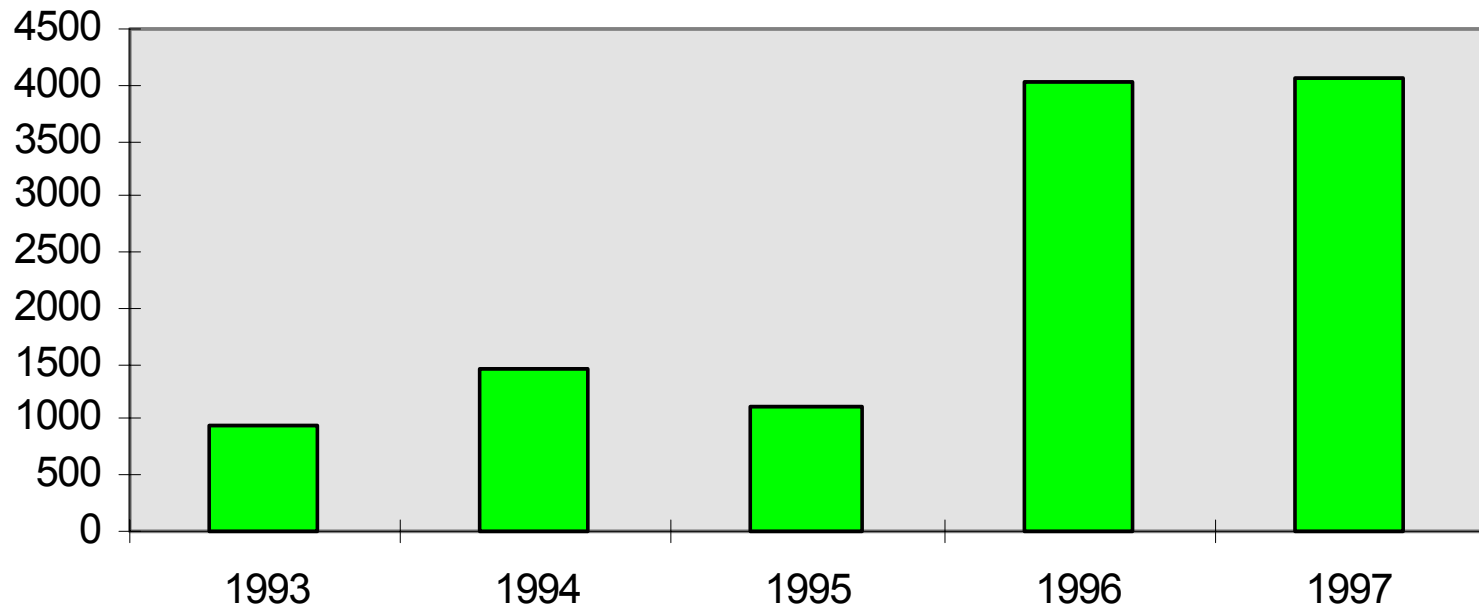
FARMLAND OPENED AN OFFICE IN MEXICO CITY IN 1993 TO PREPARE FOR INCREASED TRADE

- ♦ **Improve distribution and sales of grains**
- ♦ **Develop distribution and sales of meats**
 - Already shipping some lower value cuts and offal products
 - Primarily interested in developing market for prepackaged processed meats
 - NAFTA would substantially reduce tariffs on meat exports into Mexico, improving costs of imported meats to final consumer



FARMLAND'S PORK EXPORTS HAVE ENJOYED RAPID GROWTH, ESPECIALLY AFTER 1995

**Farmland Pork Exports to Mexico
Metric Tonnes**



IN AUGUST, 1997 WE INTRODUCED PREPACKAGED PROCESSED MEATS INTO THE MEXICAN MARKET FOR THE FIRST TIME

- ♦ **Began with limited distribution into Mexico City**
- ♦ **Have now expanded to all Sam's and WalMart stores throughout Mexico and increased number of supermarkets in Mexico City**
- ♦ **First products shipped with US labels**
- ♦ **Have now developed an expanded line with Mexico specific, Spanish language labels**



MEXICO IS NOW A STRATEGIC MARKET FOR FARMLAND

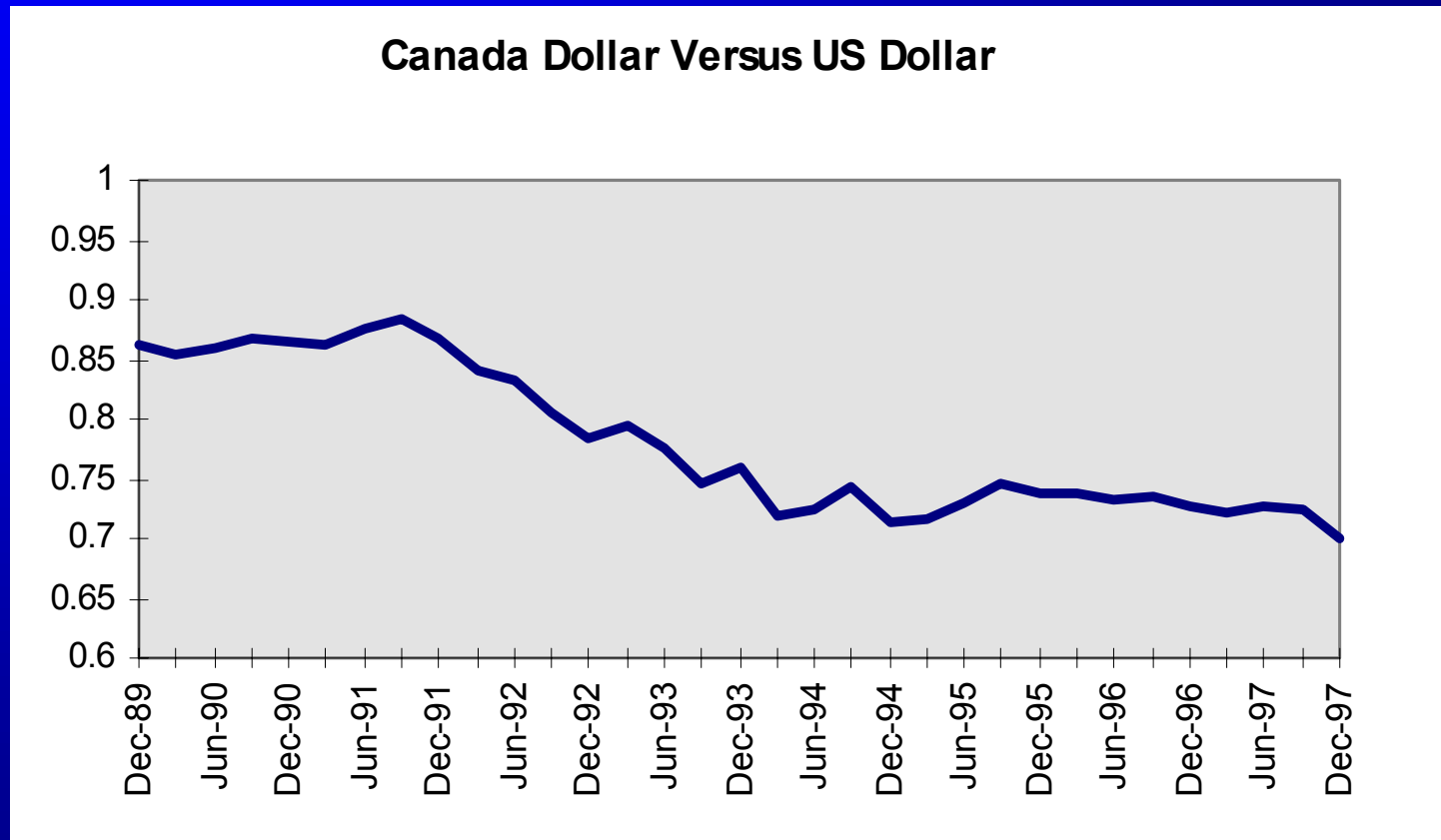
- ♦ **Mexico is expected to be a key growth opportunity**
- ♦ **Recently strengthened organization**
- ♦ **Have begun advertising campaigns in Mexico City to improve awareness of the Farmland brand**
 - Outdoor signage
 - Bus panels
 - Trade shows
- ♦ ***Importantly, Farmland “toughed it out” during the currency related economic dislocation and is now positioned to reap the benefits***





NAFTA AND EXPORTS TO CANADA

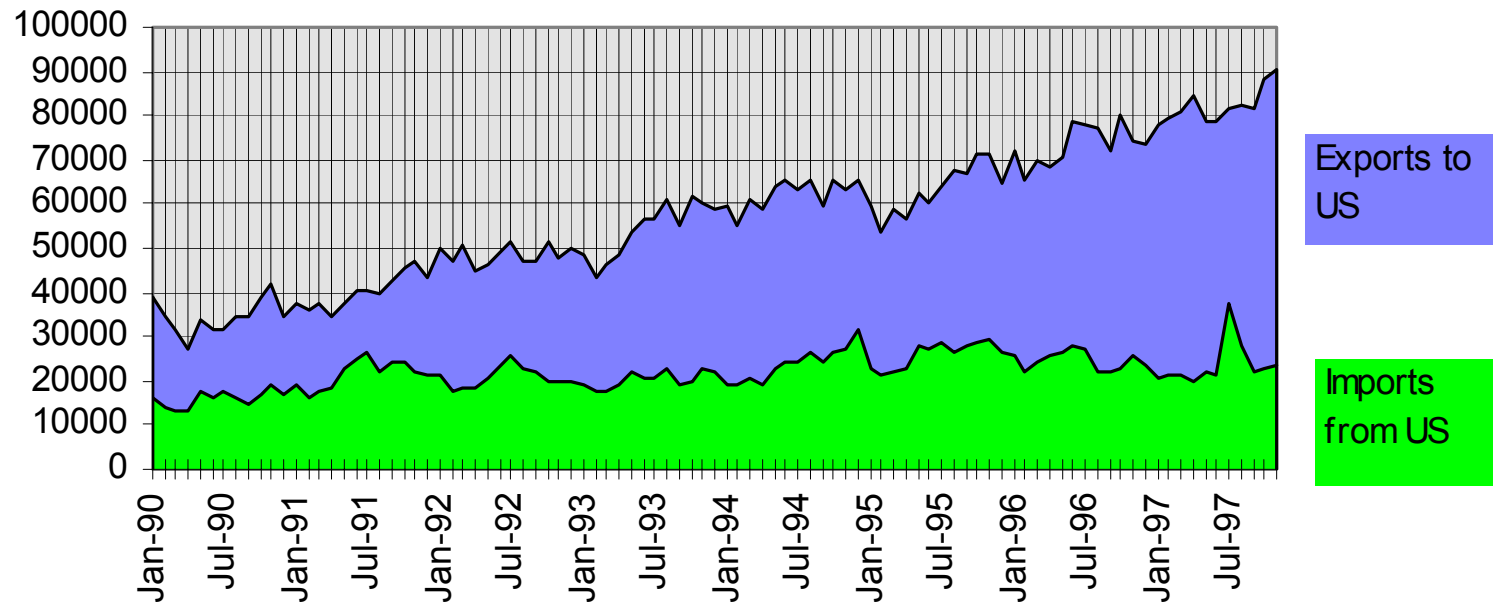
THE US DOLLAR HAS BEEN STEADILY STRENGTHENING VERSUS THE CANADIAN DOLLAR OVER THE PAST SEVERAL YEARS



CANADA WAS A NET EXPORTER OF PORK MEAT TO THE USA BEFORE NAFTA

CANADIAN EXPORTS HAVE GROWN WITH THE WEAKENING OF THE CANADIAN DOLLAR

Canadian Exports to USA and Imports From USA



FARMLAND EXPORTS INTO CANADA HAVE BEEN MINIMAL, BUT EFFORTS UNDERWAY TO DEVELOP THE MARKET POTENTIAL FOR OUR PRODUCTS

- ♦ **Developed some limited fabricated pork trade in late 1997**
- ♦ **Have been discussing prepackaged product opportunities with key trade factors in Canada**
- ♦ **Held full day seminar in January, 1998 on “How To Export Meat Products to Canada”**
- ♦ **Currently developing bilingual labels for a limited line of products which will be highly differentiated for Canadian consumers**



IN SUMMARY, INTERNATIONAL TRADE IS A KEY ELEMENT OF MANY AGRICULTURAL BASED COMPANIES IN THE US.

NAFTA AND OTHER TRADE AGREEMENTS CAN HELP OPEN ACCESS TO US PRODUCERS

- ✦ **Agricultural exports from the USA to Mexico have grown substantially**
- ✦ **Mexico has become a strategic market for Farmland**
- ✦ **NAFTA has had less of an impact on trade between Canada and USA**
- ✦ **However, development of the Farmland brand in Canada is underway, because...**
- ✦ **NAFTA HAS CREATED A MUCH MORE ACCESSIBLE AND INTEGRATED NORTH AMERICAN MARKETPLACE FOR PRODUCERS AND CONSUMERS**

