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**U.S Department of Agriculture**  
**Agricultural Outlook Forum 1998**

**February 23 & 24, 1998**

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

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

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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**

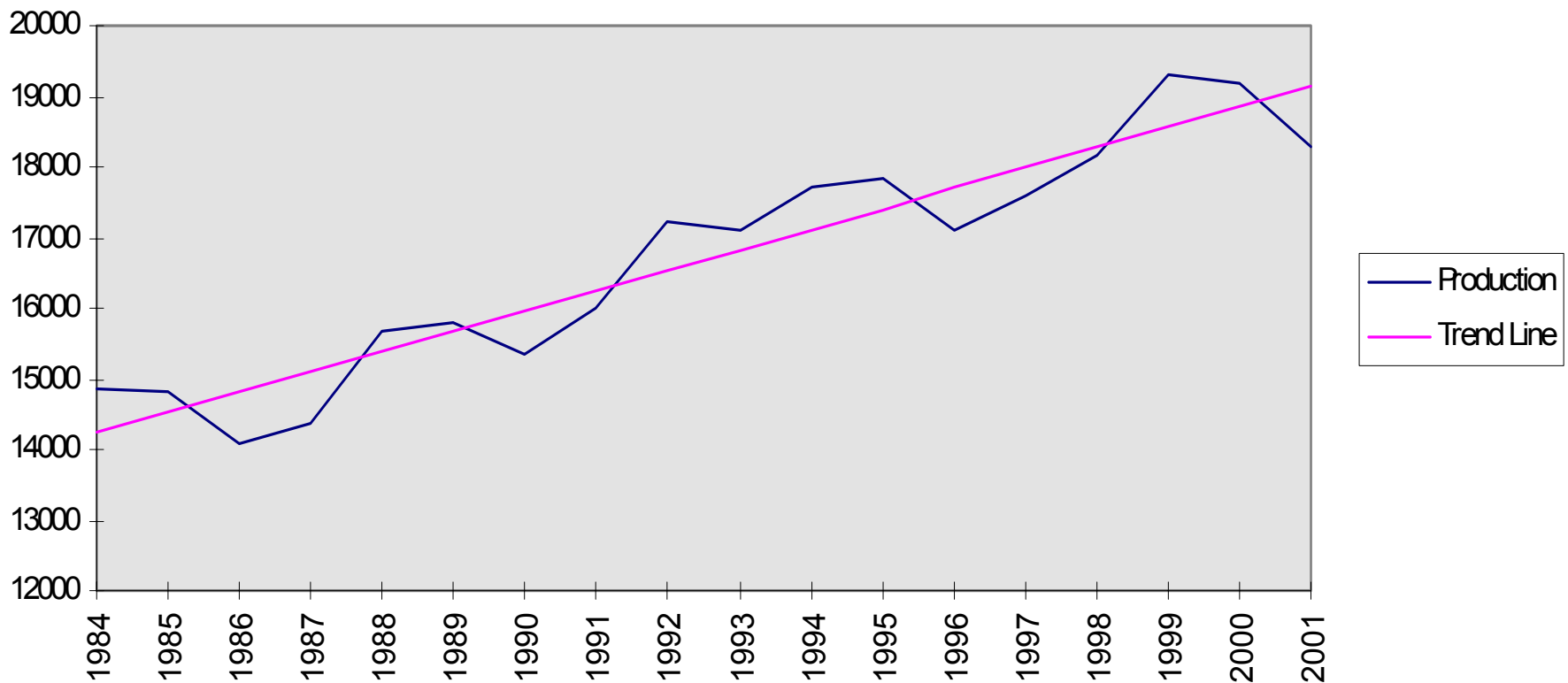




## **US PORK MARKET TRENDS**

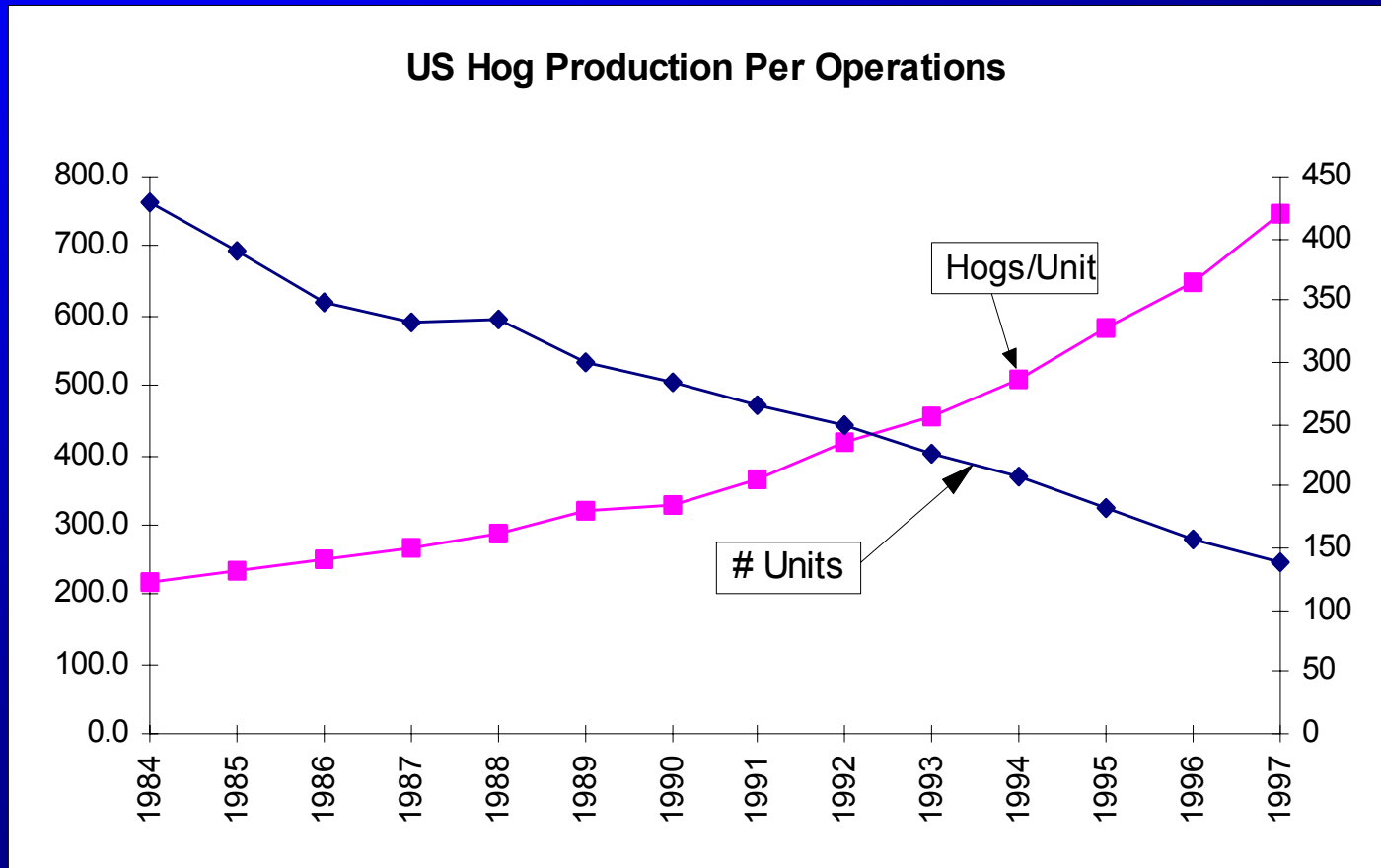
# US PORK PRODUCERS ARE EXPECTED TO CONTINUE INCREASING THEIR PRODUCTIVITY AND MARKET DELIVERIES

US Pork Production



**SINCE 1984, NUMBER OF PRODUCERS HAS DECLINED BY TWO THIRDS**

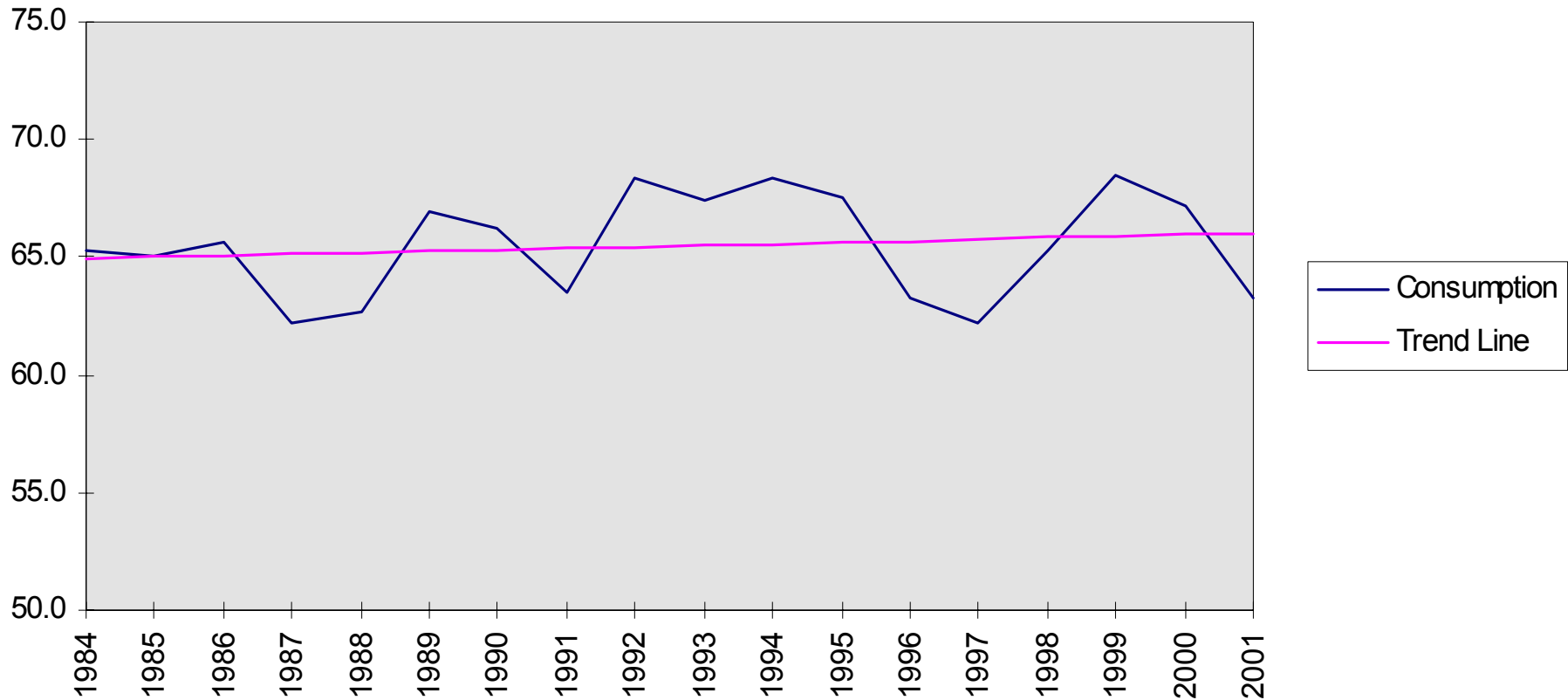
**NUMBER OF HOGS PER OPERATION IS ALMOST THREE AND ONE HALF TIMES LARGER**





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

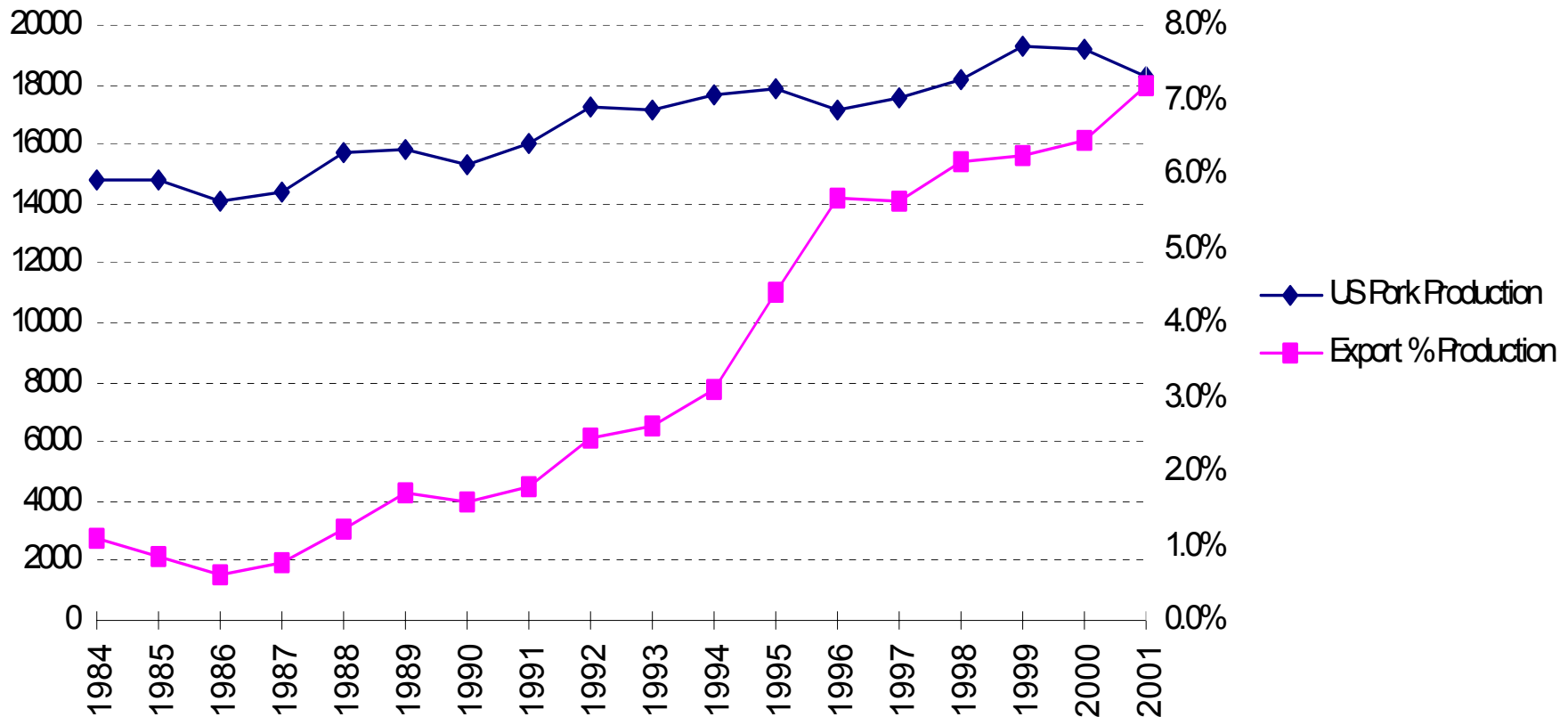
US Pork Consumption Per Capita



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

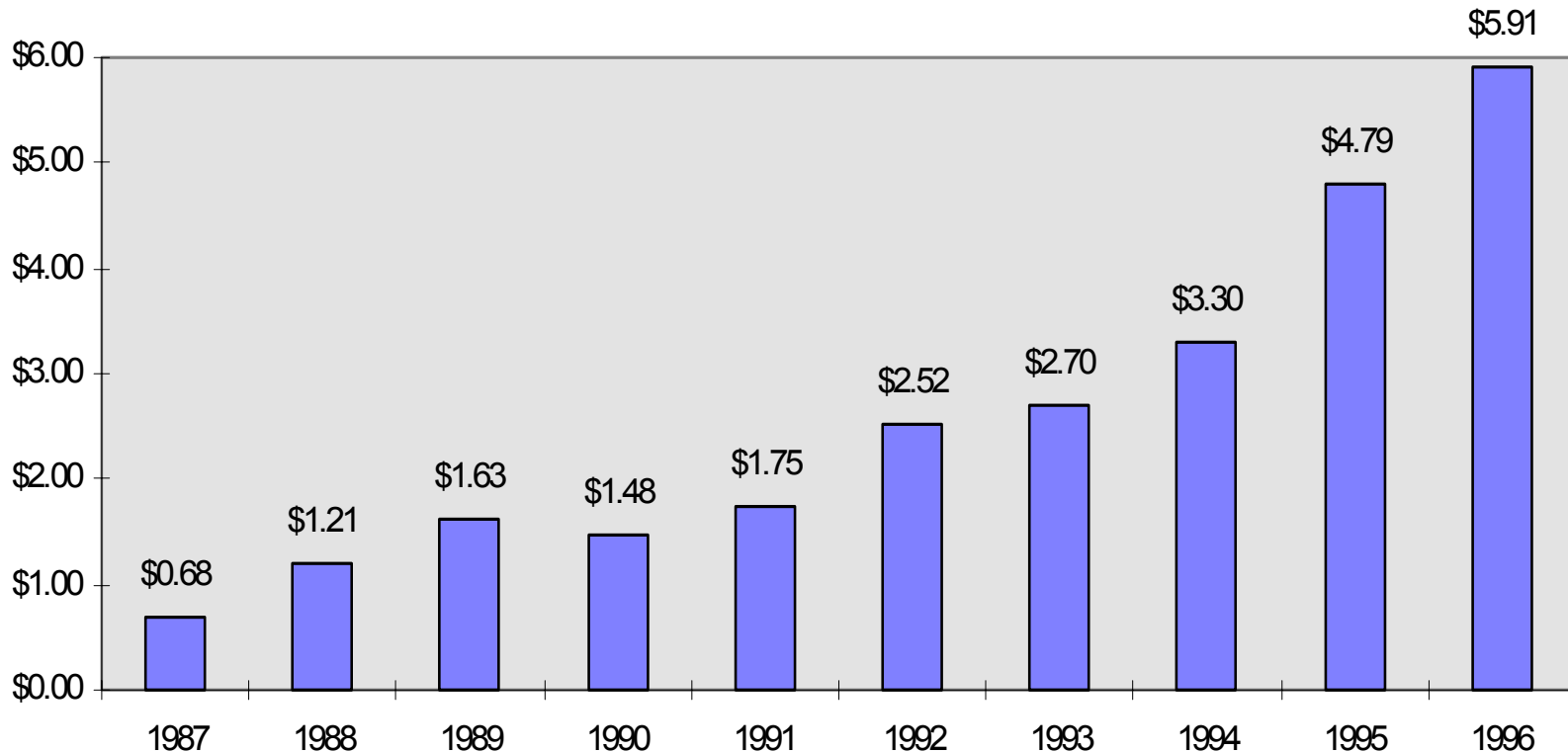
**THEY WILL BECOME EVEN MORE CRITICAL AS WE MOVE INTO THE 21<sup>st</sup> CENTURY**

**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**

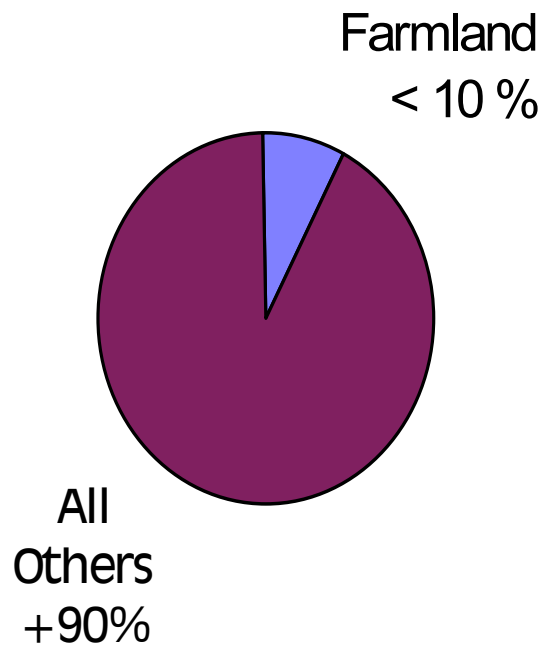
# **FARMLAND IS NORTH AMERICA'S LARGEST FARMER OWNED COOPERATIVE FOOD SYSTEM**

- ♦ **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

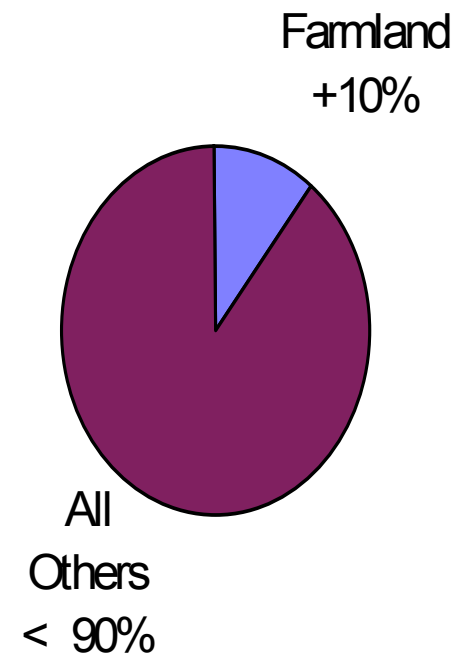


# FARMLAND IS WELL POSITIONED IN THE US PORK EXPORT TRADE

**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







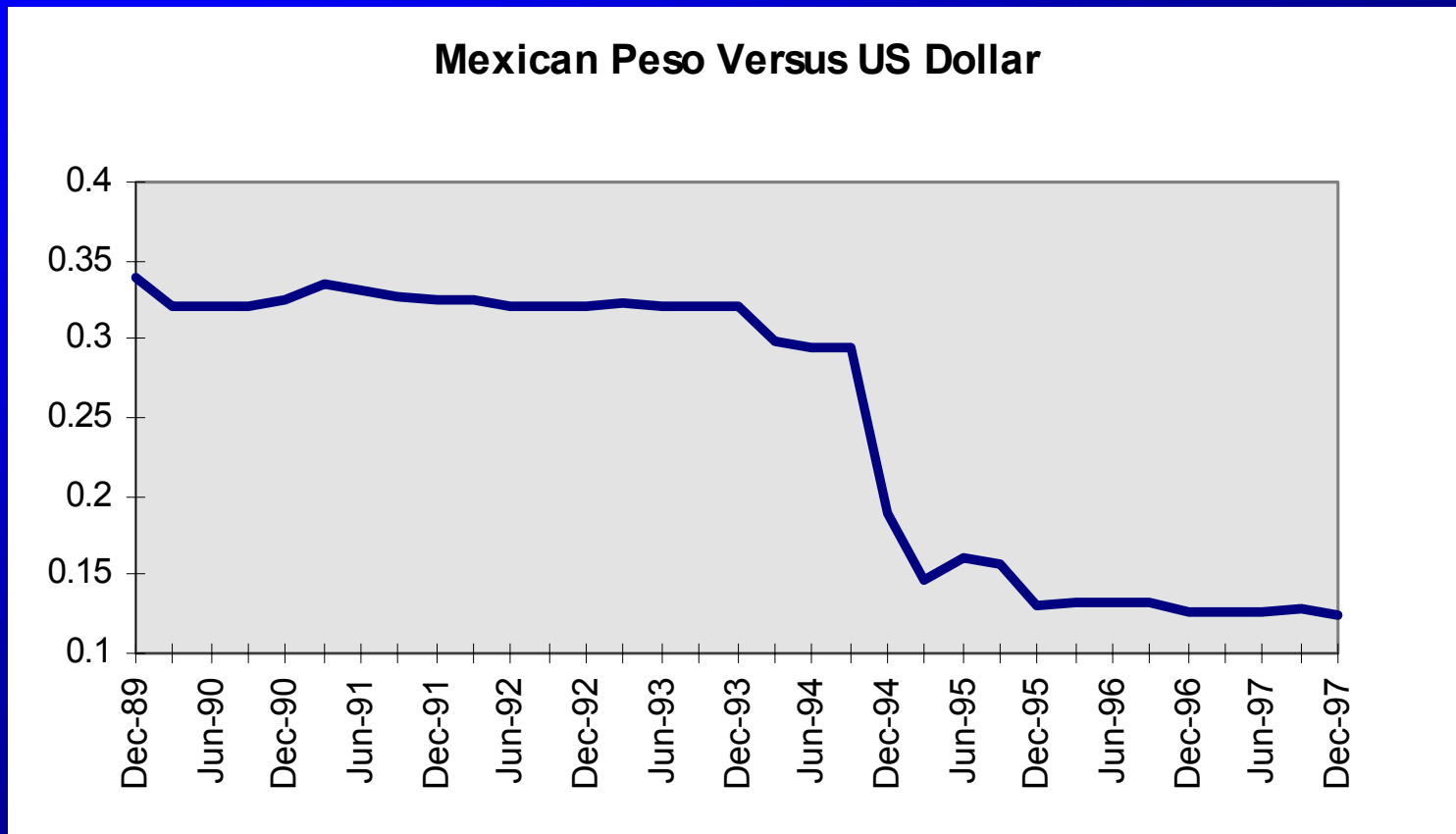
## NAFTA AND EXPORTS TO MEXICO

# **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



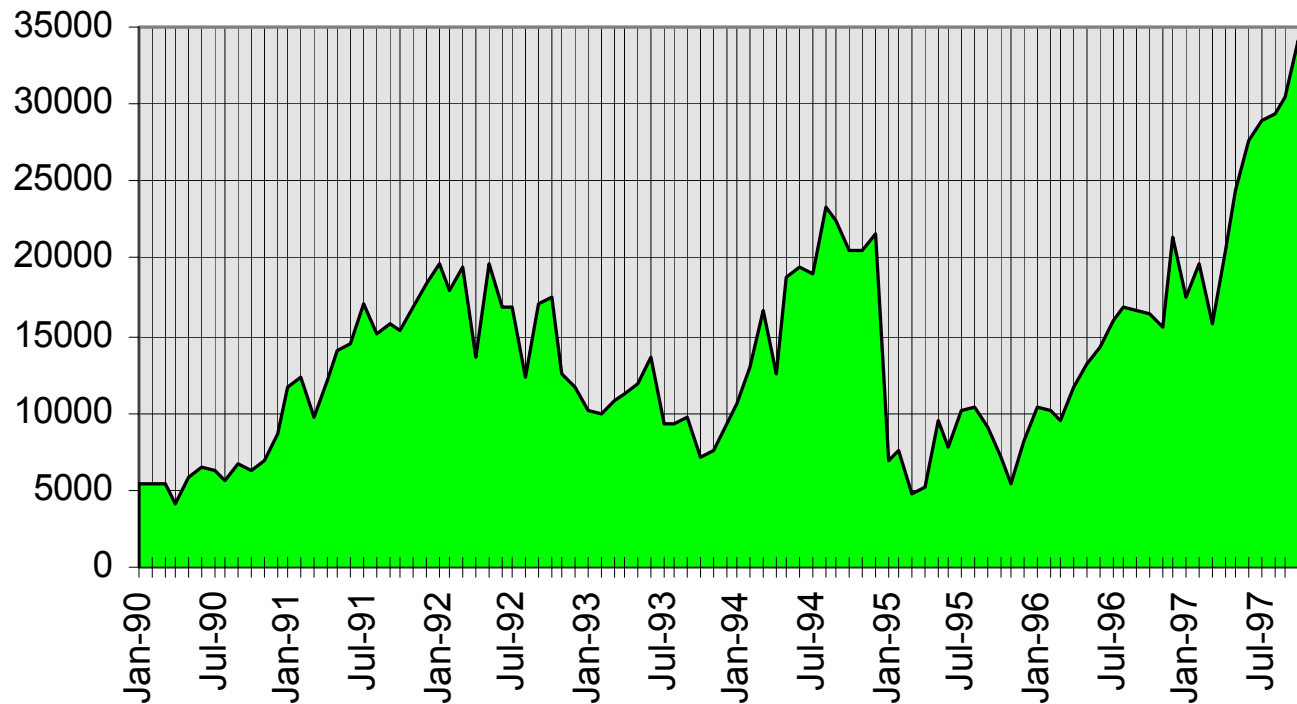
# THE MEXICAN CURRENCY SUFFERED A MAJOR DEVALUATION VS THE US DOLLAR SHORTLY AFTER IMPLEMENTATION OF THE NAFTA IN 1994



## 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



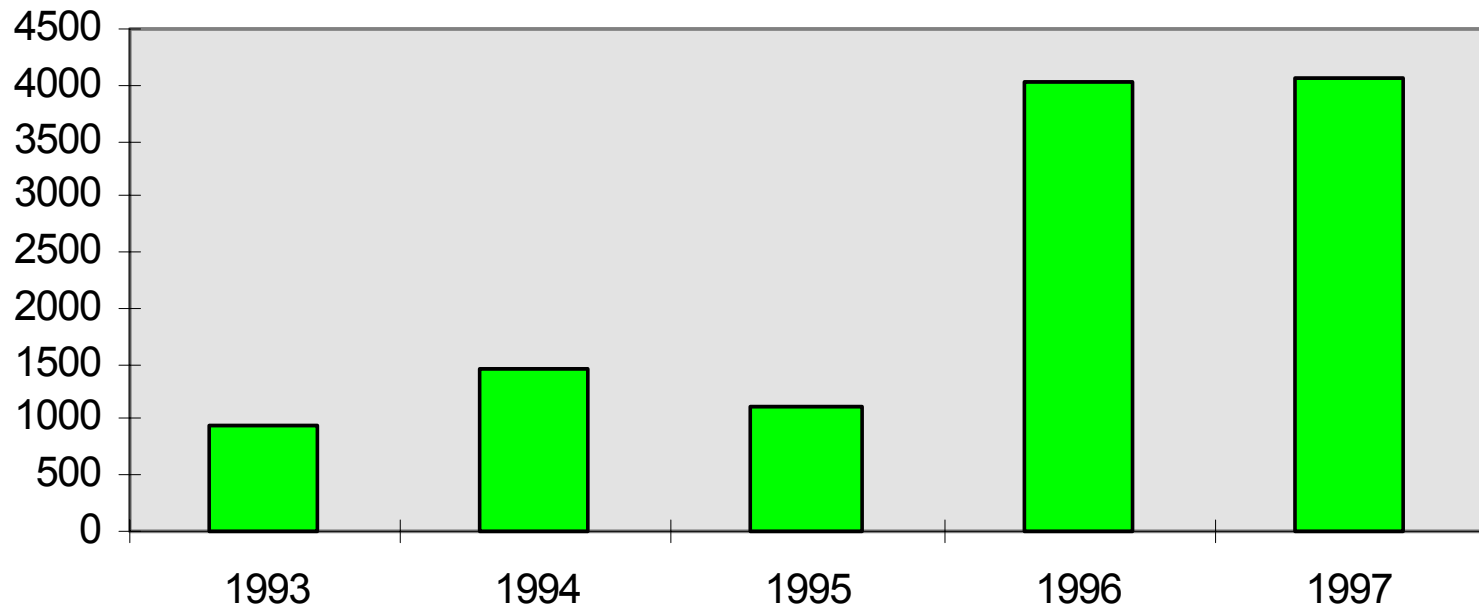
## **FARMLAND OPENED AN OFFICE IN MEXICO CITY IN 1993 TO PREPARE FOR INCREASED TRADE**

- ♦ **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*

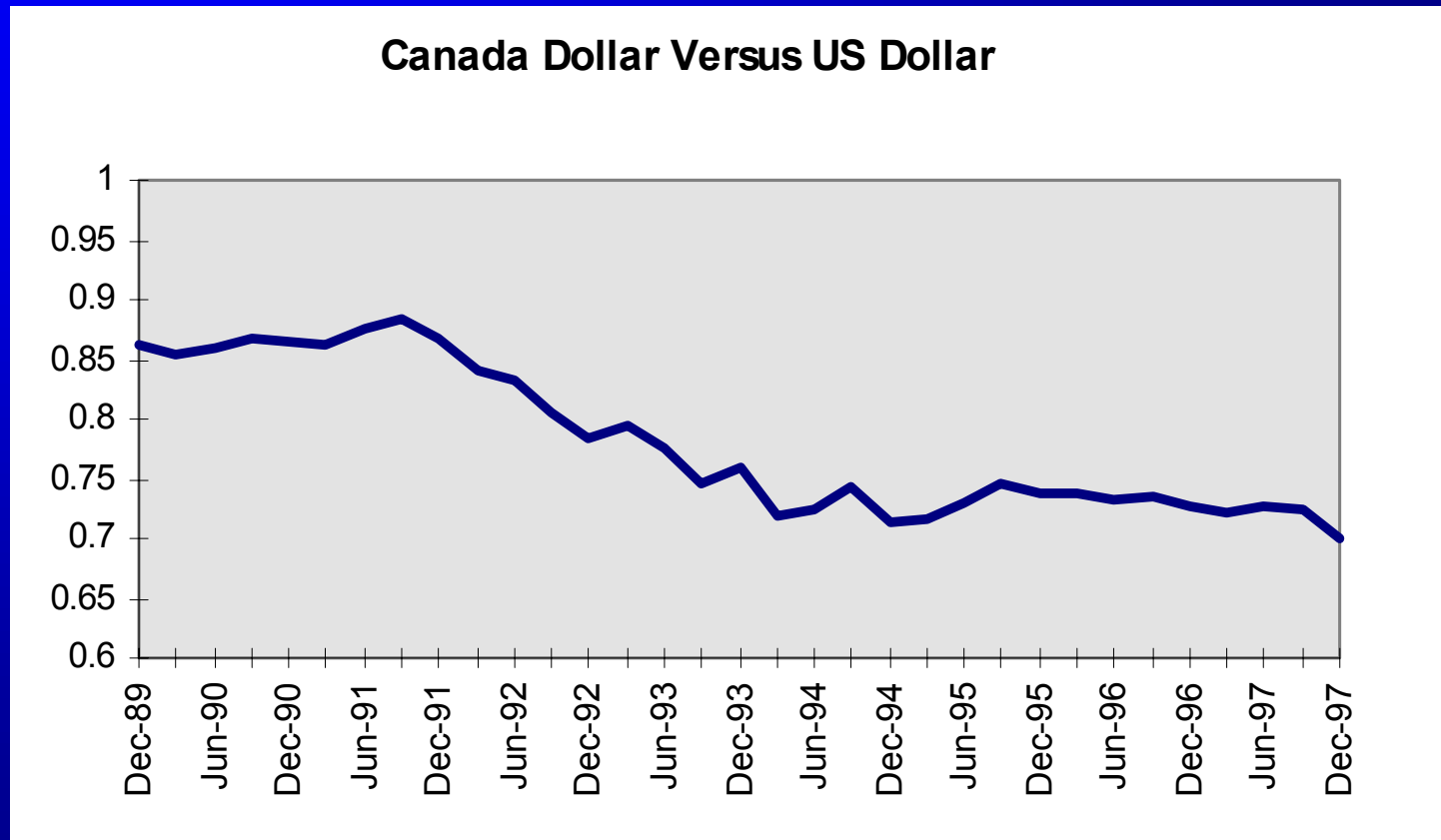






## NAFTA AND EXPORTS TO CANADA

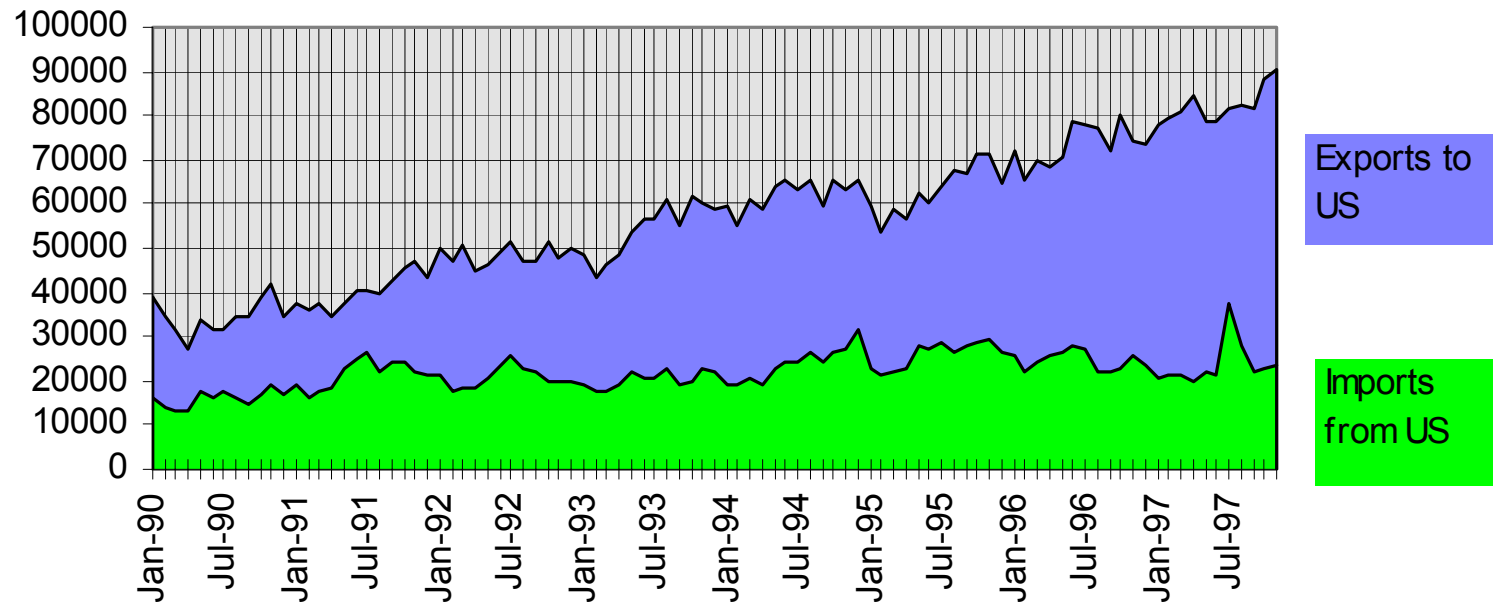
# THE US DOLLAR HAS BEEN STEADILY STRENGTHENING VERSUS THE CANADIAN DOLLAR OVER THE PAST SEVERAL YEARS



# 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**

