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The Changing Dynamics of World Meat Trade

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Presentation outline



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What drives meat trade?

- Consumer preferences

- Supply competitiveness (input costs, FX)

- Disease, food safety & traceability

- Government intervention (politics, access)

- Competition between protein sources

The Chinese meat crisis

Considerations for the Canadian industry



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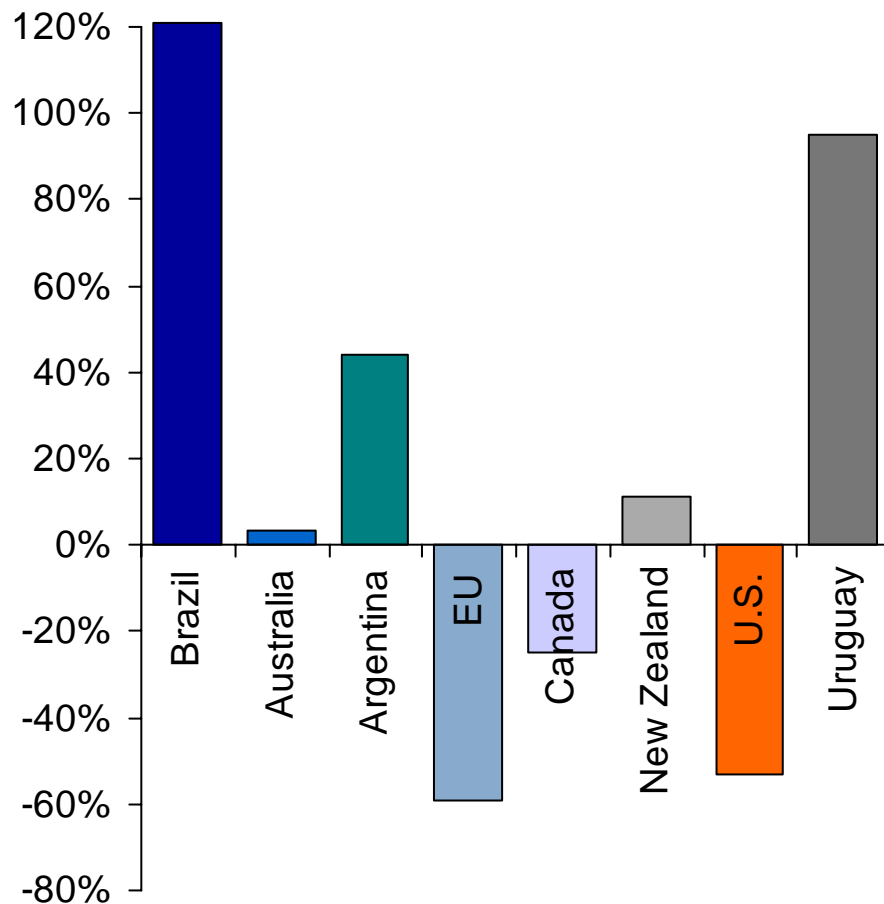
Global meat trade flows have
changed

Trade patterns have changed significantly and not just for beef

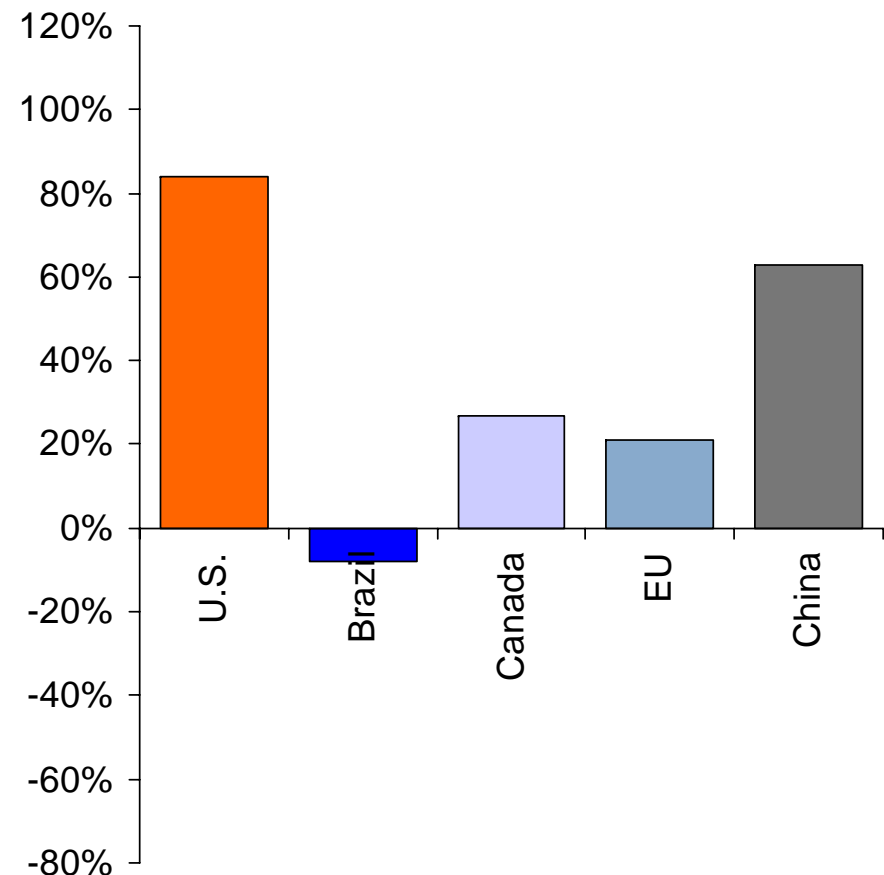


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Change in beef exports (2002 v 2006)



Change in pork exports (2002 v 2006)





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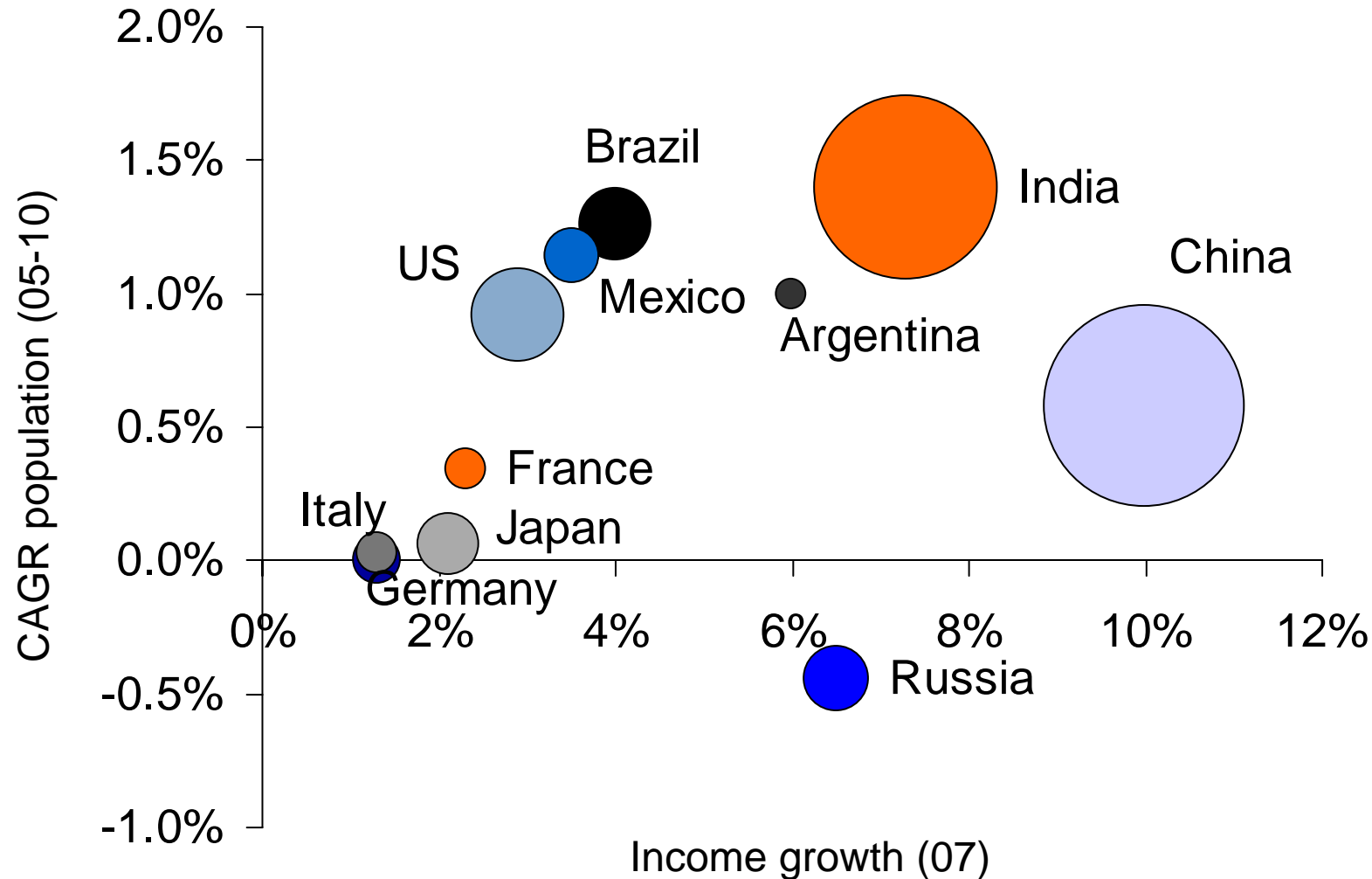
Consumer preferences –
income and population growth
will drive demand for meat and
encourage trade in meat

Income and population provide the basis for consumption growth



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Income and population growth in selected countries

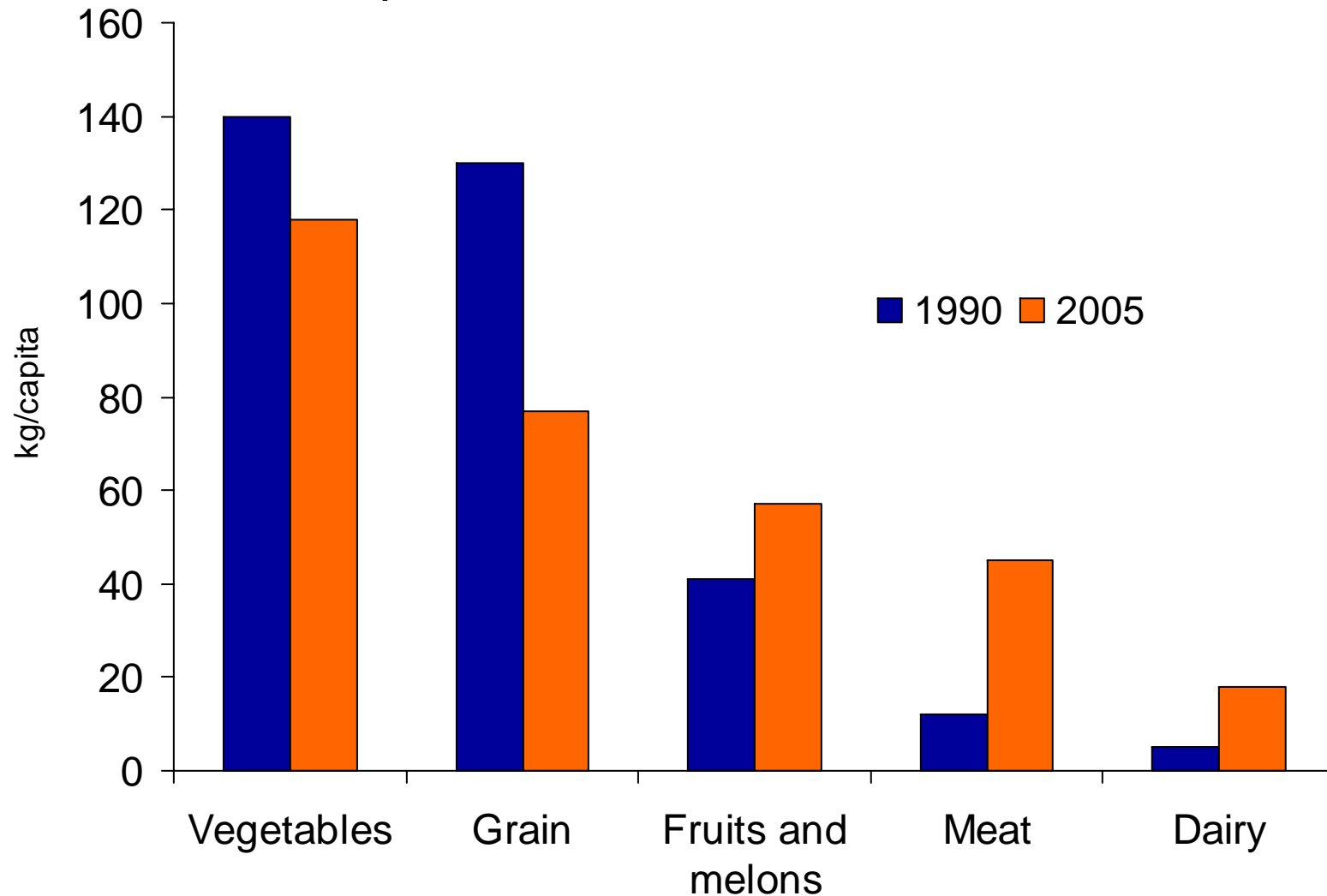


As income grows consumers eat more meat & processed foods



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Urban consumption in China





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Supply competitiveness – the economics of production

Comparing production costs is tricky



Production costs are driven by;

- Access to capital
- Land resources
- Feed
- Labour
- Production systems
- Productivity
- Scale

Representative steer prices,
August 2007

	Estimated carcass weight price (USD/kg)
United States	3.19
Canada	2.80
Argentina	1.58
Brazil	2.13
Australia	2.64
New Zealand	2.27

Increased demand for feedstuffs



Biofuels boom in the U.S. is structurally altering the playing field;

- Feed vs. fuel debate
- Shifting basis
- Non-ag investors
- New entrants in futures and physical markets
- Volatility
- Transport, storage & logistics
- Utilization of by-products (beef in best position)

Source: Milling & Baking News, Rabobank

Milling & Baking News®

The newsworthy of grain-based foods

bakingbusiness.com / world-grain.com

JANUARY 2, 2007

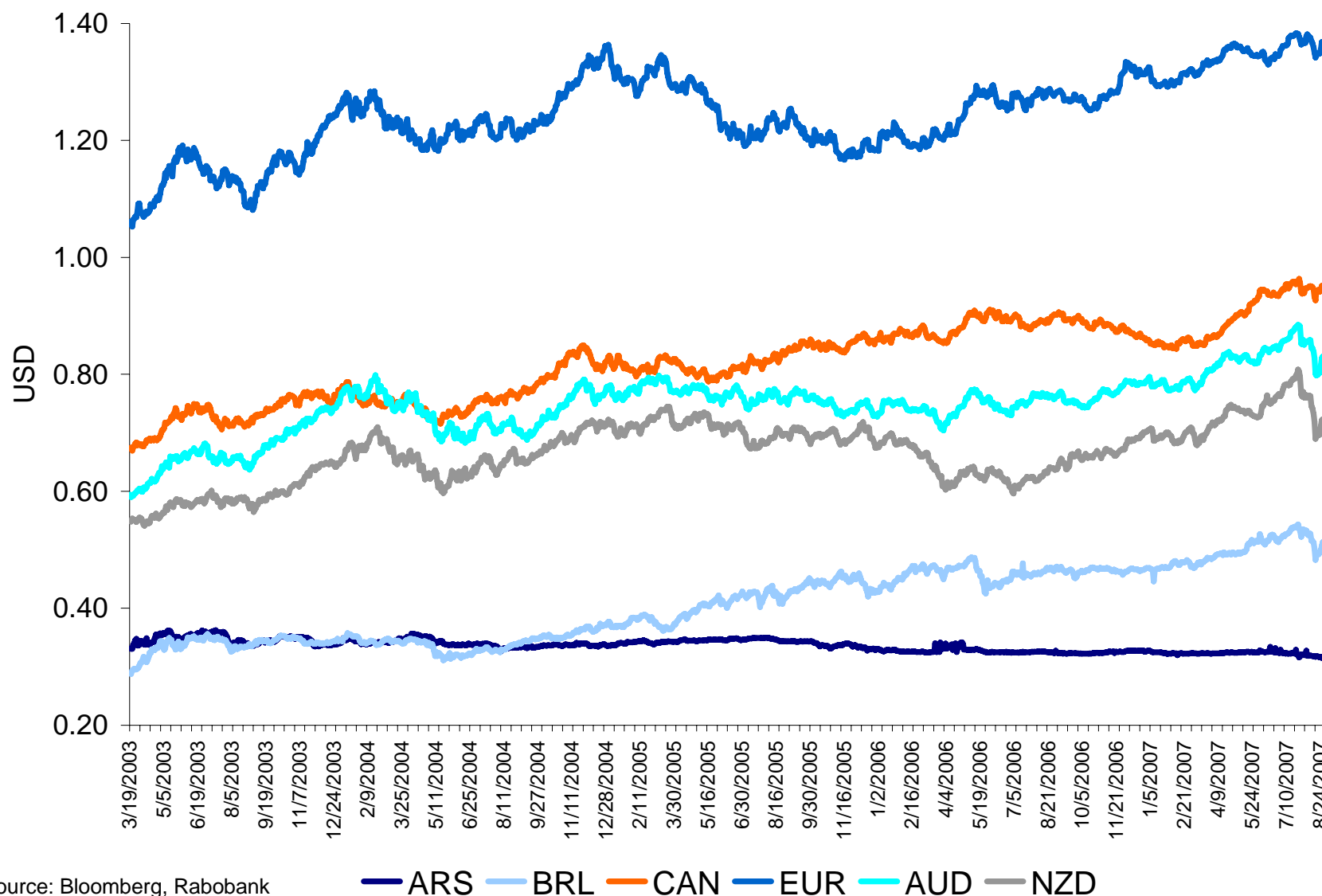


Exchange rate impacts difficult to counter



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Various currencies against the USD



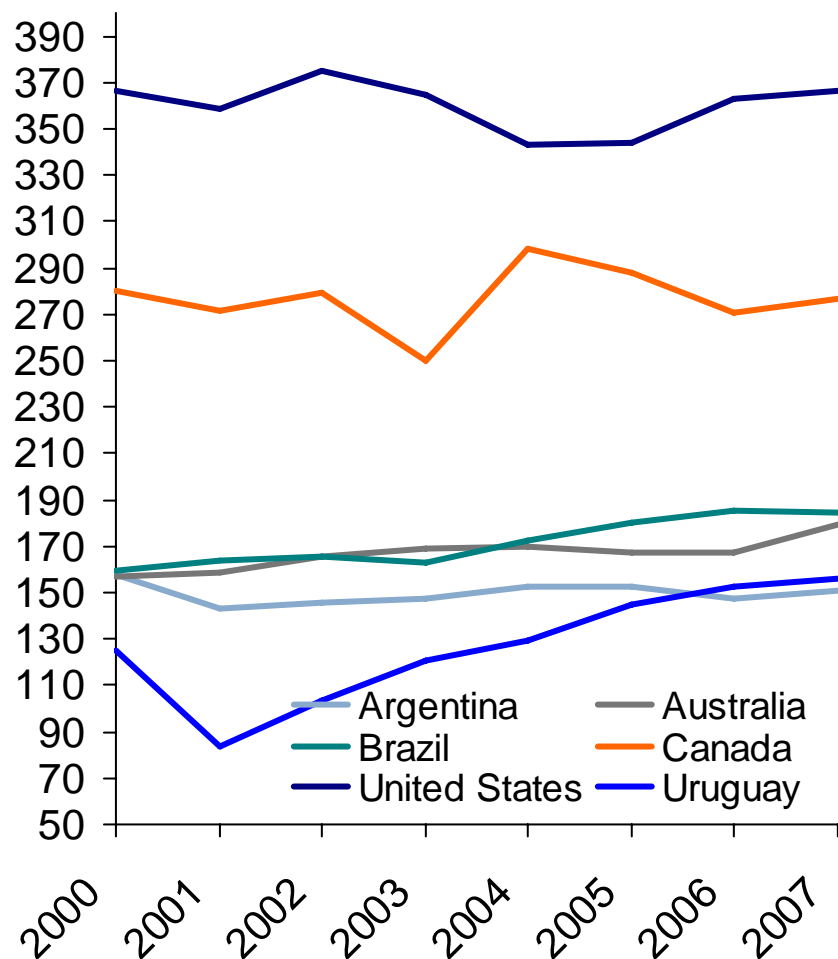
Source: Bloomberg, Rabobank

Potential to improve productivity in South America

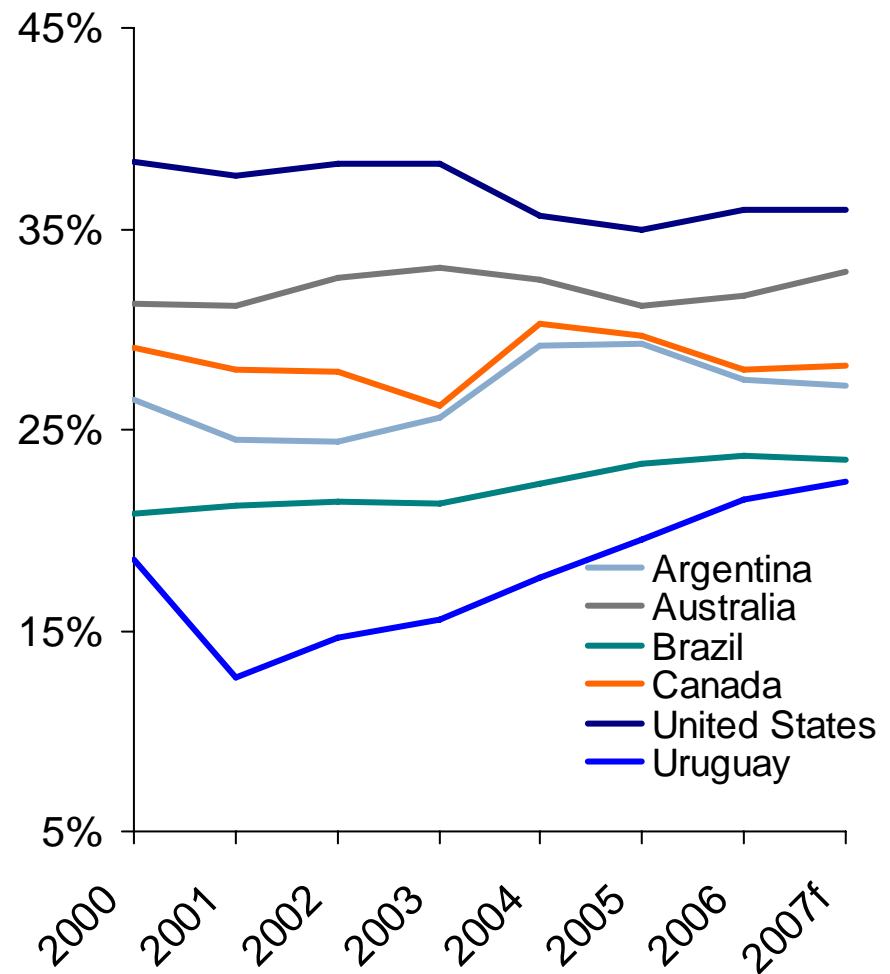


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Beef production per cow



Average slaughter rate





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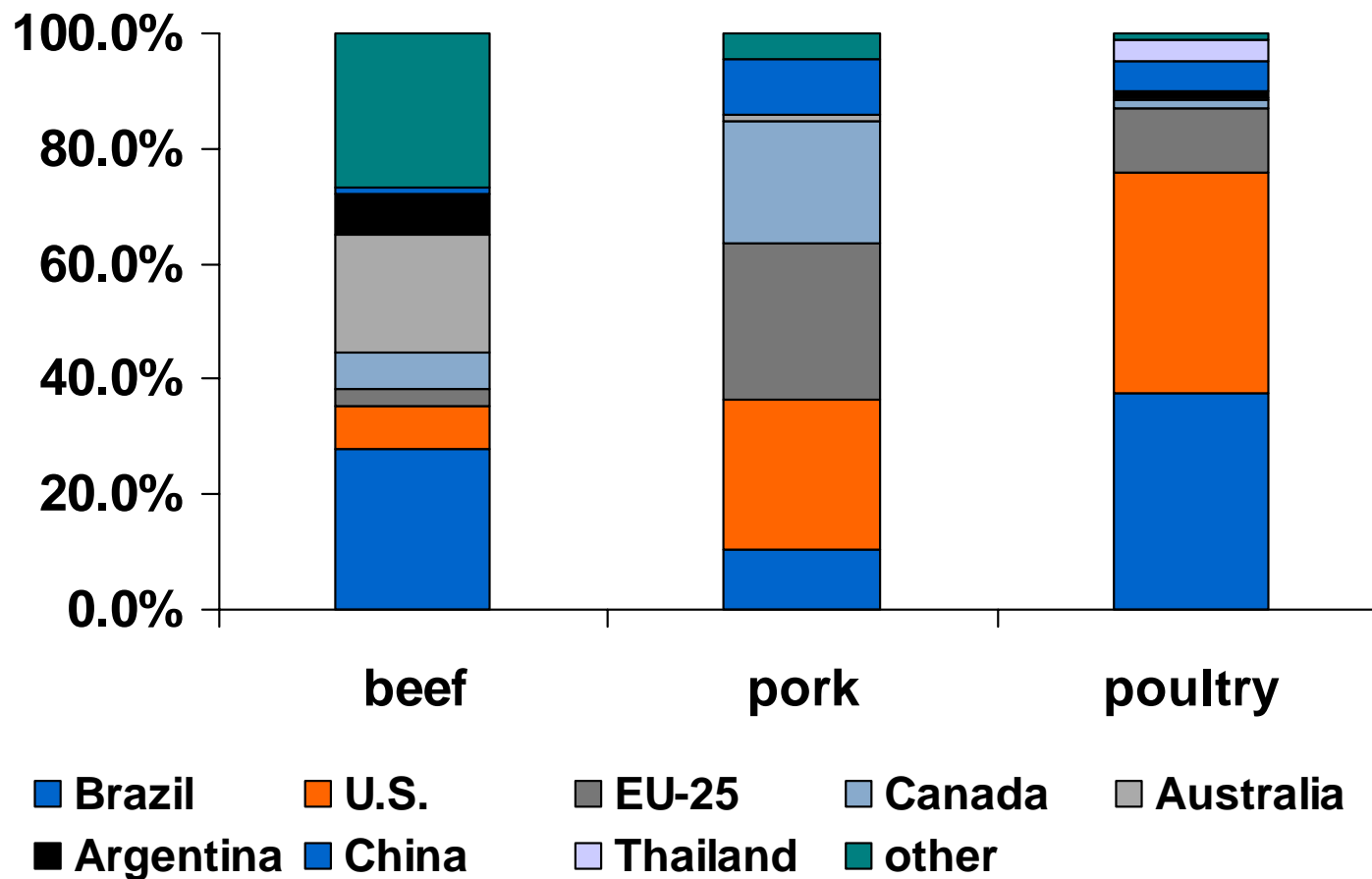
Impact of disease on global meat trade

Increased concentration means that market shocks translate into significant price swings



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Share of export markets, 2006

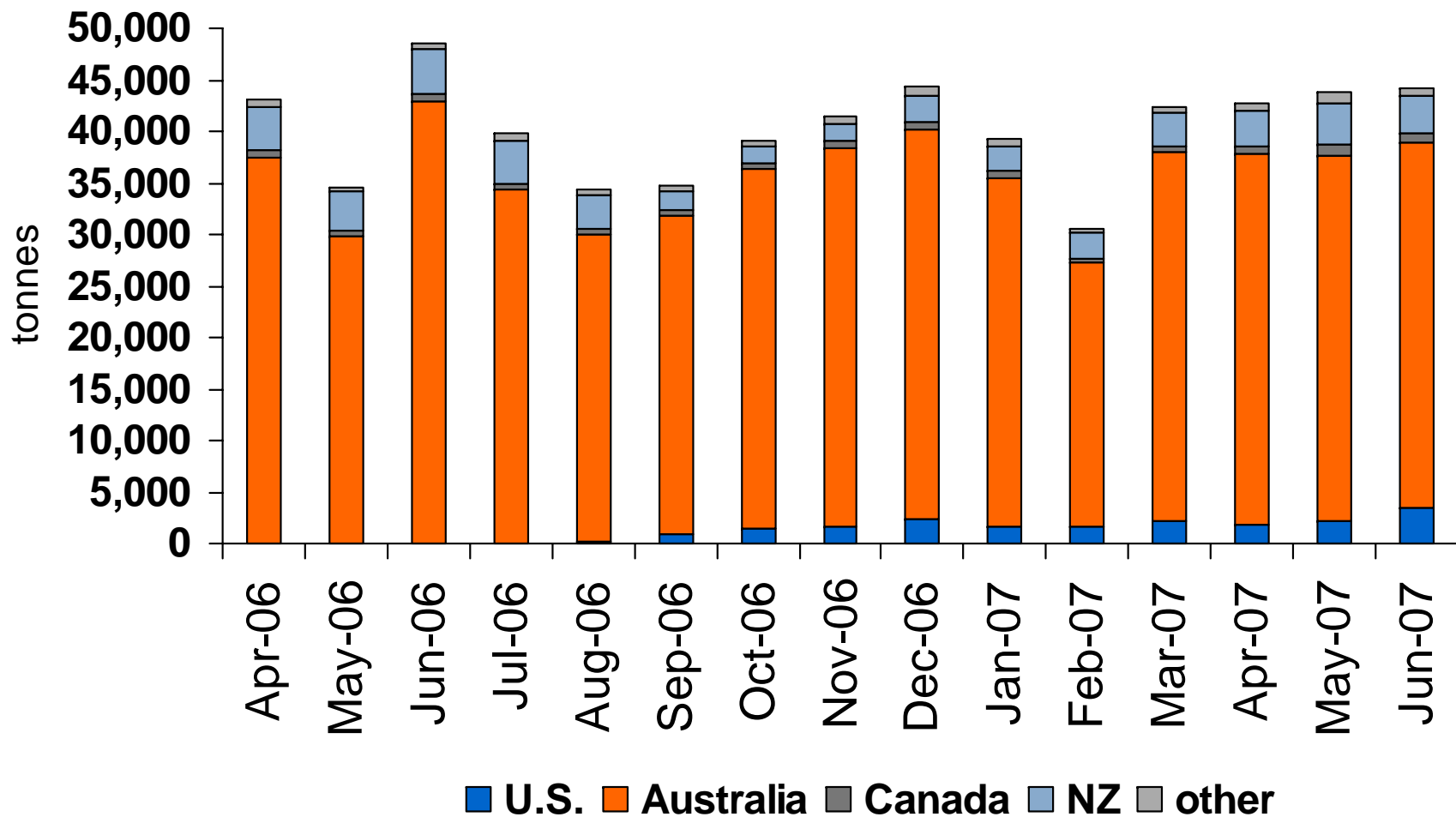


Import markets continue to restrict trade on the basis of “disease”



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Japanese beef imports

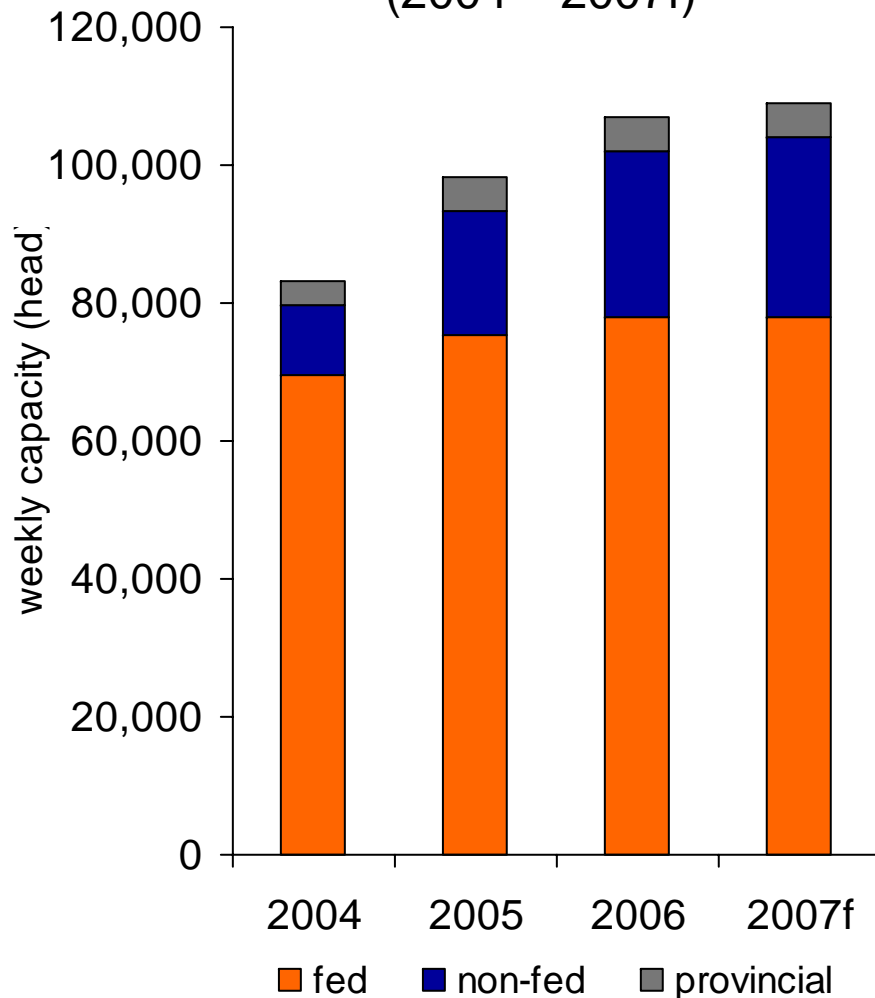


Industry structures are also altered by disease

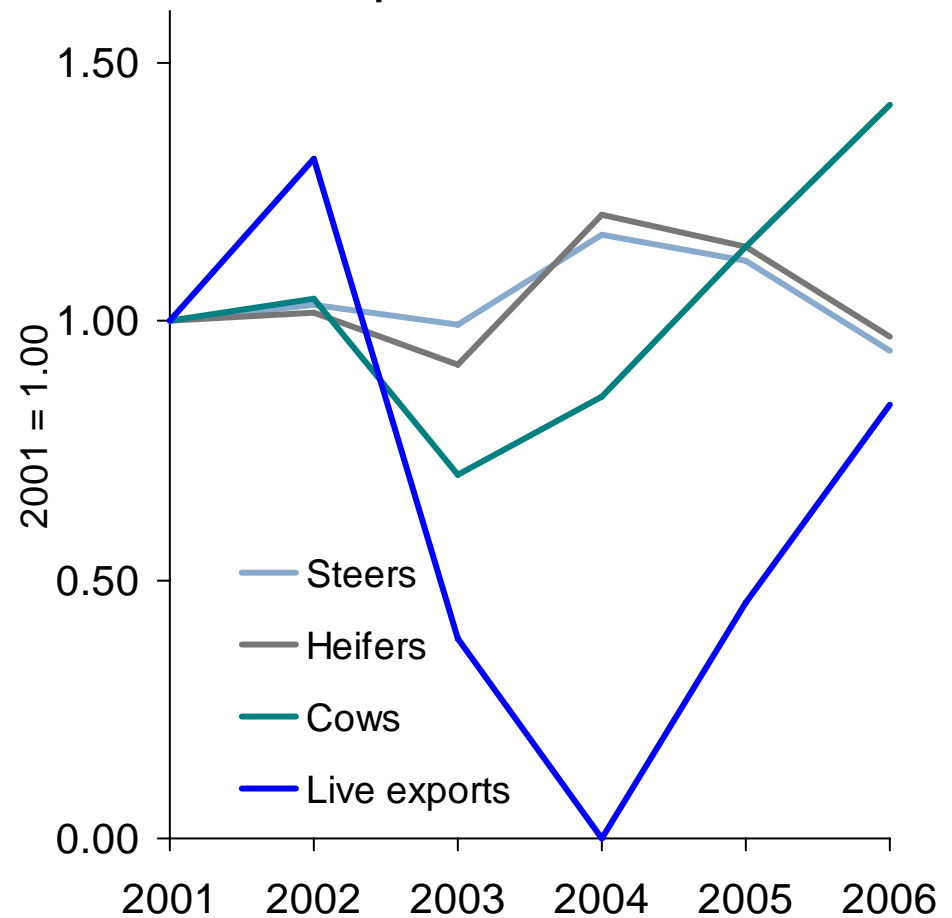


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Canadian cattle slaughter capacity (2004 – 2007f)



Index of slaughter & live exports to the U.S.





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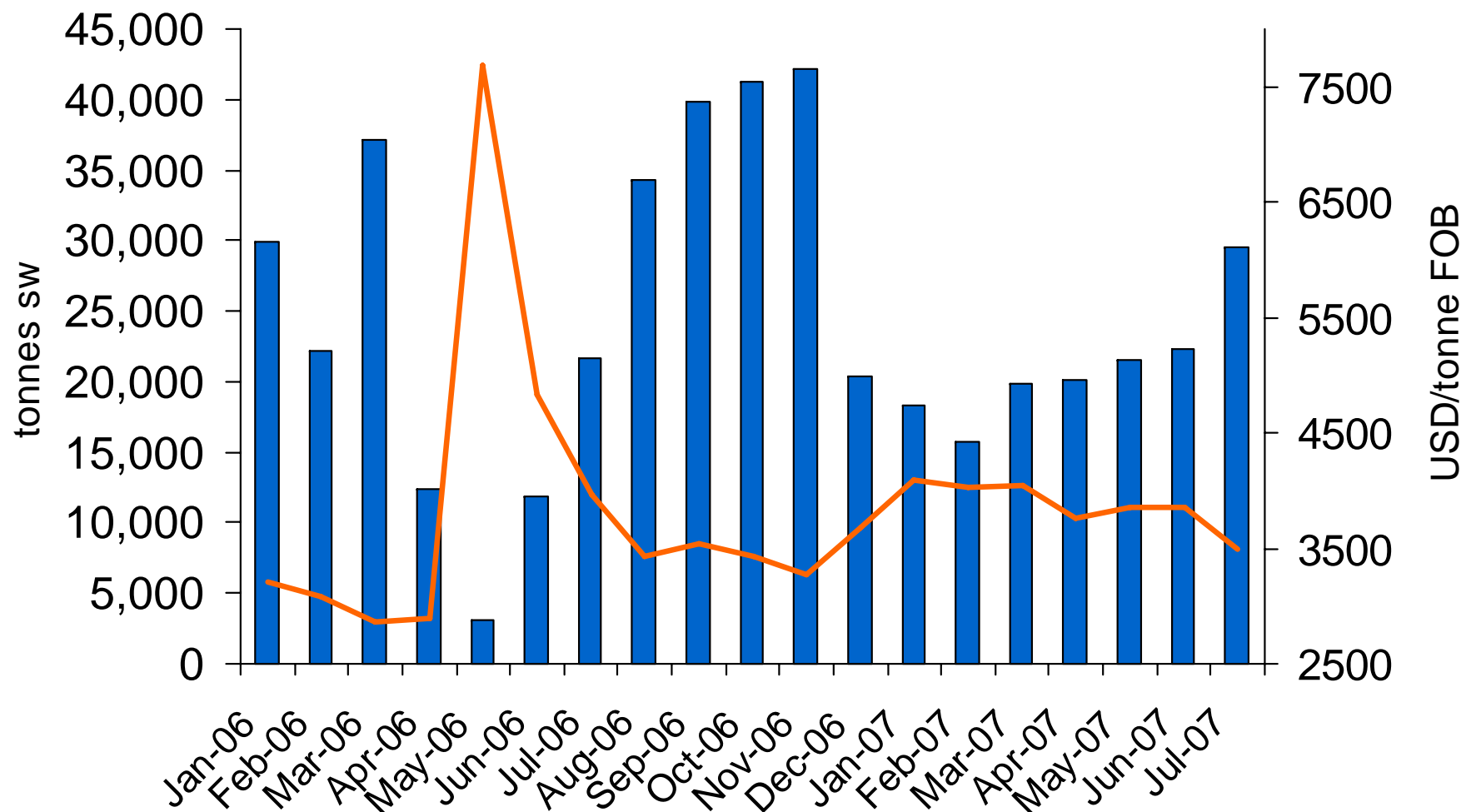
The politics of beef trade

Argentina – government intervention aimed at fighting beef-induced inflation



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Argentina's monthly beef exports



Is multilateral trade reform possible?



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WTO Doha negotiations

- WTO Doha Round negotiations were suspended in mid 2006
- Negotiations among G-4 broke down in July
- NAMA increasing important
- Negotiations appear to have restarted, albeit unofficially
- Bush Administration's current TPA has expired; difficult to reach an agreement without TPA
- Key players are U.S., EU, India, Brazil, Japan and Australia

Farm Bill

- Current Farm Bill expires in 2007
- House Farm Bill would provide only minimal reform
 - “Tinkering” with major programs
 - Written without taking Doha into account
 - COOL
- House bill would open the U.S. up to further WTO disputes
- Senate Bill currently being debated; materially different to House bill
- Administration has threatened to veto the bill



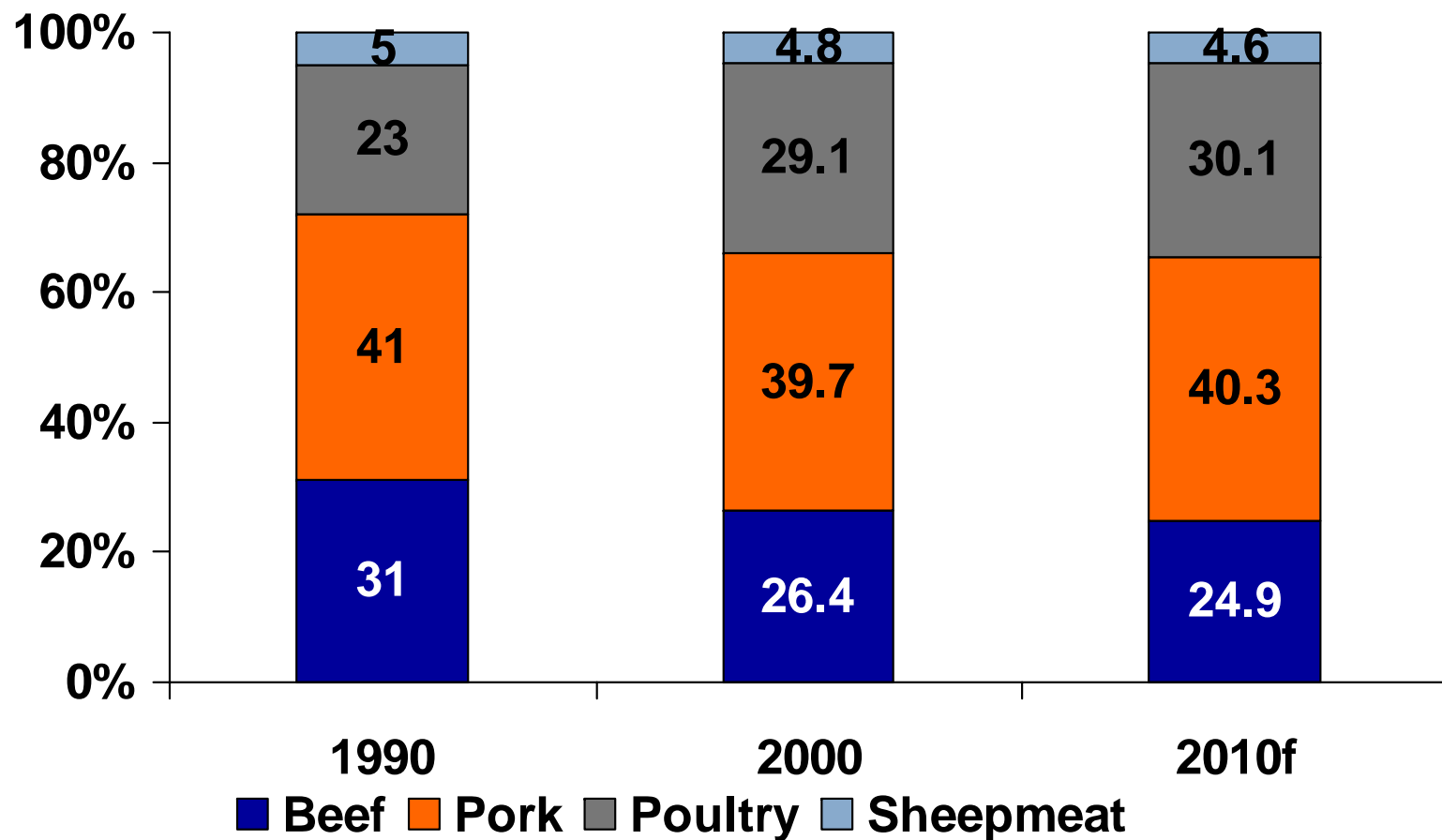
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The real competition

Poultry is still winning the fight for stomach share

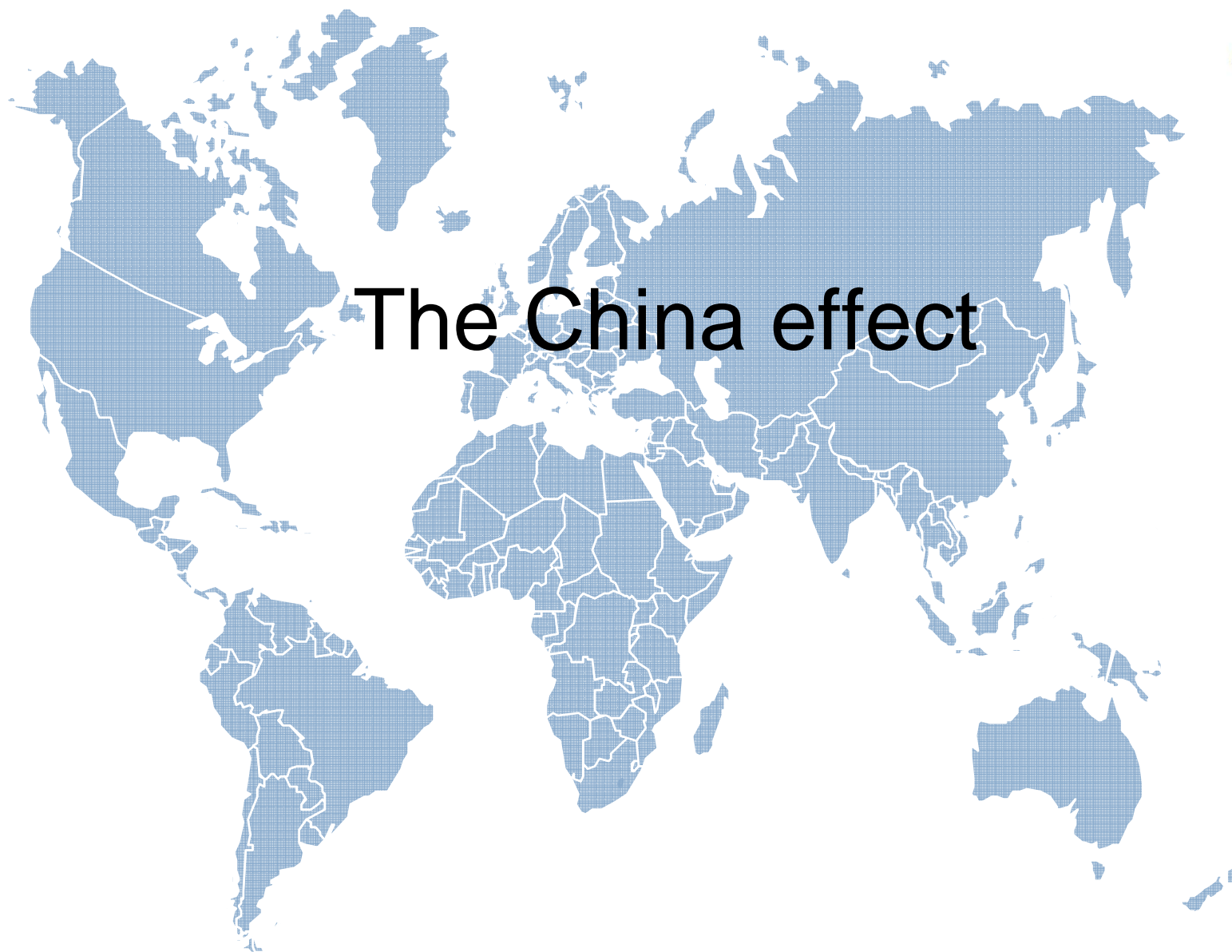


Share of world meat consumption





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The China effect

What do we know about China's meat crisis?

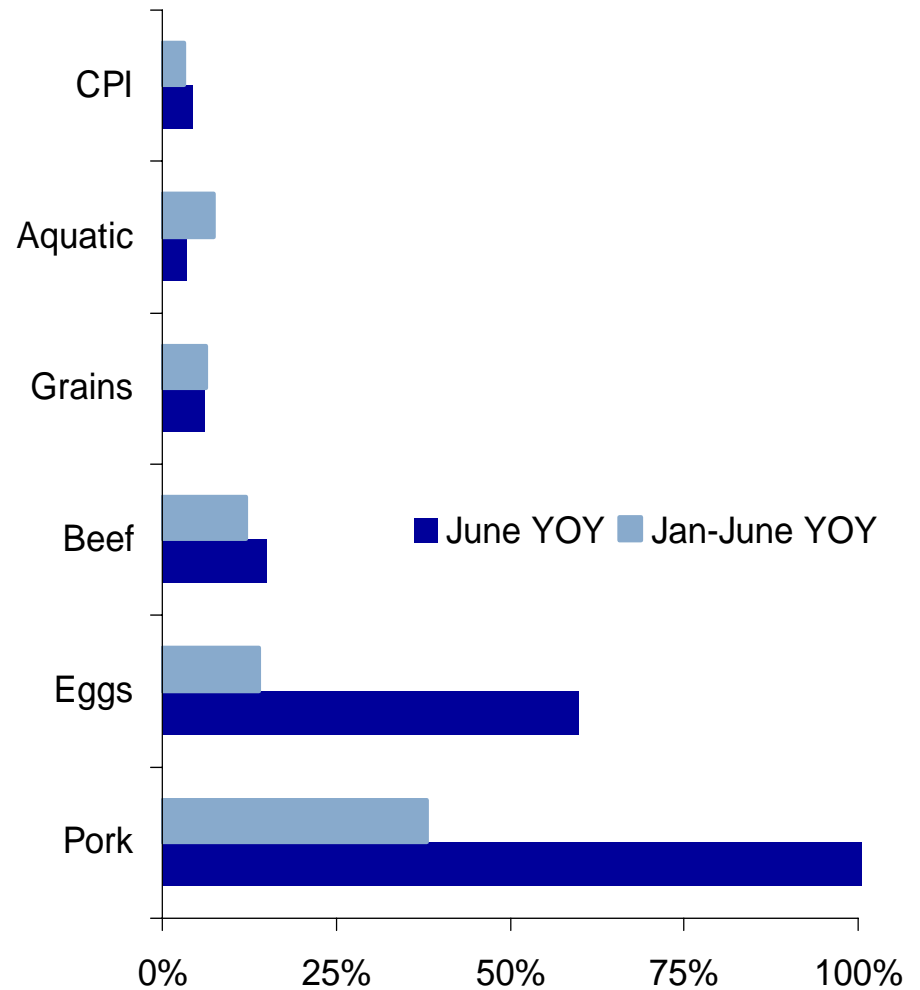


Illustrative meat prices in China

Wholesale Meat Prices, June 2007

	Chinese pork	U.S. pork	U.S. leg quarters
Wholesale prices (USD/lb)	1.13	2.10	0.55

Chinese CPI





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A world map with a blue grid pattern. The country of Canada is highlighted in a solid orange color. The map shows the outlines of all major landmasses and is centered on the Atlantic Ocean.

Long term considerations for the Canadian beef meat industry

Investment considerations for red meat industry participants in Canada



- Industry participants must be flexible
- Canada's regulatory and operating environment must be attractive to key industry participants
- Industry must take a cooperative approach to traceability, animal health and food safety
- Market access is critical (WTO, bilateral)
- Export markets need to be diversified
- Open and honest communication on disease or other "hot topics" is essential

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global food chain”™