

Opportunities in the Beef Market – Challenges of the Future

We Live (Survive) in Interesting Times

by

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*Presented to: Beef 2007 – International Livestock
Congress, Calgary, Oct 2, 2007.*

“Normal Times”

- Markets are never static and require adaptation by producers
 - Cattle cycle
 - Market variations in feed prices
 - Evaluation and adoption of new technology
 - Learning to accommodate peculiarities of foreign markets
 - Adapting to changing consumer requirements
- To be a successful beef producer one has to deal with these “normal” realities of the business

“Interesting Times” – Why?

- Major changes in the business environment are much more difficult to deal with
- The beef industry has had to deal with/is going to have to deal with with **major changes** in their business environment
 - BSE
 - Country of Origin Labelling
 - Dumping/Countervail
 - Biofuels and feed price shock
 - Changes in relative currency values

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 - Terrorism and the “War on Terror”?
 - A new livestock epidemic?

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- **What is the common thread?**

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- **What is the common thread? Government!**

Market versus Government

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Role of Government

- The primary economic role of government is to provide a stable environment for the conduct of business
- When does a government “fail” in that role?
 - Hyperinflation
 - No legal protection
 - Corruption
 - Volatile interest rates
 - Radical changes in taxes
- I think governments have failed the beef industry in recent times

Governments and Globalization

- In the era of globalization many problems need cooperative solutions among governments – not unilateral actions by governments
- BSE
 - NAFTA
 - OIE
- Dumping/Countervail
- Industry needs to tell governments when the current approach is unacceptable

BSE

- Risk is still high
 - Canada only has a “special dispensation” relative to how the US treats other countries that have BSE
 - Other countries don’t appear to be living up to even their minimal OIE commitments

BSE

- New OIE Classifications
- Border Opening after a Closure
- Regional Disease-Free Areas (Regionalism)

Dumping/Countervail

- Dumping
 - Definition 1: Selling in the export market cheaper than at home
 - Definition 2: Selling below cost
- Dumping/Countervail mechanisms – used for harassment
 - Don't care if you win the case due to temporary anti-dumping duties
 - Imposes lots of costs on foreign producers to defend themselves
- No real attempt at reform in Doha Round

Country of Origin Labelling

- Asking a government for COOL is indicative of an industry that really does not understand “globalization
- A government legislating COOL is a real victory for protectionists
- Will cause more pain for the US industry – but that is small consolation for industries in other countries that will be hurt
- The problems in China will strengthen the advocates of COOL

Biofuels

- A long term perspective on food versus fuel – was petroleum a one time market aberration?
- Different motivations
 - US – energy security
 - Canada – environment
- Optimistic – 10-12% of US energy consumption
- Environmental “footprint” may be positive or negative

Biofuels

- When you put in a big subsidy, governments really don't know the size of the response
- When you change the incentives in one market in a big way, governments need to think carefully about the effects on other markets
- Given integrated markets, Canadian farmers would benefit from the high grain prices without any Canadian government policy
- What is the long term prospect for feed prices?
 - Even if the oil price goes down or the subsidy goes away a huge amount of ethanol-making capacity is being put in place in the US. Even if the investors in those ethanol plants go broke, the capacity is there and “new”. It will be used and will need grain
 - High feed prices are a new reality over the economic life of the ethanol plants

Changes in Exchange Rate

- US dollar is depreciating against the world
- “Good government” would provide a relatively stable exchange rate environment
- Sustained long run declines in exchange rates suggest poor management of the macro-economy
 - A costly war combined with major tax cuts
- May be a benefit to US exporters but hurts US consumers
- For Canadian exporters – as long as resource prices remain high the Canadian dollar is likely to remain strong

Getting Rid of “Interesting Times”

- Business needs to step back from the “minutia” and say that it expects more
 - Governments are also lost in the minutia
- Business needs to speak with a common voice
 - In a country
 - Internationally

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Adapting to Changing Consumer Requirements

- For a long time the beef industry struggled with this
 - Had the meat product most preferred by consumers – taste
 - Lost market share to competitors (chicken, pork) because it had difficulty providing the other attributes desired by modern producers
 - Earlier – consistency in quality, consistency in tenderness, convenience products, etc.
 - Latterly – organic, “natural”, animal welfare friendly, pharmaceutical free, hormone free, etc.
 - Coming – functional foods

Adapting to Changing Consumer Requirements

- Many of these new product attributes are what economists call “experience” or “credence” attributes.
- Experience attributes can be detected by consumers before eating (tenderness)
- Credence attributes can't be detected by consumers even after eating (organic)
- You have to **credibly** tell them they are there
- Branding

Adapting to Changing Consumer Requirements

- Branding
 - Requires a different kind of supply chain relationships
 - Requires different ways of doing business along the supply chain
 - Requires credible traceability and monitoring
 - Still supply chains in transition

Adapting to Changing Consumer Requirements

- Different supply chains are emerging
- More branded beef on the shelves
- New more convenient products
- Beef with a wide range of credence attributes are beginning to be marketed
- It has been a tough issue for the beef industry to get on top of – look out chicken and pork

Conclusions

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Thank You