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The Business of Exports

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Discussions and debate regarding export markets for Canadian beef and pork tend to run the gamut from those who express concerns that Canada is too "export dependent," whatever that means, to those worried that we are not exporting enough. Generally, the latter group is really saying that we need to find more lucrative, less price sensitive markets, preferably not in the US.

The concern regarding export dependence can, and should be, easily dismissed. Canada exports more than 50% of its red meat production. We have exceptional production capabilities and a small population. Given that we cannot eat all we produce, the alternative to "export dependence" is radical downsizing…so enough time spent worrying about export dependence.

Moving on, the other concern is that Canada is simply missing the boat on lucrative, dynamic, differentiated, upscale markets around the globe. The argument is that our packers and traders have just not done a good enough job finding good markets, and that they are too focused on commodity selling. The argument is often augmented with the charge that exporters are much too focused on the US market.

This paper examines the nature and dynamics of export markets and it argues that Canadian export performance is among the best in the world.

Canadian Capability

First of all, it must be noted again that Canada does export more than 50% of its red meat production. It also ranks as one of the top five beef exporters and one of the top three pork exporters in the world. While it is true that most of that trade goes to the US, the experience and marketing focus is global. When it comes to pork, the US represents less than 40% of our total exports. Canada's packers and traders have a long history and likely more export experience than any country in the world. Canadian companies were among the first to set up offices in Japan. Senior staff at Canadian packing companies spend large amounts of time in international markets or hosting international buyers. International trade infrastructure and logistics are second nature to small and large Canadian firms. Furthermore, the two large beef firms, which are US-owned, have access to both Canadian and US global resources.

The point is that Canada is not a neophyte in the global meat trade business. Canadian traders know global markets. Given this experience and knowledge, the question remains as to why trade occurs in the manner it does. More particularly, why does so much product go to the US as opposed to other, possibly better markets?

The Canadian industry continues to look at ways to add value, either through new products, new specifications, or selling further down the value chain. With that noted, however, it operates in a global environment and still has to be competitive with regard to price. Furthermore, the industry spends a vast amount of time on market access issues (non-tariff barriers) to ensure it does not have a competitive disadvantage in export markets. This is a real challenge for the industry. Regardless of these efforts it still has politically-based access issues in some major markets.

Furthermore, the industry has great experience in logistics. However, shipping outside the US continues to be a major challenge facing the industry. As well, continued escalation of shipping costs and the current lack of containers in the North American market are critical issues for the industry.

Trading Dynamics

It is important to stress that global meat marketing and trade are not conceptually different from domestic meat trade in terms of basic buying and selling. While the logistics of shipping, customs, brokerage and local customs add layers of complication, the fundamentals of supply and demand are paramount.

Emphasis should also be placed on the fact that global meat trade over the course of a day, week or year is simply the sum of thousands of individual business transactions. These business transactions are conducted by staff at meat packer, broker, distributor, retailer and foodservice operations in the buying and selling countries. With the exception of major markets, such as the US, Japan, Korea and Australia, the well established Canadian trading houses are really the ones exporting.

Each individual transaction is conducted on either spot markets or on contract. For sellers, spot or contract sales are based primarily on finding the highest price or longer-term marketing considerations that result in higher revenues. For buyers, spot or contract sales are based primarily on finding the lowest price or other longer-term marketing considerations that result in lower costs.

At the most basic level, meat flows to the highest priced market, net of the transport and logistics costs. The first choice of meat traders in Canada, for most cuts, is the domestic market because, net of transport and logistics, the domestic market is usually the highest priced. After that point, the secondary choice is typically regional markets in the US, which is likely going to be the highest priced destination after transport and logistics. It is easy to generalize about the US being the highest priced because the US has the highest disposable income.

Beyond that, however, there are certain cuts that are more highly valued in overseas or more distant countries. For example, certain offals and variety meats such as tripe and hearts have almost zero value in Canada and the US. These cuts do, however, meet a market demand in certain Pacific Rim countries, the Middle East and Eastern Europe. As such, these meats are sold to buyers in those countries if the values, net of transport and logistics, bring back a positive net return.

In addition to those basic premises, there are also selling decisions based on the type of cut and specifications. For example, consider the situation where a boneless, highly trimmed and specified strap-on loin is currently trading for 300 yen in Japan. The Canadian trader will work with yield and labour formulas to determine the equivalent value in the domestic market. Based on those calculations, a decision will be made on whether to sell it domestically in the same form or to sell it in another form, either domestically or internationally. Again, the net price determines where the meat is to be sold.

Commodity Business Rules

The best way to consider the pricing issue is that there is simply one price for a cut of meat, which only differs by transport and logistics costs across the world. This price is determined by global supply and demand generally, and specifically by local supply and demand in the given market. In other words, global supply and demand sets a guideline pricing level and local conditions set the price around that starting level.

It is also important to note that small swings in pricing in either domestic or international markets will immediately change what meat is sold and where. For example, a sudden increase in Russian demand for frozen hams will result in small price swings that will pull hams out of storage, away from domestic processors. A decline in Korean demand for collar butts results in increased fresh butt sales into the North American market. The prospect of the Korean market opening to US beef had a major impact on beef short ribs which are very popular in Korea. The pricing impact began before the deal was even final.

Global meat trade is a commodity business driven by modest changes in price. In fact, global meat trade is the penultimate commodity business. Global competition and supply will ensure that this will not change. While different markets may have different cut specifications, ultimately sellers will trade based on the net values returned after accounting for yields and labour. While foreign buyers may be very demanding in certain respects, they are no more or less demanding than domestic buyers. Furthermore, while some firms may have developed long-term contracts or relationships, these are ultimately based on price or net delivered values. The meat trade is a commodity business and price rules. Meat is traded according to pricing in different markets around the world. Differences in pricing between markets for like-products are immediately arbitraged by supply and demand signals.

Another point to note is that global buying and selling is conducted in an environment that is more informed and up to date than ever before. Buyers and sellers have ready access to both private and public pricing guides such as the USDA's National Carlot Pork and Beef reports. These reports are updated on the internet twice daily with the latest reported trades. Sophisticated buyers in advanced countries such as Japan will have personnel in producing countries monitoring pricing levels and making spot and contract transactions based on market movements. Large buyers and sellers stay informed of trading levels in all markets via electronic data transfers or telephone. Pricing intelligence is gained through ongoing minute by minute contact with traders around the world. The main point is that both buyers and sellers are well informed about relative global pricing levels. Again, as noted above, meat is traded according to pricing in different markets around the world.

Canadian Leadership

As a trading nation, Canadian meat packers have been among the first to develop and expand global trading networks and contacts. Canadian meat packers are well informed and have developed sophisticated market intelligence to ensure that meat is traded to the most profitable destination for either the short or long term.

The following are the main summary points:

1. Canadian meat packers are sophisticated and successful international traders.
2. Meat flows to the highest priced market.
3. The US is typically the highest priced market for most cuts from the carcass.
4. International trade is a commodity business in which small changes in price result in changing trade flows.
5. International buyers and sellers are well informed of pricing and market conditions around the world.

This is not to suggest that Canadian companies cannot improve their export capabilities. Canadian packers are working constantly to improve their ability to maximize margins through domestic and international markets. The point is, however, that there are very few untapped market gems just waiting to be exploited. If there were, they would probably be located somewhere in the US.