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Global Beef Trade Into the 2020s

Navigating a Rising Sea of Uncertainty

RaboResearch
Food & Agribusiness
far.rabobank.com

Angus Gidley-Baird
Senior Analyst – Animal Protein
+61 42 426 6909

Summary

- Global beef trade has continued to grow over the last five years – and Rabobank believes that it will continue to rise over the next five years, driven by strong consumption growth in Asia.
- Increased access to existing markets, access to new markets, and new trade agreements have all supported increased trade, fueled by growing import demand, predominantly from Asia.
- But with increased trade come increased exposure and increased challenges. Geopolitical tensions, biosecurity risks, and the increasing use of non-tariff barriers mean trade positions can change very quickly.
- Those in beef trade will need to respond by being more agile, less transactional, and more committed to two-way trade, including co-investment by importer and exporter to build sustainable beef trade flows.

Global Beef Trade Continues to Grow

Global beef trade has continued to grow over the last five years, fueled by growing import demand, and supported by trade agreements and improved access to new and existing markets. This growing demand, seen predominantly in Asian markets, is illustrated in the latest Rabobank World Beef Map, which shows a heavy concentration of trade flows into Asia.

Rabobank believes that beef trade will continue to rise over the next five years, supported by strong importer demand. African swine fever (ASF) will provide a short-term, intense increase in demand, but strong fundamentals of increasing wealth and changing diets in Asian countries support ongoing demand for protein. To meet this growth in demand, we believe production and beef exports will also increase, although some countries – such as those in South America – have a greater propensity to grow than other established exporters.

While global beef trade is expected to continue to grow over the coming years, Rabobank believes that there will be increasing uncertainty around trade. Increased trade access allows for more flexibility in selecting trade partners, but it also creates the potential for increased trade volatility, as there is less dependency on dedicated trade partners, and products can be more easily redistributed – a problem compounded by the larger volumes of product traded. With geopolitical instability and increased use of non-tariff barriers, trade volatility will become more common. Those in beef trade will need to respond by being more agile, less transactional, and more committed to two-way trade, including co-investment by importer and exporter.

Growing Beef Consumption Has Driven Increased Trade

While export growth has been relatively steady over the last five years, strong prices across many markets indicate import demand is a stronger force in growing trade than supply availability. Imports have seen a strong increase over the last five years, in particular in 2017 and 2018 (*see Figure 1*). This has been compounded by very strong demand out of China in 2019, where beef imports for the first nine months of the year were up 54% on 2018 volumes.

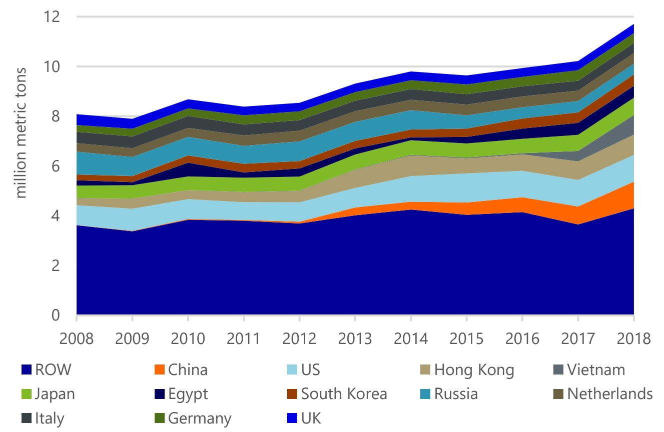
Increased Imports Are Fueled by Asia

Import growth has principally been driven by China, with an average annual growth rate of 82% over the last five years. China became the world's largest beef importer in 2018, importing over 1m metric tons. With the country's expanding middle and upper classes, beef demand has grown consistently, reflecting premiumization, Westernization, and personalization trends.

We have also seen strong growth in imports into Vietnam and Hong Kong associated with Chinese growth – large volumes of bovine product are imported into Vietnam and Hong Kong for re-export to China through gray channels.

Imports into Egypt have fluctuated, while Russia is notable as one of the major importers that saw a decline in imports over the last five years.

Figure 1: Global beef imports are rising, 2008-2018



Source: ITC Trade Map, UN Comtrade, Rabobank 2019

Exports Are Trying to Keep up With Import Demand

Global beef exports increased by 38% – from 8.65m metric tons in 2013 to 11.99m metric tons in 2018. This growth has been relatively consistent since 2013, increasing by an average of 3% a year, with only two years showing a reduction in total exports. In 2015, US, Brazilian, and Indian exports all contracted, and then in 2016, Australian exports did the same. Each of these drops was more a result of localized seasonal influences rather than any structural changes.

South America has been a major contributor to growing trade. In the last five years, the combined exports of Brazil, Argentina, and Uruguay increased by 67%, totaling close to 3m metric tons in 2018. Argentina stood out, growing exports from 197,000 metric tons in 2014 to an expected 700,000 metric tons in 2019 – with China accounting for approximately 70% of shipments. Argentina recovered strongly after a number of years of difficult trade, a result of export taxes on beef imposed under a previous government.

Brazilian productivity growth has been supported by improvements in the property management model, the inclusion of new technologies, workforce qualification, and the adoption of production systems such as crop-livestock integration and feedlots. The consolidation of the foreign market position and the constant search for new importing markets are also factors that have guaranteed the viability of investments in the sector.

Growing Demand Forces Increased Access to Markets

With many of the countries experiencing the strongest growth in beef demand limited by their own domestic production of beef, imports have become increasingly important. The last five years have seen a strong move to new market access arrangements and trade agreements that have reduced barriers and costs to trade. *Table 1* summarizes some of the major market access and trade arrangements relevant to the beef industry that have occurred in the last five years. More recently, China has been very active in issuing export licenses to beef plants. In the period between August 1 and mid-November 2019, Brazil had 22 plants approved and Argentina had eight plants approved, bringing the total number of plants to 37 and 41, respectively.

Table 1: Some examples of new and improved beef market access in the last five years

Importing country	Market access granted to	Trade agreement with
China	2017 – Brazil 2018 – Ireland 2019 – Germany, UK 2017 – NZ and AU chilled beef	2015 – Australia
EU		2019 – Mercosur (Argentina, Brazil, Paraguay, and Uruguay – pending ratification) 2019 – US (increased tariff-free access)
Indonesia	2019 – Brazil	
Japan		2015 – Australia 2018 – CPTPP with 7 nations 2019 – US (pending ratification)
South Korea	2019 – Netherlands, Denmark	2013 – US 2014 – Australia 2015 – NZ 2018 – US (reviewed)
US	2015 – Ireland 2017 – Brazil (closed in 2018)	2019 – Canada, Mexico (reviewed and pending ratification)
Vietnam		2018 – CPTPP with 7 nations

Increasing Trade Increases Exposure

As an importer, it is prudent to have access to a reliable or diverse range of suppliers. We saw China increase its supplier base from nine countries in 2016 to 23 countries in 2019 – and within those countries, expand the number of plants that can export. As an exporter, however, importers expanding their supplier base means increasing competition and reduced dependency on your products. With reduced dependency, opportunities exist for importers to exert greater pressure in trade relationships. And with rising geopolitical tensions, increased societal pressures, and the ongoing concerns surrounding food safety, the use of non-tariff barriers is becoming more common.

A number of trade disruptions have occurred over the last five years that have affected the beef industry (*see Table 2*). These disruptions can create major challenges – managing logistics and timeframes in a system built around a live or perishable product can be difficult. The uncertainty created when trade is suspended impacts purchase and selling orders, it compromises efficiencies, and sets in path redistribution effects and market imbalances that can be felt well after any issues are resolved.

Table 2: Some examples of recent beef trade disruptions

Exporting country	Trade disruption
Australia	2014 – Russia suspended trade 2017 – Export licenses to China suspended for six plants (resolved after three months)
Brazil	2018 – US suspended export license 2017 – Russia suspended beef (and pork) imports (some Brazilian plants regained export accreditation in 2018)
Canada	2014 – Russia suspended trade 2019 – Export licenses to China suspended (resolved after five months)
US	2014 – Russia suspend trade 2018 – China imposed additional tariffs of 25%
India	2018 – China curbed carabeef gray channel trade

Beef Trade Continues to Rise, but With Increasing Challenges

We believe beef trade will continue to increase over the coming five years, driven by strong demand out of Asian countries with increased beef consumption and limited domestic production growth. Rabobank expects global beef consumption to grow steadily, at around 2% CAGR, in the coming five years. In addition, the massive decline in pork production in China following the outbreak of ASF has seen beef imports surge in 2H 2019. Given the length of time required for hog restocking and production recovery, we expect China to require inflated beef imports in the coming three to five years.

For ASEAN-5, beef demand is forecast to increase by 4.2%, to 2.6m metric tons in 2020. This will primarily be driven by 4.5% and 6.2% expansions in per capita consumption in Indonesia and Vietnam.

Such ongoing and strong import demand, at a time in which traditional exporters have limited ability to increase supplies, may place pressures on domestic beef supplies in exporting countries. We believe that the US is close to its maximum production capacity, while Australia has a depleted cattle herd following drought liquidation. Both will be limited in their ability to increase production to meet the growing need for exports – and therefore any growth in exports from these countries could be at the expense of local consumption. While South American countries have capacity to increase production, weaker economies or devalued currencies may result in more product being directed to export markets.

There Is a Rising Sea of Uncertainty

The International Monetary Fund's World Uncertainty Index (WUI) shows that trade uncertainty has surged throughout 2018 and 2019. It is not just confined to the US and China, but also applies to a range of other countries.

Political uncertainty is being fostered by increasingly divided communities and protectionist agendas. For example, in Argentina, with Peronist Alberto Fernández's new government taking office in early December, uncertainty exists about the future of beef exports. Fernandez's running mate was Cristina Fernández de Kirchner, the former president, who imposed heavy export tariffs on beef. But while uncertainty exists, the ongoing high prices and margins received by Argentine processors may be strong enough to maintain beef production and exports, even if export tariffs are increased again.

A number of unfinished trade agreements could influence future global beef trade – some of which have been ongoing for a number of years and some of which have no deadline for resolution. These include:

EU-Mercosur deal. Headlines suggest that the Mercosur countries will be granted hugely improved access to the EU, possibly displacing a range of other suppliers. However, high standards and tough scrutiny of those standards by the EU might make it hard for Mercosur exporters to fill the increased access they have secured, providing continued access to other suppliers.

USMCA. The expectation is that the US will finalize the agreement, with the most optimistic views suggesting a timeline of late 2019 and others saying early 2020. For animal agriculture, there is no downside, only upside, making it an easy lift. However, as with most trade deals, there are many tariff lines beyond beef to resolve – and therefore resolution of the matter rests in the hands of others.

US-China. The most influential trade dispute, between the world's largest beef importer and one of the biggest exporters. We believe that a permanent resolution before the next US election is unlikely. However, pressures around food prices in China – as a result of reduced pork supply from ASF – may drive a near-term temporary opportunity for increased US-China F&A trade, following a relaxation of import duties on some US products, possibly including beef.

Brexit. The UK is the largest beef importer in the EU, and the future terms on which its major suppliers – such as Ireland – can access that market are uncertain. The extended period of uncertainty for the UK's beef trade partners is already affecting confidence and investment in the sector, and cattle prices reflect this.

EU-Turkey. Introduced in 2018, the suspension of live cattle exports from the EU to Turkey rolls on. Turkey has been the major destination for EU live exports, but the ability to source supply from Brazil and Uruguay allowed Turkey to suspend EU live exports. As long as this suspension rolls on, it continues to weigh on the EU market.

Prepping the Ship to Weather the Storm

The very nature of uncertainty makes it near impossible to predict the future rules and opportunities for global beef trade. However, we believe a number of steps can be taken to help minimize the impacts – or potentially take advantage – of the uncertainties that will continue to arise.

- **Establishing strong networks.** Increasing investments in destination or origin markets to better understand what exactly buyers want or what suppliers can deliver – and how this is changing. Creating partnerships that are mutually beneficial can support ongoing trade arrangements and reduce the risk of substitution from competition.
- **Diversification of markets or suppliers.** Spreading business between markets and not being overly dependent on one destination/supplier will reduce the impact if a market is closed. Although, unless markets have large amounts of spare capacity, redistribution will still cause price movements as supply and demand rebalance.
- **Being flexible.** Together with diversification, the ability to change markets or adapt products to meet slightly different needs allows exporters to overcome supply chain constraints.
- **Increase presence along the supply chain.** Investing in destination/origin markets can help ensure trade flows. Either securing a supply base or a distribution network allows greater visibility into the market and, as such, timelier decision-making.

Imprint

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far.rabobank.com

Food & Agribusiness Animal Protein Global Sector Team

Justin Sherrard	Global Strategist	justin.sherrard@rabobank.com
Angus Gidley-Baird	Australia	angus.gidley-baird@rabobank.com
Matz Beuchel	Europe	matz.beuchel@rabobank.com
Don Close	US	don.close@rabobank.com
Wagner Yanaguizawa	Brazil	wagner.yanaguizawa@rabobank.com
Blake Holgate	New Zealand	blake.holgate@rabobank.com
Chenjun Pan	China	chenjun.pan@rabobank.com
Andrick Payen	Mexico	andrick.payen@rabobank.com
Ben Santoso	Southeast Asia	ben.santoso@rabobank.com
Éva Gocsik	Europe	eva.gocsik@rabobank.com
Beyhan de Jong	Europe	beyhan.de.jong@rabobank.com
Christine McCracken	US	christine.mccracken@rabobank.com
Nan-Dirk Mulder	Europe	nan-dirk.mulder@rabobank.com
Gorjan Nikolik	Europe	gorjan.nikolik@rabobank.com

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