Global beef production becoming more competitive and more complex

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Global beef production is responding to sustained high prices and robust global demand, according to a newly-released industry outlook.

In its latest global beef report, ***Global beef production becoming more competitive and more complex***, Rabobank examines the new trade dynamics, policies and consumer-driven preferences that are increasingly shaping the beef sector's future success.

Over the past five years, challenging weather conditions across most key beef-producing export nations have driven the heavy liquidation of cattle, including Australia where the national herd has fallen from around 29.6 million head in 2013 to an estimated 26 million head in 2016.

The Rabobank report highlights that this trend is beginning to reverse, with strong price signals being sent to the global market to increase the production of all proteins – particularly beef.

Strong economic signals in the US market, as well as disruptions to the supply of pork and poultry drove the comprehensive cutout (US version of a whole carcase) to a new record of AUD 6.22/kg in July 2014, with this being particularly significant given the role of the US in global beef imports and exports.

While the expansion has not been apparent in recent beef production numbers, Rabobank expects these price signals to increase beef production in the Americas over the next three years, further underpinned by low feed costs, and – in some markets – the transition to intensive beef production and domestic policy reforms.

Whether this translates into a global beef supply glut depends on production in other regions, notably in the eastern hemisphere. However production in Australia and New Zealand is expected to fall.

In Australia, the reduced cattle inventory – which is forecast to hit its lowest level in 23 years in 2017 – will see production contract over the coming years. This will have consequences for Australia's ability to meet demand from both the boxed beef and live cattle export markets, as well as domestic market demand. Australian exports are likely to decline by around 300,000 tonnes shipped weight, leaving a large gap in the global beef market. Meanwhile, likely ongoing tight supplies over the short to more medium-term will also challenge domestic consumers' willingness to pay for beef.

New Zealand is also expected to record a decline in beef production in 2016, following record cattle slaughter in 2015. While the expected modest recovery in dairy prices should support the stabilisation of stock numbers moving forward, beef production and exports are expected to be down in the near-term.

With the lure of record prices in the US proven to be temporary, the report states that the emergence of Asia, particularly China, will be the key driver of expanding global production going forward.

China is currently fighting a slowdown in economic growth, but over the long-term is expected to remain a major importer of agricultural commodities and raw materials, including beef. Projections suggest beef imports to China (and Hong Kong) could increase by up to 500,000 tonnes carcase weight equivalent (cwe) over the next decade, which would make China the world's largest beef importer.

To date, the majority of beef imports to China have been from Australia – with the development of trade agreements for both beef and live cattle – and from Argentina, Brazil, Canada, New Zealand, and Uruguay. Brazil only regained access to China in 2015 and is likely to overtake New Zealand as the third-largest exporter as more plants gain approval.

While the US continues to strive for direct entry into the Chinese market, the report cites that it could be some years before this occurs.

Over the next three to five years, the report predicts that substantial changes in global beef trade flows will occur, largely off the back of trade negotiations and agreements. The most significant of these is the Trans-Pacific Partnership (TPP), which includes Australia but also Canada, Japan, Mexico, New Zealand, the US and Vietnam. Under the terms of the TPP agreement, all tariffs relating to beef would be reduced.

For example, Japan's tariffs on fresh, chilled, and frozen beef imports could drop as low as nine per cent over 16 years, from current levels of 38.5 per cent. Under current arrangements, Australian beef exports hold about a ten per cent tariff advantage over exports from the US, and this will steadily grow over time. Full ratification of the TPP would eliminate such differentials, although ratification of the agreement may take more than two years.

Bilateral trade deals also continue to develop, such as those enabling exports from Brazil to China and the US, Argentina to the US, Australia's new trade agreement with Japan, and separate trade deals between China and Australia and New Zealand.

These trade agreements are changing the nature of beef trade, with more of Oceania's beef production expected to go to Asia. There is also expected to be a reduction in the quantity of manufacturing beef coming to the US from Australia and New Zealand, which the report says will be offset by increased shipments from South America, due to growing supply, lower production costs, and freight advantages.

Given the growing competition and complexity in global beef markets, the report concludes that improving market access, and being increasingly responsive and adaptable to the growing demands of consumers will be critical for beef exporting nations to capitalise on their advantages.