July 2015

Strong U.S. Pork Exports in 2004: The Story Behind the Numbers

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Strong U.S. Pork Exports in 2004: The Story Behind the Numbers

U.S. hog prices have been quite strong this year. Part of the reason for this strength is the large increase in export demand since December 23, 2003, when the U.S. government announced a case of BSE (bovine spongiform encephalopathy) in a Holstein cow imported from Canada. The announcement triggered bans on imports of U.S. beef in many international markets. Canadian beef is also banned in these markets because of BSE, and Australia and New Zealand are unable to provide the volume and type (that is, grain-fed) of beef needed to make up the shortfall. Demand for pork as a substitute meat increased in many of the affected markets.

Also in 2003 and 2004 highly pathogenic strains of avian influenza (AI) occurred in poultry flocks in several countries, including Canada, China, Japan, Thailand, and the United States (Texas). In some cases, the highly pathogenic AI has infected both animals and humans. Outbreaks of both highly pathogenic and low pathogenic AI have resulted in import bans that have increased poultry prices and pork demand.

Through July, U.S. pork exports exceeded 420,100 metric tons, a 26.0 percent increase compared with January–July 2003. U.S. pork variety meat exports reached 127,750 metric tons, up 61.8 percent for the period. Figure 1 shows combined U.S. pork and variety meat exports and U.S. producer prices from January 2003 through July 2004. Although BSE and AI have had major impacts on pork demand, other factors are also driving U.S. pork exports.

Gate Price Distorts Japanese Market

Before Japan imposed its ban on U.S. beef because of BSE, Japan was the largest market for U.S. beef and pork. Since the ban, Japan has been unable to source enough beef to satisfy demand. In addition, AI in the domestic poultry flock and bans on poultry meat imports have enhanced pork demand. Japanese imports of U.S. pork were 4.9 percent higher by volume and 15.6 percent higher by value during January–July 2004 compared with January–July 2003. However, this trade has been distorted by a safeguard system that implements higher duties when imports exceed a maximum allowable volume.

Japan maintains a gate price, or minimum import price, for pork. When total pork imports in a given quarter are 19 percent higher than during the previous three-year average for that quarter, the gate price is raised by 24.6 percent. In April–June 2003, pork import volume exceeded the safeguard level. Because official data are not immediately available at the end of each quarter, there is a one-month lag before the gate price is increased. Thus, the higher gate price was in effect from August 1, 2003, through March 31, 2004 (the remainder of the Japanese fiscal year).

When the gate price returned to normal on April 1, 2004, Denmark, the United States, and other suppliers shipped large quantities of pork to Japan. Higher exports are the norm once the gate price is reduced, but this year Danish export volume was boosted by pork that had been placed in frozen storage under an Aids to Private Storage scheme that removed pork from the E.U. market to help increase prices. The release of this stored pork was timed to coincide with the expiration of the higher Japanese gate price.

The large flow of pork into Japan triggered the pork safeguard for April–June 2004. As noted, the data lag means the gate price did not increase until August 1, giving exporters an additional month to ship pork under the normal gate price. When a higher gate price is implemented, Japanese imports normally decline sharply. Preliminary reports indicate U.S. pork exports to Japan totaled 15,700 metric tons in August compared with 25,318 metric tons in July.

Exports to Mexico Flourish

Mexico is the big story in U.S. pork and pork variety meat exports. As shown in Figure 2, Mexico’s share of U.S. exports of pork and pork variety meats combined increased by 8 percentage points during January–July 2004 compared with January–July 2003. By contrast, Japan’s share fell by 9 percentage points.

Taken separately, U.S. pork exports to Mexico totaled 108,030 metric tons, up 77.0 percent, and pork variety meat exports totaled 72,740 metric tons, up 71.8 percent during the January–July period. Mexico also imported 96,863 head of live pigs, an increase of 117.9 percent over January–July 2003.

As with Japan, much of the increase occurred in response to bans on beef and poultry meats. Mexico banned all U.S. beef during most of the first quarter of 2004. U.S. boneless beef and beef from animals younger than 30 months is now allowed into Mexico, but high U.S. prices have dampened this trade, which is running 60 percent behind the 2003 level.

Mexico also banned poultry meat from several U.S. states because of AI outbreaks in 2003 and 2004, which has reduced U.S. poultry exports. When the highly pathogenic strain was discovered in Texas in late February, Mexico temporarily banned imports of all U.S. chicken products. The immediate effect was a decline in U.S. poultry meat exports (including turkey) to Mexico.
**Figure 1. U.S. Pork and Pork Variety Meat Exports and U.S. Producer Prices, January 2003 – July 2004**

- **Japan Reduces Pork Gate Price**
- **U.S. BSE Case Announced**
- **Highly-Pathogenic Avian Influenza in Texas**

**Figure 2. Share of U.S. Pork Exports**

- **Japan**
  - Jan.-July 2003: 43.2%
  - Jan.-July 2004: 34.4%
- **Mexico**
  - Jan.-July 2003: 25.1%
  - Jan.-July 2004: 33.0%
- **Canada**
  - Jan.-July 2003: 11.9%
  - Jan.-July 2004: 11.8%
- **Others**
  - Jan.-July 2003: 11.4%
  - Jan.-July 2004: 9.5%
- **Hong Kong/China**
  - Jan.-July 2003: 5.5%
  - Jan.-July 2004: 6.7%
- **Taiwan**
  - Jan.-July 2003: 2.9%
  - Jan.-July 2004: 4.6%
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ket hog inventories for 2004 were slightly above last year’s levels. Farrowing intentions over the last half of 2004 were slightly higher than last year’s levels as well.

Record Pace in Cash Receipts
Cash receipts data (currently available through the month of June) show that Iowa agricultural sales have been at a record pace over the first six months of the year. Figure 4 shows cash receipts for crops, livestock, and in total for Iowa for this year, the previous year, and an average of the past 10 years. Thus far, current receipts are $730 million ahead of last year’s figure and roughly $1.25 billion ahead of the average. The surge in cash receipts comes from both crops and livestock. Only in 1996 and 1997 have crop cash receipts been higher than in 2004. The livestock cash receipts have never been higher at this point in the year.

Iowa agriculture in 2004 is aiming at the record books. Corn yields and production are the highest they have ever been. Livestock prices remain strong. Cash receipts from both segments of agriculture are high, propelling total cash receipts $1.25 billion above usual for this time of year.