

Competing in the International Pork Market

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■ Strategy & Industry Implementation

How Alberta Livestock & Meat Agency (ALMA) Came To Be

During 2007-08, Alberta's livestock industry (principally the beef and pork sectors) found itself in a state of extreme duress with low livestock prices and high input costs. Market factors, such as the increase in the value of the Canadian currency, the loss of access to markets (especially as a consequence of BSE), and loss of feed cost competitiveness, contributed to the Alberta industry's deteriorating competitive position.

Two basic scenarios existed as to how the Alberta beef and pork industry could evolve in the face of the continued market downturn:

- significantly downsize and become a domestic focused industry; or,
- maintaining or potentially growing the Alberta industry as an international competitor with a high-quality, differentiated product

The first scenario implies significant dislocation to Alberta's rural communities from the fall-on effects of a significant downsizing. It also presumes that Alberta's industry can defend itself against competitive imports. The first scenario is essentially one of accepting defeat.

We believe the second scenario is achievable but necessary changes would be required to realize it. Basically, it means a shift from a commodity orientation to one with a focus on high-value differentiated products; reduced dependency on US markets; improvements in branding and certification programs and the redirection and refocus of government-provided marketing funds.

In support of this proposition, an Alberta Livestock & Meat Strategy (ALMS) emerged; stemming from rigorous industry consultation. The process started in October 2007 and meetings included those with Alberta pork producers. On June 5, 2008, the provincial government unveiled the long-term strategy and announced an investment of \$356 million to stabilize and strengthen Alberta's livestock industry through the transition toward a new competitive model. This strategy also unveiled mandatory traceability and the development of a new Alberta Livestock and Meat Agency (ALMA).

ALMS Framework – Setting the Vision

An internationally competitive and profitable livestock and meat industry.

The Alberta Livestock and Meat Strategy (ALMS) is the framework that will help enable the industry to create and extract maximum value from the competitive environment, leaving specific initiatives on marketing strategy and business plans to industry. It includes eight priorities:

- A **shared vision** to achieve a global competitiveness advantage
- Strengthened foundation of animal health, food safety and public health
- Investing in information exchange in the livestock supply chain– the **Livestock Identification System of Alberta (LISA)**
- Support **differentiation initiatives** to specialize and customize products
- Improve marketing and diversification initiatives to increase recognition and branding
- Give leadership in **environmental stewardship** in the livestock sector
- **Reduce cost and remove regulatory barriers** by reviewing and determining where we can reduce the cost burden and time it takes to approve products and processes in order to produce safe healthy products. Veterinary drug approvals, feed grain competitiveness and price risk insurance are examples of areas we can improve, together with the Federal government.
- **Support transition** of the livestock industry, promote good governance amongst industry organizations and enhance effectiveness along the value chain.

ALMA – A Catalyst for Revitalization

The Alberta Livestock and Meat Agency (ALMA), working in partnership with Alberta Agriculture and Rural Development, will take a leadership role in implementing the ALMS.

Efforts will be focused on pursuit of desired industry outcomes, some of which include:

- **Shared Vision:** A vision of livestock and meat industry direction and priorities that is shared across industry sectors and government.
- **Profitability and Competitiveness:** The livestock and meat industry's profitability and international competitiveness will measurably improve.
- **Self-Reliance:** The livestock and meat Industry will operate primarily independently of government funding and will be sustainable within the context of the market place.
- **Market Diversification:** Markets for Alberta livestock and meat will be expanded and diversified.
- **Industry Investment:** Investment in the industry has measurably increased.
- **Leadership:** The Alberta livestock and meat industry will be recognized globally for providing competitive livestock and meat products that meet consumer needs through leadership in animal health, food safety, animal care and environmental management.

ALMA will act as a catalyst to help revitalize the industry. As industry continues to drive the business of producing livestock and processing meat, ALMA will direct funds and resources to programs and initiatives in support. To guide this process, an independent competency based board has been named by the Minister.

The four core businesses of ALMA include:

Market Development

- Realign and enhance funding commitment to international market development.
- Develop and implement a dedicated Alberta advocacy strategy for dealing with other jurisdictions on matters of interest to Alberta.

Supply Chain Development

- Foster the creation and further development of customer focused value chains.

- Livestock Information System of Alberta – creates an “information highway” for the livestock and meat sector.
- Create the infrastructure required for certification and verification of processes and attributes

Innovation

- Establish and fund strategic innovation programs for livestock and meat, focusing on research and development, technology transfer, automation and commercialization.

Industry Capacity and Capability Development

- Support skills and leadership development, new business models and business planning skills, and education and training.

ALMA is currently building support for the strategy, with communications being another key priority. ALMA has been engaged with Alberta industry through forums such as town hall meetings and workshops to further develop a shared vision amongst the producer and processor community. Discussions on cooperative efforts are also ongoing with other provinces and the federal government. International awareness of Alberta’s strategy has also been initiated with the Minister leading a mission to Asia and in meetings with international customers and organizations.

■ Lessons from the Asian Mission

Recognizing that producers are aware of the need to target a product that consumers are prepared to pay a fair price for, open access to these markets and consumers is essential. Production and processing are dependent not only on access to affordable feed grain; regulatory requirements; labor costs and availability; technology adoption and management expertise, but also on investment dollars. ALMA has recognized the need to attract investment into Alberta, particularly from end-users overseas who may have an interest in further integrating their supply chain with a Canadian supply capability.

In China: China is the biggest meat producer and consumer in the world. Pork is still the major red meat consumed by the Chinese. Pork accounts for 60% of the total meat production in China. It is forecasted that the average Chinese will consume 75kg of meat per year by 2010. Over the recent few years, China has exhibited rising imports and falling exports. The first half of 2008 saw live hog inventories increase by 3.7% and sows up 12%. China has seen increased investments of private foreign capital in large-scale farms.

The losses suffered in the earthquake in Sichuan are anticipated to see continued tight supplies of pork and will further raise domestic pork prices. It is expected that Chinese pork exports will continue to decline throughout 2008. Rising retail pork prices due to supply concerns may dampen future increases in pork consumption which may help alleviate pork supply problems.

There are opportunities for Alberta in China for high quality pork, in both retail and food service. Ractopamine remains an official barrier, although recently this has not posed a barrier to imports and China seems to be turning a “blind eye” for now on this issue.

Continued trends in China are:

- that meat sales are decreasing in wet markets while the sales in supermarkets are increasing due to good meat storage and attractive packaging.
- demand for chilled meat is increasing.
- food safety problems that China has experienced (e.g. with melamine contamination) may cause consumer backlash with regard to livestock-related food products

In Japan: Canada has retained its market share (11% in both 2003 and 2007). Japan remains Canada's second largest export market (after US). Effective May, 2008, Canada Pork International (CPI) announced the registered 'Canada Pork' as a brand name under Japan's Regional Trademark System. Seafood consumption is trending downward in Japan, beef is still restricted and relatively expensive, so this is creating opportunities for pork. The recent strength of the yen has also enhanced Japan's appetite for imported products.

Japan is a highly segmented market for meat, and local tastes still favor products like “Kurobuta” pork. Retailers and others are beginning to indicate a desire to develop source verification programs, including branded programs that associate the supply location with information on how the product was raised, fed and processed to increase consumer confidence and trust.

Japanese importers and end-users continue to value the distinctive characteristics of Canadian pork, in particular, barley feeding. These importers have made it very clear that Alberta should avoid moving away from a barley-fed product as this may impact future sales and disappoint the customer base. They also stress Alberta's inherent proximity to Japan as an advantage in shipping chilled product and highly value the efforts we are making to enhance traceability and food safety. Japanese buyers also consider Alberta/Canadian processors as being flexible and willing to process products for Japanese customers; this is a significant advantage in the marketplace.

With the current conditions in the hog industry, Japanese importers are concerned about the ability of our hog producers and processors to supply sufficient product on a consistent and reliable basis.

■ **Alberta Pork Revitalization Strategy – The Fit**

ALMS has taken into account the Alberta Pork Revitalization Strategy (APRS) in its strategic implementation plan. APRS identifies three core strategies which coincide with those of ALMA:

- Establish indisputable system integrity in production, processing & marketing of Alberta pork;
- Create new marketing and business development capability;
- Implement cost competitiveness strategies

Both ALMA and Alberta Pork recognize the need for an Alberta Quality platform and that opportunities can result from Alberta branding programs. These priorities can be achieved with the assistance of systems which connect and facilitate response to market signals. One key initiative which ALMA sees as a tool to help make this possible is the Livestock Information System of Alberta (LISA).

Information that may be contributed includes: history of the animal (illnesses, vaccinations and weaning dates), packer and feeding information such as grade and yield, traits, markers, quality attributes, production processes, feeding, performance, sales, and market and consumer information, as well as the age, premises, movement required through mandatory traceability. The enhanced flow of information will enable the industry to respond more quickly to market signals, enhance service levels and provide a potentially decisive advantage relative to global competitors.

■ **How do We Move Forward Together?**

ALMA is still very much in the organization-building stage. We are anticipating full incorporation by January 2009 and to be operational as an independent entity by April 1, 2009. In preparation, we have been in discussion with industry to further align marketing, supply chain and research strategies. Programs for supply chain development, including automation and product development, should be ready to roll out with the new fiscal year.

ALMA, through the LISA initiative, may assist in the information linkage between the processor and producers for improved production and quality. Protocol development and management plans will be industry led initiatives,

however, facilitation with information capture and system requirements are aspects that ALMA sees as priorities that require our support.

ALMA is in discussion with Alberta Pork relative to market development programs. Market access and future marketing efforts are common objectives and the branding pilot work is of interest to ALMA. ALMA supports the work Alberta pork is undertaking to define the value propositions needed to meet priority markets. It is conceivable that ALMA and Alberta Pork will be able to agree on pilot projects that will help set the stage for new and innovative industry programs that will enhance overall competitiveness and profitability in the future.

We are encouraged by the progressive leadership being demonstrated by Alberta Pork and look forward to working very closely with your industry and offer support to help you achieve your goals.