

International Report

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Weighing the Importance of Export Markets

Since bovine spongiform encephalopathy (BSE) was detected in North America, the price for most rendered products has been on a roller coaster ride. In fact, after the first case of BSE was reported in the state of Washington in December 2003, meat and bone meal (MBM) prices plummeted to severely low levels. Export markets completely shut down to ruminant MBM, adding further downward pressure on prices because about 15 percent of the U.S. MBM production is exported.

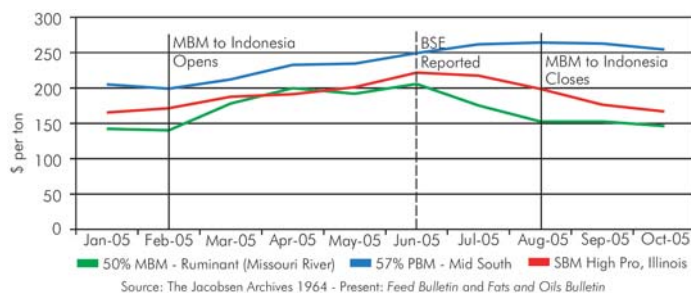
Even though the rendering industry has been severely impacted due to the loss of export markets, there is no time to forget about the benefit that having the export alternative brings to the industry. The export market not only benefits those exporting products, but also benefits those who only sell in the domestic market. A good example is to look at what happened to protein meal prices in the United States when negotiations concluded with Indonesia this spring and the market

Immediately, the price of MBM dropped substantially, by about the same \$50 per ton that was seen when the Indonesia market opened. Also, the price spread between SBM and MBM increased to substantially unnatural levels. Again, the SBM price began to weaken as well but didn't fall nearly as sharply as the MBM price.

Another interesting and telling price to look at through this time frame is for poultry by-product meal (PBM). The price of PBM never took the sharp decline in price like it did in January 2004 following the first U.S. BSE case. In fact, the PBM price continued to stay strong well after June 2005. The major reason is that PBM did not lose any export markets due to the second BSE case. Indonesia continued to accept PBM as did other major markets.

Often times the export market appears to be unfair, and when lost, costs the industry a lot of money. However, at the same time, the honest truth is that to keep prices stable and to eliminate the roller coaster effect seen in 2004, the export market is strongly needed. The National Renderers Association (NRA) has focused a lot of effort in moving negotiations forward to re-open export markets. Last year was focused on keeping non-ruminant proteins moving while trying to open key ruminant MBM markets. The strength in the PBM price after June 2005 shows that this strategy is working. The effect of opening Indonesia to MBM in the spring of 2005 also shows that it is important to regain MBM export markets. The benefits not only accrue to those exporting, but those operating only in the domestic market as well. Because of this, the NRA International Market Development Committee encourages all companies to attend meetings and become involved. ❖

Chart 1. Meat and Bone Meal Prices, January-October 2005



However, within a month of reporting BSE, prices rebounded to pre-BSE levels. There were two factors that led to this rebound. The first was that the low prices drove domestic users of MBM to increase their inclusion rates for what was an excellent buy. Also, new users entered the market to benefit from the extremely low prices. This had the affect of increasing demand and rebounding prices to pre-BSE levels.

Next, Mexico re-entered the non-ruminant animal protein market after negotiations between U.S. and Mexico agricultural officials concluded. This helped pull additional animal proteins off the U.S. market, further supporting the rebounded price. In fact, Mexico has been a very strong buyer of animal proteins since the market was re-opened to non-ruminant proteins.

opened for a short period before the domestic case of BSE was reported in June. Chart 1 quite clearly shows the beneficial effect on domestic animal protein prices due to the opening of the Indonesia market. In February 2005, rumors that negotiations between the United States and

Indonesia had concluded, along with strengthening soybean meal (SBM) prices, immediately began increasing prices. In fact, by April, when the Indonesia market was officially opened and exporters began loading containers, MBM prices had reached, and in some places surpassed, that of SBM. Between February and April 2005, SBM prices increased by about \$20 per ton whereby MBM prices increased by as much as \$50 per ton. Quite clearly the MBM price is driven by the SBM price; however, the opening of the Indonesia market gave MBM an extra boost in prices that had been unseen since before December 2003.

But in June 2005, the United States announced its first domestic case of BSE and Indonesia quickly followed by again banning the importation of U.S. MBM.