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Overseas Investments by U.S. Meat Corporations

What's the Future for U.S. Exports?

International commerce is increasingly the result of more commercial activities than just exporting or importing. Most of the top-ranked U.S.-based meat corporations are also investing overseas in processing or production. Market access, lower production costs, growth opportunities, and regulation drive international location decisions. Evidence from the broader food processing industry hints that growth in U.S. meat exports may not decline as U.S. meat industries expand their overseas operations to access worldwide markets.

As Congress and the President decide when to grant permanent normal trade relations to China, investment and expansion opportunities—rather than export opportunities—are the big prize for many U.S. manufacturing industries. Most companies want to locate their facilities closer to their customers, and China has 1.2 billion potential customers.

U.S. food and meat processing corporations also stand to benefit from a more predictable investment climate. Normalized trading relations with the U.S. are required for China to join the World Trade Organization. With China in the WTO, the rate of investment in China by U.S. food manufacturers will almost certainly balloon along with exports.

Commerce with China and other countries is increasingly the result of more commercial activities than just exporting or importing. Joint ventures, wholly owned Chinese companies, licensing agreements, and exports are but some of the alternatives for accessing Chinese and other markets.

Poultry giant Perdue Farms, Inc., for example, is boosting its investment in China with a joint venture for a processing plant and hatchery near Shanghai. Pork giant Smithfield Foods repeatedly tried to produce pork in North Carolina for export to Europe. Trade restrictions arose continually, and Smithfield opted to buy companies that process and sell pork in France and Poland. Smithfield has gone from owning no foreign subsidiary companies in 1993, to owning and controlling companies in Canada, France, Mexico, Brazil, and Poland in 2000.

Table 1 highlights overseas processing and sales operations of major U.S. meat corporations. Canada and Mexico are the most frequent host countries. Other locations include Australia, the European Union, Brazil, and China.

Table 1: Overseas meat processing or production operations owned wholly or jointly by U.S.-based agribusiness corporations

Parent Corporation	International Location	Operation(s)
Cargill	Canada, Alberta	Beef processing
	Canada	Case ready plant
	Australia	Beef processing
	England	Beef processing
	Honduras	Beef processing
ConAgra	Australia	Beef processing
	Portugal	Poultry and beef processing
Continental Grain	China	Poultry processing
Hormel	China	Pork processing
IBP	Canada	Beef processing
	China	Pork processing
	Ireland	Food production
	Russia	Beef and pork processing
Perdue Farms	China	Poultry
Smithfield Foods	Canada	Pork, beef, and poultry processing; and Egg hatchery and poultry farm
	France	Pork and turkey processing
	Mexico	Hog slaughter and processing
	Poland	Pork, beef, and poultry processing
	Brazil	Hog production
	Mexico	Hog production
Tyson Foods	Canada	Fish processing
	China	Poultry and fish processing
	Mexico	Poultry processing

Source: Internet web sites of the corporations included in the table.

Larger and well-capitalized firms are more apt to expand internationally. Three of the top five U.S. processing corporations in the pork, poultry, and beef industries had expanded overseas as of July 2000. Overseas investments by U.S. processors were more widespread in the pork and beef sectors, and less so in poultry.

Tables 2, 3, and 4 highlight, by industry, which top-ranked U.S. corporations have invested in overseas processing and/or production, and what markets may currently be targeted by those corporations. Target markets can change at any time, however, in response to fluctuating prices, new technology, exchange rate movements, government actions, or company strategy.

Corporations with overseas operations in some cases use those operations to access distant markets. The Canadian affiliate of Smithfield Foods, for example, sends meat to Japan and the Pacific Rim in addition to Canada and the U.S. The joint venture between Tyson Foods and Trasgo in Mexico is well placed to ultimately serve Pacific Rim as well as U.S. markets, pending compliance with sanitary regulations.

Table 2: Overseas pork processing or production operations of the largest U.S.-based pork corporations

Parent Corporation	Rank In U.S.	International Location(s)	Major Markets
Smithfield Foods, Inc.	1	Canada France Mexico Poland Brazil	Canada, Japan, USA France, Spain Mexico, Japan Poland Unspecified

IBP, Inc.	2	China Russia	China Russia
ConAgra (Swift)	3	None	None
Cargill	4	Canada	Unspecified
Farmland Industries	5	None	None
Hormel	6	China	China

Table 3: Overseas <u>poultry</u> processing operations of the largest U.S.-based poultry corporations

Parent Corporation	Rank In U.S.	International Location(s)	Markets Served
Tyson Foods	1	Mexico China	Mexico, Pacific Rim China
Gold Kist	2	None	None
ConAgra	3	Portugal	Unspecified
Perdue Farms	4	China	China
Continental Grain	>5	China	China

Table 4: Overseas <u>beef</u> processing operations of the largest U.S.-based <u>beef</u> corporations

Parent Corporation	Rank in U.S.	International Location(s)	Markets Served
IBP, Inc.	1	Canada Ireland Russia	Unspecified Unspecified Russia
ConAgra Beef Co.	2	Australia Portugal	Japan, USA, Australia Unspecified
Cargill, Inc.	3	Australia Canada England Honduras	Japan, Australia Canada, USA Unspecified Japan, Mexico
Farmland Industries	4	None	None
Packerland Packing Co.	5	None	None

Source: Internet web sites of the corporations, and personal communications with Mr. Steve Kay, editor of Cattle Buyers Weekly.

Market access, production costs, and growth opportunities drive location decisions.

Market access, lower production costs, and growth opportunities are powerful drivers of international location decisions. In addition, U.S. and foreign environmental regulations have probably influenced international location choices by U. S. agribusiness.

Similarly, the European swine industry is moving from Western to Eastern Europe, and even to North and South America, to get away from crowding and regulation.[6] Many of the larger European producers, especially those going to South

America, are forming joint ventures with local companies; the locals provide labor and feed, while the Europeans provide money and know-how.

One recent Canadian study[1,2] of production and processing costs identified the Canadian Eastern and Western Prairie Provinces, followed by the U.S. West and East Corn Belt, as the world's lowest cost production areas for pork. The Canadian provinces offer plentiful feed and good infrastructure.

The Canadian provinces also offer ready access to the U.S. and Asian markets, lower population densities with less potential to generate environmental controversy, and supportive agricultural policies (in some cases). In Winnipeg, a planned expansion by Smithfield Foods subsidiary J.M. Schneider was backed by a $7 million government assistance package, although the package was contingent upon both hog availability and environmental permits.

In Mexico, labor costs and environmental compliance have thus far been less costly than in the U.S. Mexico is well situated to receive grain shipments from the U.S., and to ship pork to both U.S. and Asian markets. State-of-the-art production facilities, however, would require continual feed grain shipments from the U.S. Corn Belt.

In Brazil, feed grain, land, and inexpensive labor are all readily available, although high costs of capital have impeded corporate expansion. Argentina, a country also frequently mentioned as a candidate for multinational expansion by U.S. pork interests, shares similar advantages and disadvantages. Argentina produces substantial grain surpluses that could feed new livestock. High interest and inflation rates, on the other hand, have presented obstacles for Argentine producers.

The English language link between the U.S., Australia, and Canada facilitates commerce between those countries. Also important are the measures that countries adopt to facilitate investment, economic performance in the countries, and participation in regional trade agreements such as the evolving Free Trade Agreement of the Americas.

Overall, the logistics of buying or creating an overseas affiliate are becoming easier in both developed and developing countries. In developed countries, stable economies and—in some cases—cultural familiarity pave the way, although developed markets may be more saturated. In the developing world, countries are often competing against one another to welcome investments from multinational corporations. Increasingly mobile financial capital tends to diminish the importance of national borders and the national identity of corporations.

Implications for U.S. Exports

Will U.S. meat exports decline if industry continues to use overseas operations to access markets? The experience in the broader processed foods sector would seem to indicate that, while U.S. meat processors may find it beneficial to replace some exports with production abroad, such behavior will not dominate corporate strategies.

The USDA Economic Research Service analyzed this question in 1996 at the level of individual corporations. ERS data failed to show an overall decline in exports coincident with an increase in foreign affiliate sales.[5] In the aggregate, export propensity actually grew for corporations with both high and low levels of investment in foreign operations.

More research, however, is needed. Questions remain as to how increased capital mobility and trade liberalization will ultimately affect meat exports. Also, intensified U.S. regulation of livestock production and processing holds the potential to slow the rate of growth in the U.S. industries, which could induce greater overseas investment by U.S. corporations.

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