

## Impact of African swine fever on global markets

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African swine fever (ASF) has spread to every province in China since the first official report in August 2018. Outbreaks of the disease have also been reported in neighbouring Asian countries and in wild pig herds in Europe. The impact of ASF on the global pig meat industry is only gradually becoming clear.

Chinese Government statistics indicate a 26% year-on-year decline in the national pig herd at 30 June 2019, but some industry estimates are as high as 40%. ASF in China will have a significant impact on global agricultural markets. This is because China has around 50% of the global pig herd and accounts for around 50% of global pig meat consumption. This article examines how ASF is likely to affect global and Australian agricultural markets.

### Global impacts

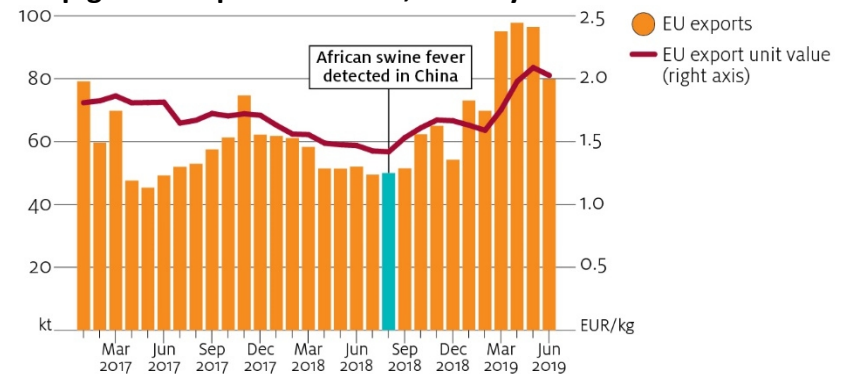
#### Pig industry

ASF has had a significant effect on the Chinese pig industry and the Chinese economy. Changes in pig meat prices and domestic production can affect the Chinese economy because pig meat is the [most consumed meat in China](#). In the year to August 2019, retail pork prices rose by 47%, contributing to a 10% increase in the food price index.

Between January and June 2019, according to official Chinese production statistics, Chinese pig production fell by 6% year-on-year. Lower Chinese production has resulted in an increase in Chinese pig meat imports—mostly from the European Union and the United

States. In 2019–20 Chinese import demand is forecast to increase further, driving up global pig meat prices. The risks to global prices are amplified by Chinese trade tensions with Canada and the United States, both major pork exporting countries.

#### EU pig meat exports to China, January 2018 to June 2019



Source: Eurostat

Industry reports estimate the Chinese pig herd could contract by 50% from pre-outbreak levels by the end of 2019. This will have an ongoing impact on Chinese pork production for several years and is likely to hasten structural adjustment in the pig industry. The disease has reportedly had a much larger impact on small-holder and family farms because they have less stringent biosecurity measures and make greater use of swill and other feeds that are more likely to transmit the disease.

Less vertical integration also necessitates more frequent transport between different stages of the supply chain, increasing the likelihood of transmission. It is likely that the current outbreak will lead to an

expansion in the near future of larger commercial operations that are better able to adopt disease control measures.

**Other meat markets**

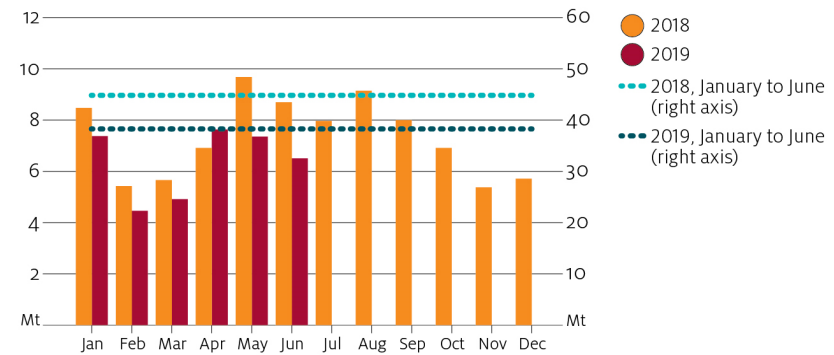
Higher pig meat prices are expected to encourage Chinese consumers to substitute towards alternative protein sources. Consumption of poultry and fish are forecast to increase strongly due to affordability and producers' capacity to respond quickly to rising demand. Beef and sheep meat consumption are also forecast to increase, but at a slower rate due to their higher relative cost. Nonetheless, global demand for beef and sheep meat is likely to increase due to the size of the Chinese market. Prices for all meats in China are likely to increase.

**Grains and oilseeds**

Chinese pig rations are estimated to [consist of around 20% corn and 75% soybeans](#). In 2017–18 Chinese consumption accounted for around 25% of global corn consumption but only 2% of imports. Lower Chinese corn demand is unlikely to result in China becoming a major exporter of corn. This is because recent Chinese Government policies have sought to reduce high corn stocks by increasing domestic consumption and decreasing production rather than releasing stocks onto the global market. The [Chinese Government's commitment](#) to market price setting for corn is expected to reduce domestic production and volumes available for export. In September 2017 the Chinese Government announced a program to increase [domestic ethanol consumption and production](#). The program is designed to reduce high government stocks of corn. If ASF leads to higher than previously expected corn stocks, previous Chinese Government decisions and high domestic prices suggest it is unlikely these supplies would be exported.

ASF will have a significant effect on world oilseed markets. China accounts for 30% of global oilseed consumption and 50% of imports. ASF has drastically reduced Chinese import demand. At June 2019 Chinese soybean imports were much lower than previous years, and were particularly low in May and June. Chinese imports are typically just-in-time, so import demand is likely to suddenly decrease if the ASF situation worsens. ASF is likely to keep world oilseed prices low until there is a supply response from major exporters.

**Chinese soybean imports, January 2018 to June 2019**



Source: UN Comtrade

**Impact of African swine fever on Australian exports**

**Pig industry**

The Australian pig industry is largely focused on the domestic market. Exports account for only 10% of production. Australian production is insufficient to meet domestic consumption. Around 50% of pig meat consumed in Australia is sourced from imported processed products, mostly from the European Union and the United States—China's largest sources of pig meat.

ASF will increase Chinese import demand and global import prices. This will drive up prices for imported processed product in the Australian market and place upward pressure on Australian over-the-hook pig prices. However, the forecast increase in global prices is unlikely to make Australian pig meat competitive on world markets.

### **Other meat sectors**

The Australian beef industry is expected to benefit from increased Chinese import demand for protein. In the 6 months to June 2019, exports of beef to China grew by 68% year-on-year. Lower-priced frozen beef exports accounted for much of the increase because it is generally a more affordable substitute for pork than fresh beef or sheep meat. Exports to China are [forecast to continue to grow in 2019–20](#) and China is expected to become Australia's second-largest market for beef after Japan.

Australian sheep meat exports to China are also expected to continue to increase. This growth is due to long-term Chinese sheep meat supply and demand trends rather than ASF. China is the largest global producer of sheep meat. However, strong consumption growth in recent years has increased sheep meat imports from Australia and New Zealand. ASF is expected to offer only a minimal increase in Australian sheep meat exports. This is because fish, relatively low-priced beef cuts and poultry meat are more price competitive than Australian sheep meat.

In 2019–20 Australian poultry prices are unlikely to be affected by ASF. The Australian poultry sector is focused on the domestic market, and exports or imports minimal volumes. China is not a major export market for Australian poultry. This has not changed following the ASF outbreak.

### **Grains and oilseeds**

China is one of Australia's largest barley export markets, but feed barley exports are highly variable. This is because feed grain demand from Chinese livestock industries is extremely price sensitive. In 2015–16 the cost-effectiveness of corn reduced Chinese import demand for feed barley and feed wheat. Future Australian barley exports to China will depend on Australia's competitiveness against alternative feed grains.

In 2019–20 Australian canola exports are likely to be diverted from the European Union to China at lower prices. This is because Chinese trade restrictions will reduce the prices of Canadian canola and US soybeans. As a result, EU consumers are expected to substitute towards these cost-effective products and away from Australian canola. Despite lower feed consumption, Chinese import demand is still expected to absorb displaced shipments of Australian canola. However, returns to Australian canola are expected to fall due to lower global oilseed prices and an erosion of the GM-free premium that Australia has traditionally received in the EU market.