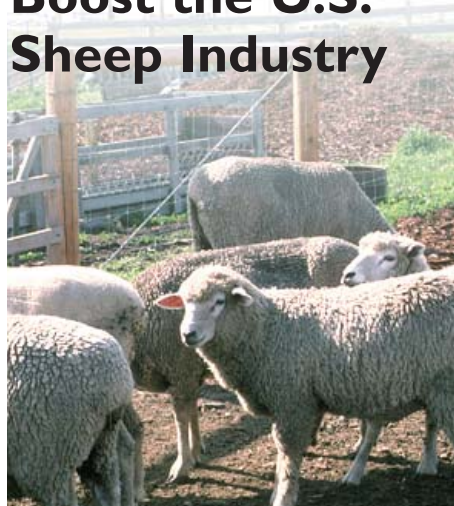


Marketing Could Boost the U.S. Sheep Industry



Bob Nichols, USDA/NRCS

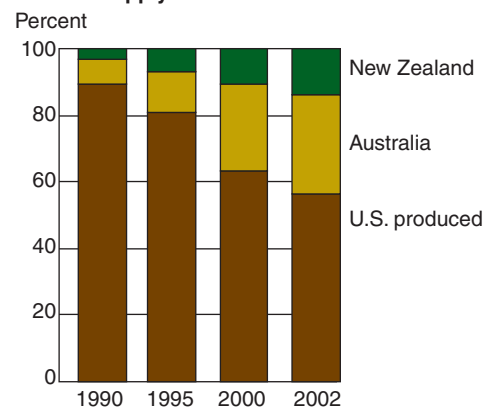
The U.S. sheep industry is in the midst of a long-term decline. The reasons are many: reduced wool demand, low lamb meat prices, losses to predators, and labor shortage. Despite these concerns, demand for lamb meat has remained steady, and imports have increased to meet U.S. consumer needs. The trend of declining domestic supply and increasing imports could be reversed if the industry pursued a different business model. The experience of Australia and New Zealand shows that aggressive marketing and diversification of demand offer hope for the industry's recovery.

Survey data indicate a lack of a broad consumer base, and little success has been achieved in promoting and differentiating U.S. lamb from other meats. The U.S. sheep industry focuses on high-valued cuts for the domestic market, concentrated mainly in the Northeast and Western States because of their large immigrant populations. It has neither capitalized on market segmentation nor developed export markets. Most low-valued meat is rendered or made into pet food. What little is exported goes mainly to Mexico in the form of whole mutton carcasses. In contrast, beef, pork, and poultry markets are geographically dispersed with organized export markets. In addition, they have consumers of all ages and backgrounds who buy a wider variety of cuts.

Australia and New Zealand offer a model for industry success. Lamb marketers in those countries have waged very aggressive ad campaigns aimed at clearly distinguishing their product from, and defining it as superior to, those of its competitors. Their ads, appealing to customers outside their borders, tout the fresh, wholesome, free-range, grass-fed image. Imports from Australia and New Zealand now make up more than 40 percent of U.S. lamb and mutton consumption.

Australia and New Zealand lamb and mutton exports have grown and diversified. Both countries export to a wide range of markets, including traditional markets in the European

Lamb imports are a growing portion of the U.S. supply



Union, the Middle East, and Papua New Guinea and newer markets in the United States, Southeast Asia, and Africa. With these diverse markets, a clear delineation among three market segments has emerged. High-priced prime lamb products sell in the developed economies, lower valued lamb products sell in developing economies, and low-priced mutton sells in both developed and developing economies for institutional catering and for further processing. \mathbb{W}

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This finding is drawn from . . .

Trends in the U.S. Sheep Industry, by Keithly Jones, AIB-787, USDA/ERS, January 2004, available at: www.ers.usda.gov/publications/aib787/

Volume Production Keeps Floriculture Prices Low

The trend toward mass marketing of floral crops, while increasing convenience and affordability for consumers, is forcing the industry to restructure. Prices of fresh-cut flowers, bedding, and garden flowering plants have been generally flat since 2000, and short-term prospects offer scant relief. Now sold alongside common household products in supermarkets, home centers, and discount stores, floriculture crops are increasingly produced in large volumes.

These developments, although a boon to consumers, are subjecting floral crop growers to downward price pressures on what had been higher margin crops. Real wholesale prices have actually fallen in the past few years, particularly for cut flowers, which face unrelenting competition from cut flower imports. Bedding and garden plants, such as mums, geraniums, and impatiens, remain at 2000 wholesale prices, in part due to higher production volume.



Dana Rayl West, USDA/ERS

Russia Changes Global Market for Livestock Products

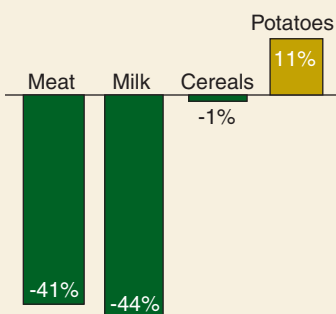


William Liefert, USDA/ERS

In moving from a centrally planned to a market economy, Russia experienced a dramatic drop in the consumption of high-value livestock products, such as meat, milk, and eggs. Per capita meat consumption, for example, fell from 165 pounds in 1990 to 90

pounds in 2000. The main reason for the decline was the elimination of massive government subsidies for livestock products that had helped boost production and consumption during the former Soviet era. Without these subsidies, producers could not sustain output levels, consumer prices rose, and demand fell. In addition, demand has shifted to goods and services of which consumers were starved during Soviet times, but that are now becoming more plentiful: fruits, vegetables, and packaged convenience foods, as well as consumer durables—such as automobiles, refrigerators, and televisions—and services ranging from legal and financial services to car repair and health clubs.

Changes in per capita food consumption in Russia, 1990-2000



Throughout the 1990s, floral and other ornamental crops achieved the fastest sales growth among U.S. crops. With a farm production value of \$14.4 billion in 2003, ornamental crops now rank fifth among the top eight agricultural sectors that gross at least \$13 billion in annual cash receipts, and trail only corn and vegetables among crops. The recent U.S. economic slowdown, however, not only flattened sales growth, but pushed down prices as well. To at least maintain former sales receipts, many producers boosted production, especially of bedding and garden plants, but low unit prices have squeezed profit margins across the industry. The weak economy, along with high labor costs and competition from imports, forced growers to cut costs and boost productivity.

Labor costs in the floriculture sector are among the highest in agriculture. The labor-intensive and seasonal nature of the ornamental crop industry makes it dependent on hired workers. Growers are responding to higher labor costs with automation, year-round greenhouse production, and outsourcing of seedling propagation, which is increasingly located in Mexico and Central America. But these trends have also raised capital costs and overall debt.

These changes could have important implications for global trade in meat, animal feeds, and high-value products. Incomes began to grow in Russia in 2000, following the 1998 financial crisis, and gross domestic product and consumer income are currently rising at about 5-6 percent per year. The income growth has generated a rebound in meat and other livestock consumption. But because the large subsidies of the former Soviet era encouraged overconsumption of livestock products relative to the economy's real wealth, per capita consumption is unlikely to return soon to the levels of that period. Nonetheless, the rise in livestock consumption provides export opportunities for U.S. producers.

Despite the drop in overall meat consumption, during the 1990s, Russia became a major meat importer, especially of poultry. In 2001, Russia imported 1.1 million tons of U.S. poultry, accounting for 45 percent of U.S. poultry exports. In spring 2003, however, Russia imposed a quota on its poultry imports, as well as restrictions on its beef and pork

imports. The poultry quota allows 1.05 million tons of imports a year, compared with Russia's total 2002 poultry imports of about 1.5 million tons. Russia's apparent motive behind these measures is to protect its poultry and other meat producers from import competition, given that, in recent years, Russia has been importing about a third of all domestically consumed beef and pork, and over half of its poultry. It remains an open question, however, as to whether Russian poultry producers will respond sufficiently to this added stimulus to satisfy the growing demand among Russian consumers for poultry meat. **W**

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This finding is drawn from . . .

Changes in Agricultural Markets in Transition Economies, by William Liefert and Johan Swinnen. AER-806. USDA/ERS, February 2002, available at: www.ers.usda.gov/publications/aer806/

See also the ERS Briefing Room on Russia: www.ers.usda.gov/briefing/russia/

Import competition has also been a catalyst for industry restructuring. More than half of fresh-cut flower sales are from imports, but there is hardly any import competition for finished flowering, bedding, garden, and foliage plants, except from Canada. Thus, in place of cut flowers, growers increasingly produce bedding and garden plants, which now account for half of total floriculture sales.

Mass marketing and volume production have led to a greater use of contract growing of ornamental crops. Contract growing reduces the market risk of ornamental farmers because sales are guaranteed in long-term contracts. Some buyers also ensure product quality by supplying such inputs as seeds, seedlings, fertilizer, and technical expertise. These emerging practices in the industry are encouraging specialization in product lines aimed at volume production, but they are also intensifying price competition. **W**

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This finding is drawn from . . .

The ERS Briefing Room on Floriculture Crops: www.ers.usda.gov/briefing/floriculture/