

Mexican Horse Meat; The impact of the EU ban (2014/891/EU)

Background

US horses have long been shipped live for slaughter in Canadian and Mexican slaughter plants. These plants are leased or operated by the four main Belgian and Dutch multinationals controlling most of the horse meat market worldwide. Such trade has been ongoing since well before US-based horse slaughter plants, owned by the same interests, were closed in 2007 as a result of court orders upholding state legislation banning horse slaughter and horse meat trade as well as federal legislation banning the use of federal funds to carry out mandatory inspections slaughter-bound equines. In some instances the export of US horses for slaughter in both countries can be traced back to 1982, hence refuting claims that the closure of the US-based horse slaughter plants lead to an increase of equine abuse. Although in a lesser number, US horses are also shipped live for slaughter in Japan.

On December 10th 2014, the European Commission issued Decision 2014/891/EU passed December 8, banning the import of horse meat from Mexico. This decision resulted from an audit¹ carried out by the European Commission's food safety agency (DG-SANCO's Food and Veterinary Office, FVO) which found that horse meat from Mexico did not meet EU food safety standards due to the nearly non-existent identification and traceability controls, lack of veterinary drug treatment records and the unrestricted use of banned veterinary drugs in the horses, particularly those coming from the United States.

Exportation of live US equines for slaughter abroad

According to official statistics from the US Department of Agriculture, during 2014 more than 146,548² equines were exported for slaughter in Canada, Mexico and Japan. Of those, 105,406 alone were shipped for slaughter in the four Mexican slaughter plants formerly approved by the EU for export of equine meat to the Union:

- Cárnicos de Jerez S.A. de C.V., located in Jerez de García Salinas, state of Zacatecas.
- Empacadora De Carnes De Fresnillo S.A. De C.V., in Fresnillo, Zacatecas.
- Empacadora De Carnes Unidad Ganadera, S.A. De C.V., based in Aguascalientes.
- Empacadora Y Ganadera De Camargo S.A. De C.V., located in Camargo, state of Chihuahua.

It is yet unknown how many were slaughtered in small, municipally owned plants called "rastros" that are not subject of federal inspections by Mexican Dept. of Agriculture (SAGARPA/SENASICA) and thus not authorized for export of meat products to third countries or between Mexican states. However, according to data obtained from the Mexican Treasury Department (SE) and the Federal Corporation Registry (SIEM), the vast majority the horse meat exported from Mexico came from one of the establishments cited above. Overall, there are nine SENASICA-inspected³ plants

From January to December of 2014, 40,936 equines were shipped for slaughter in the four EU-approved Canadian horse slaughter plants. Additionally, 206 horses were shipped live

¹ Audit 2014-7223 "Final Report on a Mission Carried out In Mexico from 24 June to 04 July 2014 in Order to Evaluate the Operation of Control Over the Production of Fresh Horse Meat", available at http://ec.europa.eu/food/fvo/act_getPDF.com?PDF_ID=11431

² These figures do not account for US horses exported for slaughter in Canada and Japan during December 2014 since such data was not yet published when this document was composed.

³ SENASICA is the Mexican equivalent to USDA's FSIS and is the actual branch in charge of premise inspections. These plants are referred to by Mexican Competent Authorities as TIF, meaning Federal Inspection Type. It should be noted that non-TIF plants are subject to inspections at the discretion of the corresponding state authority (usually following lower standards, if any).

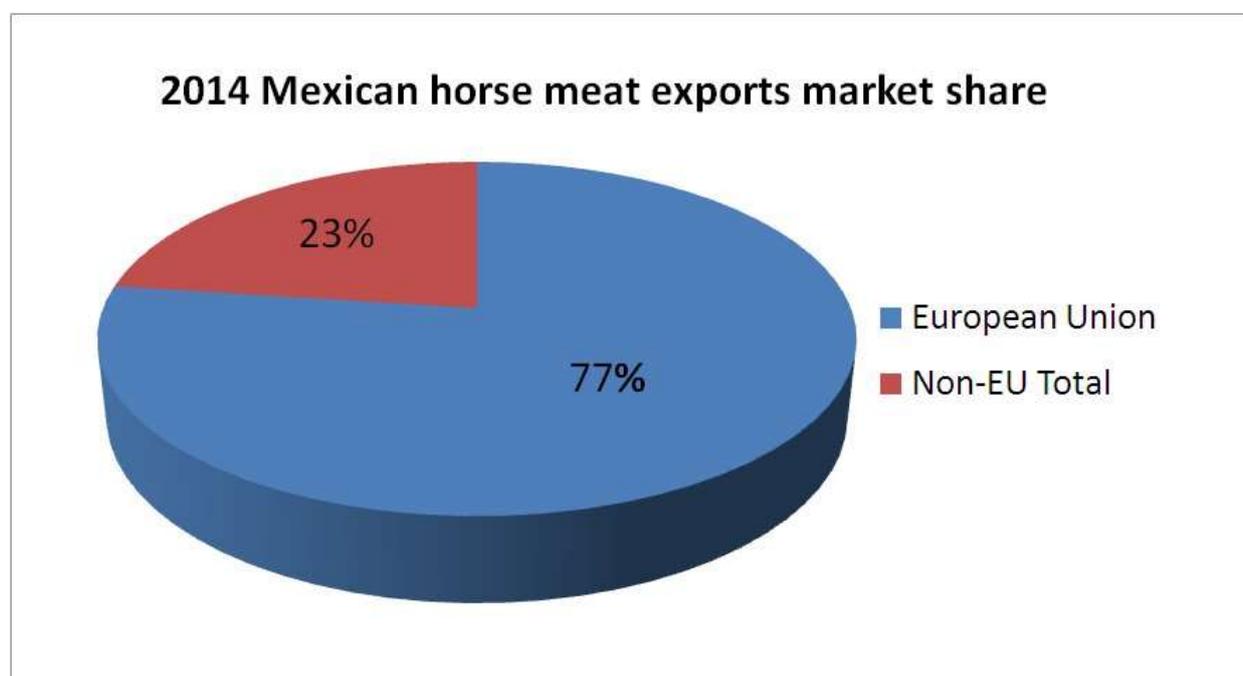
for slaughter in Japan, although it is expected that number rose to 4,000-5,000 during December.

Analysis of Mexican horse meat exports

Horse meat export statistics are published online either bimonthly or quarterly by the Mexican Federal Treasury (*Secretaría de Economía*) on the SIAVI (*Sistema de Información Arancelaria Via Internet*) portal at <http://www.economia-snci.gob.mx>. These imports statistics are from data provided the Central Bank of Mexico under the General Import/Export Tax Act using the Harmonized Tariff Code System revision 3.

According to the 2014 FVO report on Mexican horse meat, 87% of the horses slaughtered in Mexico for export of horse meat to the European Union were imported from the United States.

Up until October 2014, a total of 21,821,961 pounds (9,898,287 Kg) of horse meat were exported from Mexico for a total declared value⁴ of \$39,306,784. Of those 21 million pounds, 77% (16,817,567) were exported to EU-countries whereas the other 23%, over 5 million pounds, were sent to a combination of mostly Asian countries.



Not surprisingly, the bulk of the horse meat exported to the European Union was sent to Belgium (8,202,042 lb) and Netherlands (7,065,913 lb), followed by France (1,545,441 lb) and Sweden (4171 lb). The first three of these countries correspond to the home bases of the four multinationals controlling most of the horse meat market (Multimeats NV, Visser van Walsum BV, Chevideco NV and Velda NV) and act as hub for distribution of horse meat throughout the Union.

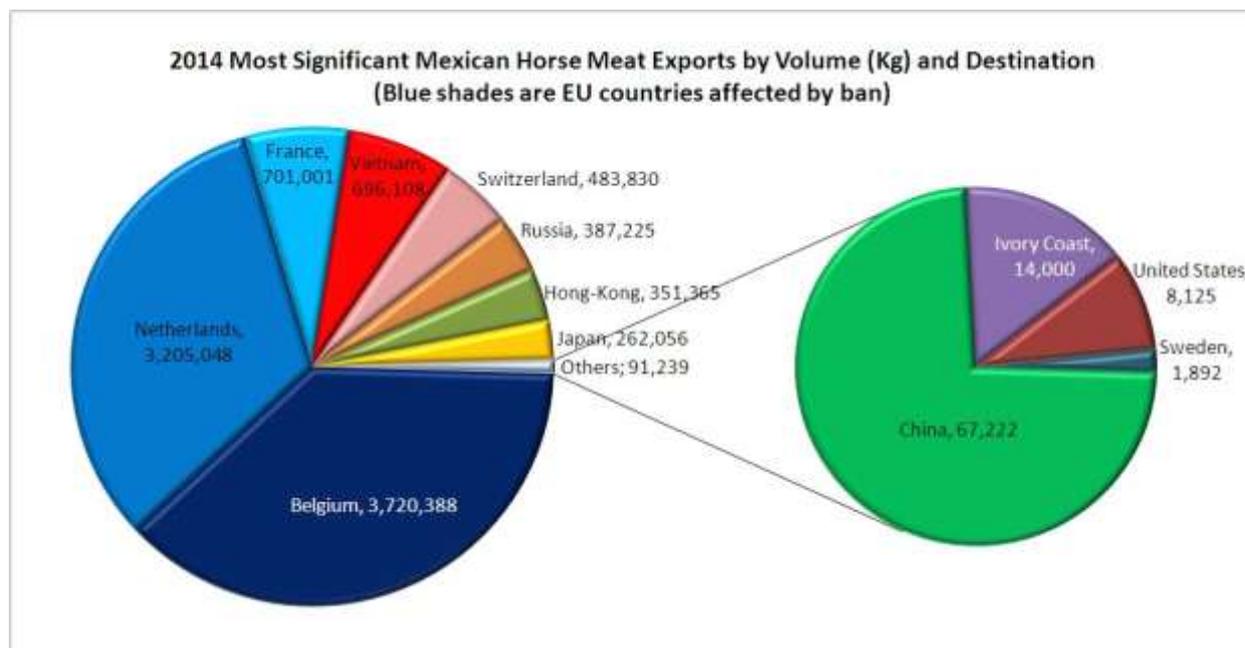
These companies operate or lease over two dozen of plants in a wide array of countries that are approved for import by the European Commission including Argentina, Australia, Brazil, Uruguay and South Africa in addition to the plants already cited in the background section. The estimated total value of all EU-bound horse meat exports was \$30,478,698. Other EU countries also imported intermittently in past years varying quantities of horse meat;

⁴ Value declared at Mexican customs, not necessarily reflecting the actual value of the product in retail markets.

however, only Belgium, Netherlands and France consistently appear in all monthly series of data from SIAVI.

An analysis of export trends since 2006 confirmed that Belgium, Netherlands and France, together with Switzerland and Japan are the traditional destinations of Mexican horse meat exports. All other markets since 2010 have been only occasional customers. However, up to 2007 horse meat from Mexico was regularly shipped to the United and Canada for subsequent re-export, most likely under Canadian or US label with destination to the European Union. Exports to Canada for subsequent re-export elsewhere continued unabated until October 2010, shortly before an FVO audit⁵ on Mexican horse meat production controls found them to be essentially non-existent and overall non-compliant with EU food safety requirements.

Non-EU countries in Western Europe of relevance to this study include Switzerland and Norway. Switzerland is the fifth largest consumer of Mexican horse meat by volume with 1,066,661 lbs; however it must be noted that Switzerland has a preference for horse meat from Canada, importing from said country up to four times the amount it does from Mexico. Even so, horse meat exported to Switzerland represents nearly a quarter (21.3%) of all the horse meat exported to non-EU countries. The estimated value of all horse meat exports to the Swiss Federation was of \$3,755,365. In contrast Norway didn't import any horse meat whatsoever -save for 364 lbs from Iceland- and only slaughtered about 3,000 equines within their territory, according to the Norwegian Bureau of Statistics.



Of much more relevance are Russia and Southeast Asian countries, lead by Vietnam in 2014 with 7.03% of all Mexican horse meat exports and followed by the already mentioned Switzerland, Russia, China (including Hong Kong) and Japan.

Up until October 2014, 1,534,654 lbs of horse meat was exported to Vietnam for an estimated value of \$1,585,055. This positions Vietnam as the 4th largest consumer by volume of Mexican horse meat in 2014. This came as a surprise since, according to historical data available on the Mexican Treasury database, up until March 2013 Vietnam only made intermittent, small volume imports of Mexican horse meat. The explanation for such a rise in the volume of exports to Vietnam comes ironically from the collapse of exports to another Asian country: Russia.

⁵ Audit 2010-8524 "Final Report on a Mission Carried out In Mexico from 22 November to 03 December 2013 in Order to Evaluate the Operation of Control Over the Production of Fresh Horse Meat", available at http://ec.europa.eu/food/fvo/act_getPDF.com?PDF_ID=8811.

According to the Mexican Treasury database, up until October 2014, 853,683 lbs. of horse meat was exported to the Russian Federation for a total declared value of \$1,485,015, positioning Russia as the 6th consumer of Mexican horse meat by volume. However, it must be noted that such exports didn't take place throughout the year but rather during the September and October alone. Data for November (not yet available on SIAVI) obtained from Russian Federal Customs Service, revealed four consignments of horse meat from Mexico totaling 294,928 lbs. for a single month alone.

Since 2010 Russia imported increasing amounts of horse meat from Mexico, peaking 16,775,280 lbs. in 2012, becoming the most important non-EU customer of Mexican horse meat and overall the second most relevant destination of Mexican horse meat exports, behind only the combination of all EU-countries. The average customs-declared value of horse meat exported to Russia is \$1.4 per pound⁶; in comparison, the average value of horse meat exports to another non-EU country of relevance (Switzerland) is \$3.41 per pound; more than twice as much.

Nevertheless, horse meat exports to Russia came to a sharp stop in May 2013 after Russian authorities imposed a ban⁷ on horse meat from Mexico due to the presence of banned drugs, including ractopamine, in samples of Mexican horse meat as well as the concern that Mexican authorities cannot account for the origin of most of the animals of which such meat is obtained since they are imported from the United States. This mirrors the concerns of EU authorities stated in Decision 2014/891/EU. Said ban was finally lifted⁸ on August 26th 2014 and exports to Russia were resumed at a steady pace since then.

Not coincidentally, only a month before the Russian imports ban was announced, exports to Vietnam rose at a steady pace, hence indicating that Mexican horse meat producers -or rather the horse meat distribution multinationals- knew beforehand the Russian market was going to clamp down and consequently they dumped their products on new, third-world client countries, al-be-it at reduced prices.

It should be pointed out that, during the time the Russian horse meat imports ban was in effect, the gap left by Mexico was immediately filled by Argentina, Australia, Brazil, Mongolia and Uruguay, countries that -save for Mongolia- have their own plants controlled by the aforementioned horse meat distribution multinationals. This clearly demonstrates that these markets are easily manipulated by the multi-national parent corporations.

In line with the pattern noticed for Vietnam is Hong-Kong and China (SIAVI lists Hong-Kong as a separate territory even though it is under the sovereignty of China). Although there has been much speculation about China as a primary destination of Mexican horse meat, historical data for both territories reveal that, up until 2013, they only made intermittent imports of horse meat from Mexico. However, the volume of meat exported to Hong-Kong rose at a steady pace since May 2013 until March 2014, at which time it again became intermittent. Still, during 2014 up until October, 774,619 lbs. of horse meat was exported to Hong-Kong, whereas 148,198 lbs. was sent to China. With the data currently available the combined value of these exports was \$970,412, averaging \$1.05/lb. Combined together China and Hong-Kong are the seventh largest trading partner by volume of Mexican horse meat.

Right after Hong-Kong, Japan is the 8th largest trading partner by volume for Mexican horse meat, with 577,729 lbs. for a total declared value of \$987,726. Although such quantities may seem small, according to data from SIAVI, Japan has been as reliable

⁶ Average price based on data from 2010 to 2014. Does NOT reflect actual value of product or actual value of sales by horse slaughter plants; only customs declared value for tax purposes.

⁷ "Russia's imported meat ban spreads to Mexico, Canada". Source http://rbth.co.uk/business/2013/04/15/russias_imported_meat_ban_spreads_to_mexico_canada_25039.html

⁸ "Rosselhozadzor authorized imports of horse meat from Mexico". Source: <http://en.logistic.ru/news/news.php?num=2014/08/26/16/6071>

customer for Mexican horse meat appearing in all monthly series since 2003. While US horses are routinely shipped live in small quantities for slaughter in Japan after a "detox" period of several months, they also do import significant quantities of horse meat from both Canada and Mexico, presumably for low-end meat products. Nonetheless, it should be noted that Japan prefers Canada as source of horse meat since only 10% of the meat exported to Japan from both countries came from Mexico⁹.

Some occasional exports of horse meat to Ivory Coast, amounting to 30,864 lbs, took place in April 2014 for an average declared value of \$1/lb. In addition, 17,857 lbs. was imported to the United States.

Although horse meat is not eaten in the United States and it cannot be found in stores, historical data from SIAVI reveal an intermittent, low-volume of flow to the US not related to massive consignments of imports shipped to the former US horse slaughter plants for subsequent re-export elsewhere under US label. After pairing this data with information relative to Canadian imports, it was discovered that this meat was shipped to a plant in Nebraska called Central Nebraska Packing, which specializes in non-for-human-consumption, large carnivore diets.

Conclusions

With 77% of Mexican horse meat exported to EU-countries during 2014, the enforcement of Decision 2014/891/EU banning the import of horse meat from Mexico represents a serious blow to the Mexico-based horse slaughter plants. However, as shown by historical market data during the time that the Russian ban on Mexican horse meat products was in effect, new markets were brought online by the plants. Recently the recovery of the Russian market following the lifting of the aforementioned ban and the rise of exports to Vietnam provides the plants an outlet that compensates in part for the market share lost as a result of the European Commission's ban.

As a result it is expected that the Belgian and Dutch multinationals controlling most of the horse meat distribution business worldwide will switch to servicing EU customers from suppliers in countries that are still approved by the EU while they reserve Mexican horse meat for other markets where food safety requirements are less stringent such as Russia, Vietnam and other third world countries.

Switching their EU clients to horse meat from countries that are still approved by the EU may be only a temporary measure, however, because several of these countries were recently subjected to audits with equally negative results to the Mexican audit, including Argentina, Australia, Brazil, Canada and Uruguay.

It is anticipated that juggling the markets and providers will come at a cost to the Mexican plants, since the meat will most likely bring a lower price. While it might be possible that one or more plants will close down after a protracted period of losses, much depends on the Russian market.

However, since the beginning of 2014, the Russian Ruble has fallen from about \$.03 US to \$.015¹⁰, and it has dropped even more steeply against the Mexican Peso. This means that the cost of Mexican horse meat to a Russian consumer will have doubled.

The loss of Mexico's primary customer for their horse meat will result in a decrease in the demand for live US horses for slaughter in Mexico although such a decrease will be lower than the initially expected 70%. However, since the data available to carry out this study

⁹ Data obtained from the Canadian Bureau of Statistics (Statistics Canada) show that, up to November 2014, 6,285,218 lbs. of horse meat were exported to Japan.

¹⁰ www.xe.com/currencycharts/?from=RUB&to=MXN&view=5Y

provided figures only until October 2014, it is not yet clear what the overall effect of the EU-ban will have on the Mexican horse slaughter plants and the US-to-Mexico horse slaughter pipeline.

In conclusion, a great deal of what happens to the traffic of slaughter horses to Mexico will depend on future EU decisions concerning other third country suppliers as well as economic developments in coming months. To date the reduction has been disappointingly small, but we expect a slowdown in the range of 30-50% of the flow of US horses shipped to Mexico for slaughter, as well as a decline in the offering price, rather than the much hoped for shutdown of the slaughter pipeline.

Annex I: Evolution of Mexican horse meat export markets 2006-2014

