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## Inside The Export Marketplace

The Canada Beef Export Federation operates offices in the key export markets of Japan, South Korea, China, Taiwan and Mexico. In this series of export market intelligence reports, the Federation is keeping the Canadian industry informed about current situations and new developments in these markets.

### **HIGH COST OF AUSTRALIAN IMPORTS IMPACTING JAPAN'S RETAIL, FOOD SERVICE SECTORS**

The year 2007 saw the continued domination of Japan's import beef market by Australia. In the latter months of the year, Australia's market share reached over 90 percent. The price of Australian beef also reached new heights, setting average market price levels 70 to 80 percent higher than those of 2000 and 2001.

The situation has led to a serious lack of profit for that sector which operates between the importers and the end users – the retailers. Unable to make sufficient returns on import beef, Japan's retailers have turned to pork, chicken and domestic beef products. The situation is unlikely to change in the near future, with continued high import prices of Australian beef being fuelled by tight supply, record grain costs and the strong Australian dollar.

With Australian strip loin now priced higher than North American strip loin, the food service sector has also started to shift away from Australian beef. The two most popular 'hot pot' dishes in Japan use beef as their main ingredient, and the high cost of both domestic and import beef is also impacting consumer enjoyment of these popular dishes. It appears that Australia's strong and established presence in Japan's retail and food service sectors may be on the wane.

### **Market Access Update**

Japan is open to boneless and bone-in beef and offal derived from cattle under 21 months of age. Although the current market access restrictions are severely limiting, significant increases in Canadian beef exports to Japan were produced in 2007: during the first half of the year, Canada's exports to Japan were up about 50%.

At this time, ten Canadian plants have been approved for export to Japan. The Canadian industry is very hopeful that Japan will ease its import restrictions. USA-Japan negotiations to expand trade to all edible beef products (boneless, bone-in and offal) derived cattle under 30 months of age (U30M) moved ahead significantly during the summer of 2007. This process was expected to result in an expansion of trade sometime between February 2008 and August 2008, but the process was stopped

when the USA changed its position and began calling for an "All or Nothing" deal removing the age restriction on cattle.

## **BELEAGUERED KOREAN IMPORTERS VENTURING INTO THE RESTAURANT BUSINESS**

Korean importers are suffering from the delay in the country's resumption of the beef trade with the US, which was halted October 4, 2007 with the finding of bone chips in a US shipment. The volume of beef left stranded in container yards or bonded warehouses has reached 5,400 tonnes, and the mounting storage charges are a growing concern for the importers. The mounting costs, the uncertainty about when Korea will trade in US beef and the limited availability of Australian beef have them thinking hard about when and how much beef they will have available for distribution in their inventories.

The situation is seeing some importers venture into the restaurant business in efforts to secure increase profits and a direct marketing channel by operating restaurants themselves. The situation has also seen an increasing number of low to mid-priced beef menus appear in Korea's restaurants in the past year.

### **Market Access Update**

South Korea remains closed to Canadian beef. Canada has officially finished the fifth of the eight stages (of Korea's Risk Assessment Review) in reestablishing trade in all edible beef products derived from under-30-months (U30M) cattle. The US is part way through stage six, establishing terms of trade; however negotiations broke down early in October when the US began demanding an "All of Nothing" deal. Korean authorities had fast tracked the American process, leaving Canada behind in September 2007. Korean officials had also indicated that access would be expanded to the USA prior to reestablishing trade with Canada. Canadian negotiations have recently improved and the first round of negotiations have been complete in stage six.

In early January, it was announced that the Korea-US negotiations will continue at the end of this month. The Korean Government appears to have decided to agree to the US condition of removing the age restriction on cattle – paving the way for this same access for Canada.

Both Canada and the USA have linked comprehensive access for beef to a successful outcome for both countries' Free Trade Negotiations with Korea.

## **TAIWAN FEELING EFFECTS OF ECONOMIC SLOWDOWN**

Taiwan is still recovering from its economic slowdown in the latter part of 2007, which saw inflation result in staggering consumer debt and a sharp decrease in consumer consumption. The number of companies that either downsized or stopped operating in 2007 totalled 36,788, a 60 percent increase over the previous year. The effects are still being felt, with Taiwanese consumers reducing their spending – including their consumption of high quality beef. The frequency of visits to high-prices restaurants has

dropped, with consumers opting for low to mid-priced menus. December, however, signalled the start of Taiwan's winter – and the season of the hot pot. The high demand for this popular dish is also expected to result in increased demand for beef.

### **Market Access Update**

Taiwan reestablished trade in Canadian beef June 23, 2007, granting access for Canadian boneless beef derived from cattle under 30 months of age (U30M). This access has been granted on a system-wide basis, meaning all federally-inspected Canadian beef processing establishments are eligible for export to Taiwan. Canada wrote a letter requesting OIE-consistent market access in October 2007. There is no specific process underway to expand access, but Taiwanese officials have indicated that Canada and the USA could be treated the same in the future as access expands to bone-in and offal products and eventually to over-30-months product as well.

### **FOREIGN FOOD COMPANIES FLOCK TO CHINA**

Foreign food companies are setting their sights on China, hoping to tap into the huge potential in the imported food industry. The revenues from imported food now makes up ten percent of urban China's total food sales. With the continued rise in the disposable income of China's urban populations, surging stock and real estate markets and easing of import tariffs, the future for foreign foods looks bright. In November 2007, a record 800 companies from 35 countries participated in the Food and Hotel China Show. One Chinese retailer plans to set up an imported food area in all of its 34 stores nationwide to meet consumer demand.

Hong Kong is also attracting its share of international food companies. An increasing number of famous international caterers are opening outlets in Hong Kong, as are foreign restaurant chains. According to the Hong Kong Government, 20 foreign-country restaurants were opened in 2006, with another 20 in 2007.

### **Market Access Update**

#### ***Mainland China***

Little progress has been made in negotiating a Canada-China protocol. The USA has been offered boneless under-30-months access, which it has refused. The China market has changed significantly since 2003, experiencing significant wealth accumulation in major urban centres. All major Hong Kong-based food importers, processors and distributors have established Chinese business plans and in most cases have build logistics and sales infrastructure.

#### ***Hong Kong and Macau***

Macau has normalized trade from Canada, accepting all edible beef products derive from all ages of Canadian cattle processed in all federally-inspected establishments. Twenty-five establishments have been registered to export boneless beef derived from animals less than 30 months of age to Hong Kong. Sales of high-quality grain-fed

Canadian beef in these markets has been significantly developed, and the response from end-users and consumers towards to Canadian beef is favourable

Hong Kong officials asked both Canada and the US to participate in a process designed to expand trade from under-30-months (U30M) boneless beef to include bone-in beef. Canada accepted this offer and hosted Hong Kong inspectors to a very short inspection visit in the summer of 2007. The US rejected this offer, again requiring that an "All of Nothing" deal be negotiated. Hong Kong authorities have completed all steps required to expand Canadian access. Canadian officials visited Hong Kong in November 2007 in order to encourage this market expansion and to request that access for U30M offal also be granted.

### **MEXICO'S CATTLE PRODUCERS REBUILDING HERD**

According to a recent report by the Mexican Government on Mexico's domestic cattle industry, the recent increase in the export level of live Mexican cattle to the US is due to a remarkable improvement in the supply of cattle. It appears domestic producers are "rebuilding" their cattle herds. Also increased are the number of calves of the requisite quality for export.

A second factor influencing live cattle exports to the US was the temporary closing of the US border to exports from four of the biggest producer states in Mexico, which saw exports fall from their historical level of 1.3 million head per year to 870,000 head in 2006-2007. This closing was related to sanitary issues which have now been resolved.

### **Market Access Update**

Canada currently has access to the Mexican market for boneless beef, bone-in beef and offal products derived from cattle under 30 months of age, and, as of December 7, 2007, beef feet are also allowed to be imported and transshipped by land through the US. The Federation has become concerned that automatic access expansion to include O30M beef products in Mexico following the implementation of Rule 2 in the USA (in November 2007) should not be assumed. Mexican cattle producer organizations, and certain beef processing interests are delivering a strong lobby to delay expansion of access. It should be noted that the Government of Mexico has imposed an informal moratorium on expanding access in agriculture products since March 2007. All protocols and individual establishment approvals have been frozen since that time.

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