



---

January 2009

## Inside The Export Marketplace

The Canada Beef Export Federation operates offices in the key export markets of Japan, South Korea, Taiwan, Hong Kong, Mainland China 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.

### **Current Canadian Beef Exports**

World exports of Canadian beef over the first ten months of 2008 increased 6.5% to 331,000 tonnes. Exports to the Federation's key markets in Asia and Mexico increased by 16% to 69,000 tonnes over the same period of time.

Exports to Asia and Mexico now account for 20% of Canada's worldwide beef exports.

### **JAPAN CONSUMERS TIGHTEN BELTS**

As Japan's consumers weather the global financial crisis by cutting spending and economizing where they can, that country's retail and food service sectors are feeling the effects. First to be hit was Japan's food service sector, with consumers drastically reducing their frequency of eating out. In November 2008, the rate of meat consumption in the food service sector had dropped by 57% for beef, 55% for chicken and 31% for pork (as compared to total consumption in Japan). Consumption of beef and chicken in hotels and restaurants far exceeds that of pork – with most of the beef being imported. The drop not only in patronage but in ordering beef off the menus has hit Korean-style barbecue restaurants particularly hard.

Supermarket sales, on the other hand, were showing a slight recovery. In November 2008, sales were up by almost 1% – the first increase in four months. The increase is attributed mostly to aggressive sales campaigns undertaken by retail outlets. As well, many supermarkets lowered their prices and launched discount sales campaigns on imported good. The situation is causing retailers to move from high-quality products to lower-priced products in order to secure consumers and sales volumes. Australian grain-fed has been sharply reduced in price – leaving North American products in a disadvantaged position.

### ***Market Access Status***

Exports have been slow due to the lack of availability of age-verified cattle and costs and logistical challenges of serving this highly-regulated market. Despite this, exports grew by 50% in 2007 over the previous year. This growth continued in 2008, with a 24% increase in the first ten months to 3,856 tonnes.

Japan is open to boneless and bone-in beef and offal derived from cattle under 21 months of age. At this time, ten Canadian plants have been approved for export to Japan. Stand-alone beef processors (who do not also own a beef slaughter establishment) have asked to be approved for export.

## **KOREA PUBLIC REMAINS PASSIONATE ABOUT FOOD SAFETY**

Korean people's passionate and public interest in food safety remains high, as demonstrated in two different events in December. The first saw the Constitutional Court of South Korea rule on December 26<sup>th</sup> that the gazetting of the health protocol established for the re-entry of US beef to Korea is constitutional. The ruling was in response to a petition submitted by four political parties and 96,000 South Korea citizens saying that gazetting contravened the constitutional guarantee of basic rights for the people. The second event saw eighteen civil activist groups including the National School Catering Network and National Farmers Alliance hold a press conference at Korea's National Assembly calling for legislation for mandatory testing of all domestic slaughter cattle on the grounds that Specified Risk Material flowing into Korea is being heightened by the re-entry of US beef and the on-going negotiations with Canada for the re-entry of Canadian beef.

Despite this, the Korean department store 'Grand' began selling US beef in early January – the first time US beef has been sold at a department store since the massive public protests in 2008. US beef has been sold in hypermarkets and discount stores since November 2008, with a total of 1,276 tonnes being sold in a one-month period from November 27 to December 27, 2008.

### ***Market Access Update***

Market access negotiations between Canada and South Korea resumed on November 3, 2008. Korean inspectors visited Canada to review BSE programs during the month of November. Korean industry media reports suggest that their government intends to offer Canada access for all edible beef products (boneless, bone-in and offal) derived from cattle less than 30 months of age based on OIE's Controlled Risk BSE categorization of Canada. This would represent commercially viable access to the Korean market for the Canadian beef and veal industry. The OIE allows for trade in all edible beef products derived from cattle of all ages subject to standard SRM removal for all Controlled Risk countries including Canada. It appears that the market re-establishment process with Korea is going slower than expected. Further interventions by Canadian-based senior government officials and elected leaders is likely required to accelerate the pace of this process.

## **TAIWAN ECONOMY HARD HIT BY DROP IN EXPORT DEMAND**

With its export-dependent economy, Taiwan has been greatly impacted by the global financial crisis. The crisis has seen global demand for Taiwan exports drop to its lowest point since 2003. Taiwan's exports have decreased continuously since September of

last year – and in December plunging by a record 45% as compared to the previous year.

Weaker demand by the US and China for laptops, mobile phones and computer chips, which number among Taiwan's major exports, was largely to blame for the record -low exports in December. The US and China are Taiwan's two biggest markets, with exports to these countries accounting for approximately 70% of Taiwan's Gross Domestic Product. The drop in exports has led to an unemployment rate of 4.6%, with an estimated 200,000 further workers being forced to take unpaid leave in December. The majority of these workers were high-tech professionals employed in large-scale corporations.

Despite the economic situation, consumer food prices have remained low, with good weather conditions and the absence of seasonal typhoons keeping vegetable and fruit prices stable.

### ***Market Access Status***

Canadian beef exports to Taiwan in the first ten months of 2008 increased by 584% over the same period in 2007 to 2,313 tonnes.

Taiwan reestablished trade in Canadian beef June 23, 2007, granting access for Canadian boneless beef derived from U30M cattle. This access has been granted on a system-wide basis, meaning all federally-inspected Canadian beef processing establishments are eligible for export to Taiwan. Taiwan's Department of Health sent a technical team to inspect beef processing establishments in advance of the next market access expansion; bone-in beef derived from U30M cattle and possibly offal derived from U30M cattle. The timing of this market expansion is unknown.

Taiwanese officials have indicated that Canada and the USA could be treated the same in the future as access eventually expands to over-30-months (O30M) product as well.

### **HONG KONG EXPANDS MARKET ACCESS**

On January 16, 2009, Canada reached an agreement in-principle with Hong Kong to expand access for Canadian beef in a staged process. The first stage gives Canada access for under-30-months (U30M) bone-in beef products.

The opening of the Hong Kong market to bone-in beef sets an important precedent for similar access in other Asian markets. In these markets, bone-in beef is very popular, with meat close to the bone considered a delicacy. Many Asian clients and end-consumers prefer to see the actual bone in the bone-in product.

Hong Kong represents a primary export market for Canadian beef and also serves as a gateway to the Greater China area, which includes the special administrative regions of Hong Kong and Macau, and Mainland China. Many Hong Kong importers and

distributors are also active in Mainland China, where they have established supply and distribution channels. Any access achieved – especially priority access ahead of our competitors - not only benefits Canadian beef in the Hong Kong market but could lead to a bigger share for Canadian beef in the tremendous Mainland China market once that market reopens.

Hong Kong authorities are well respected for their food safety measures. The opening of the Hong Kong market to bone-in beef sends a message to other countries such as Korea, Japan and Taiwan that this is a positive move for the beef import sector and consumers alike.

### ***Market Access Status***

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

Little progress has been made in negotiating a Canada-China protocol. The China market changed significantly since 2003 - seeing 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. Sales of Canadian beef muscle cuts - in many cases with high unit values - will lead our way back into China when trade is reestablished

#### ***Hong Kong & Macau***

Exports increased by 5% in 2007, with a continued increase of 4.1% in the first ten months of 2008 to 14,384 tonnes.

Hong Kong opened to under-30-month Canadian boneless beef in November 2004. Twenty-five establishments have been approved by Hong Kong authorities.

Macau has normalized trade from Canada, accepting all edible beef products derive from all ages of Canadian cattle processed in all federally-inspected establishments. Sales of high-quality grain-fed Canadian beef with a special focus on high-quality bone-in products have been significantly developed, with some demand for O30M as well.

### **MEXICO'S DOMESTIC CATTLE AND BEEF INDUSTRY IN CRISIS**

The current crisis in Mexico's cattle sector is being blamed on high production costs and the implementation of the Country of Origin Labelling regulation (COOL) in the US. Losses to Mexican producers due to the crisis are estimated at approximately \$369 million in 2008.

According to the President of the National Confederation of Cattle Organizaitons (CNOG), the implementation of COOL has resulted in \$295-million worth of Mexican cattle not being exported to the US from the end of October to mid-December. The situation puts 700,000 Mexican producers in a serious position, with many at risk of

having to cease operations in the short term. Mexico's live cattle exports to the US dropped from \$768 million in 2007 to \$399 million in 2008.

***Market Access Update***

Exports increased 10% in 2007, with a continued increase of 1% over the first ten months of 2008 to 38,446 tonnes.

Canada has access in Mexico for all edible beef products derived from cattle under the age of 30 months (U30M). A restricted number of beef processing establishments are currently approved to export U30M bone-in beef to Mexico.

On March 27, 2008, Canada, Mexico and the United States reached a trilateral agreement that allowed for the export of Canadian and US breeding cattle to Mexico consistent with international standards. This agreement established a framework to expand trade to include beef derived from over-30-month (O30M) cattle. This expansion has not yet occurred.

*Ted Haney, President, CANADA BEEF*