



March 3, 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 reports, the Federation is keeping the Canadian industry informed about current situations and new developments in these markets.

Current Canadian Beef Exports

Exports of Canadian beef continue to increase. In 2008, world exports of Canadian beef increased 8.4% over the previous year to 393,000 tonnes (\$1.36 billion). Exports to the Federation's key markets in Asia and Mexico increased 10% to 79,000 tonnes (\$300 million) for the same period. Exports to markets outside of the US now account for 23% of Canada's worldwide beef exports.

JAPAN CONSUMERS CHOOSING FAST FOOD OVER FINE DINING

Japan's Finance Ministry reported that Japan's 2008 trade surplus plummeted 80% from the previous year to \$14.28 billion – the largest fall since comparable statistics become available in 1980. The ministry's report also said that the global economic downturn has led to a fall in exports for the first time seven years, clearly demonstrating a rapid decline in economic activity.

Japanese consumers are feeling the downturn and cutting back on spending. According to the Japan Chain Store Association, the first half of 2008 saw consumers cut down on spending as the prices of daily necessities rose due to higher costs of materials. In the second half of 2008, supermarket and chain store sales of clothing fell 6.8% and household items 20.8%. Food, however, rose 1.3% as consumers refrained from dining out and chose to purchase and prepare food to eat at home.

For consumers who do eat out, there has been a trend toward the cheaper food service outlets. The Japan Food Service Association reports that sales in fast food restaurants are up; sales in family restaurants and pubs are slightly down; with sales in white table cloth dining suffering the biggest drop.

Exports of Canadian beef 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 20% increase to 4,549 tonnes (\$26 million).

KOREA'S DOMESTIC BEEF HERD ON THE RISE

As of December 2008, Korea's beef cattle inventory stood at 2.43 million head, an increase of 10.4% from the previous year. The ban imposed by Korea on Canadian and US beef imports in 2003 served to encourage Korean farmers to build their herd numbers. Since 2004, those numbers have been steadily increasing. The increase in Korea's domestic beef herd has seen the country's level of beef self-sufficiency rise accordingly, from 36% in 2003 to 47% in 2008. Approximately 191,000 tonnes of domestic beef were consumed last year.

According to the Korea Rural Economics Institute (KREI), the total consumption of beef was 410,000 tonnes in 2008, an increase of 11% over the previous year. Per capita consumption of beef increased from 7.5 kilograms in 2007 to 8.4 kilograms in 2008. It appears the return of US beef to the Korean market has had a positive effect on all beef sales, including the domestic Hanwoo beef as well as Australian beef. KREI expects that total beef supplies (domestic and imported) will reach 492,000 tonnes in 2009, as compared to 455,000 tonnes in 2008. Per capita beef consumption is expected to increase to 9.2 kg in 2009.

The Korean market has been closed to Canadian beef since May 2003.

GOVERNMENT VOUCHER STIMULATES TAIWAN CONSUMER SPENDING

Taiwan supplies 80% of the world's laptops and 40% of its flat panel displays. With the weakened global demand for electronics, Taiwan's unemployment rate has been rising rapidly as consumer spending declines. Despite this, Taiwan's inflation rate grew for the first time in six months in January as retailers raised food prices ahead of the week-long Chinese Lunar New Year celebrations. Consumer spending also grew, thanks to a government initiative which saw every citizen in Taiwan receive a shopping voucher worth \$125. While not great in value, the coupon did stimulate consumption and directly benefitted department stores and other retailers – particularly the home appliance sector – in the week leading up to the holiday. Some restaurants also benefitted, such as the Wang Steak House which saw business increase 30% the week after the voucher was issued. For other restaurants, the initiative was not enough. The venerable Toros Steak House chain closed two of its ten restaurants, with many other restaurant chains also closing their less-profitable outlets.

Canadian beef exports to Taiwan in 2008 grew by 165% to 2,827 (\$13 million) tonnes as compared to 2007.

CHINA'S MONETARY POLICY UPS CONSUMER CONSUMPTION

Although under intense pressure from the international community, the Chinese Central Government has adopted a policy of controlling the rate of appreciation of its currency in order to maintain a healthy balance of trade. The government believes that stimulating domestic consumption is the key factor in achieving economic recovery in the long term. One result of the monetary policy is that imported products have become more affordable for Chinese consumers. While it is expected that consumers

will still be very cautious about spending, China's rising per capita disposable income and the government's inflationary controls and monetary policy are serving to stimulate local consumption.

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.

In Macau, 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.

Exports of Canadian beef to Hong Kong and Macau increased by 5% in 2007; dropping 4% in 2008 to 16,048 tonnes (\$67 million).

FINANCIAL CRISIS IMPACTS MEXICO'S BUSINESS, TOURISM SECTORS

The global financial crisis has hit Mexico hard. Mexico's currency has been devalued 40% against the US dollar; interest rates are up; and consumer consumption is down. The high exchange rate is seriously impacting Mexico's financial and business sectors, with many large corporations suffering a loss in value of their stock. Also expected to feel the impact are the US dollars flowing into the country from Mexican people working in the US and tourist dollars coming into the country; both are expected to decrease. With higher interest rates and fewer hotel reservations, hotel chains are expected to downsize the scale of new projects, put projects on hold or cancel them altogether.

Canadian beef exports to Mexico increased 10% in 2007, dropping 0.8% in 2008 to 45,064 tonnes (\$172 million).

MARKET ACCESS STATUS

Japan Market Access Status

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 Market Access Status

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 Market Access Status

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.

Mainland China Market Access Status

Little progress has been made in negotiating a Canada-China protocol. It appears that significant high-level political engagement is required to move our industry's market access agenda ahead in this market.

Hong Kong & Macau Market Access Status

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

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 U30M bone-in beef products (excluding vertebral column). The second stage provides access for O30M boneless beef and all offal. The third and final stage will give access for the remainder of U30M bone-in beef. All that will remain to negotiate is access for O30M bone-in beef.

Macau normalized trade in Canadian beef in February 2004, accepting all edible beef products derive from all ages of Canadian cattle processed in all federally-inspected establishments.

Mexico Market Access Update

Canada has access in Mexico for all edible beef products derived from cattle under the age of 30 months (U30M). Canada has been granted system-wide approval for all CFIA-inspected establishments to export U30M boneless beef to Mexico. 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.

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