



July 2008

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.

TREND TO CHEAPER FOOD GOOD FOR IMPORT BEEF IN JAPAN

This June, Japan's Ministry of Agriculture, Forestry and Fisheries and the country's domestic wheat producers and millers agreed to a 30 percent price increase for the 2009 wheat crop. Under the agreement, milling companies will raise their bid prices to Japan's wheat farmers by 30 percent. Japan's domestic wheat is lower in quality and traditionally cheaper in price than imported wheat. The price of imported wheat, however, has gone up by 30 percent – motivating the domestic price hike to keep its price in line with the imported product.

Domestic wheat accounts for thirteen percent of total domestic consumption. The effects of the price hike will likely begin to be felt by consumers next summer in higher prices for noodles and other wheat-based foods. The price of bread has already risen 20 to 30 percent in recent years, and prices for almost all food products in Japan are now on the rise. Consumers are reacting with a growing demand for cheaper food products, including beef. With domestic Wagyu beef priced at up to \$25 per kilogram, the price of high quality imported beef – such as Canadian beef tenderloin at approximately \$18 per kilogram – is becoming increasingly attractive.

Market Access Status

There have been no new market access developments since our last report.

Japan is open to boneless and bone-in beef and offal derived from cattle under 21 months of age. At this time, nine Canadian plants have been approved for export to Japan. Current market access restrictions are severely limiting, and the Canadian industry has struggled to accumulate a year-round supply of age-verified animals.

KOREA IMPORTERS FACING DIFFICULT SITUATION

The situation for Korea's meat importers just keeps getting more difficult. In the long absence of North American beef, Australian and New Zealand beef moved in to fill Korea's import beef demand – and now the availability of that supply is being curtailed. Australia is increasing exports to Europe and Russia in response to a growing demand in those markets, while New Zealand is entering its winter season – a time of decreased

cattle slaughter. According to some Korean importers, their only hope for carrying on business lies with American beef.

On July 1st, US beef was sold to South Korean consumers and restaurants for the first time in eight months, with initial prices being far lower than those of domestic beef and imports from Australia and New Zealand. The negative publicity surrounding the return of US beef, including rallies by protestors numbering in the hundreds of thousands, have made many importers hesitant to handle the US product. While some importers began making sales to retail outlets during the first and second week in July, department stores and supermarkets have remained hesitant to commence sales. Restaurants have slowly begun selling the US product – while indicating the country of origin to their customers.

Market Access Update

South Korea currently remains closed to Canadian beef. Of the eight stages of Korea's Risk Assessment Review (in support of reestablishing trade in all edible beef products derived from under-30-months [U30M] cattle), Canada has officially finished Stage 5 of 8 (the decision to resume beef imports from Canada) and completed the first round of negotiations of Stage 6 of 8 (health protocol negotiations).

On April 18th, Korea and the US reached agreement on a revised import health protocol (Stage 6 of 8) and subsequently announced that Korea has normalized trade in American beef with SRM policies based on OIE recommendations. On April 22nd, the Korean Government published the health protocol in its Gazette and gave notification of a 20-day comment period (Stage 7 of 8), ending May 13th. The planned market opening of May 15th was delayed due to widespread public demonstrations against American beef in Korea. On June 26th, the Korean government lifted the import ban on American beef.

Immediately following Korea's decision to normalize trade for US beef, the Government of Canada requested unrestricted access to South Korea's beef market. Korea's Ministry for Food, Agriculture, Forestry and Fisheries informed the Government of Canada that Canadian beef access would be addressed after the American beef access deal was completed. Limited working-level discussions are underway to set the time and place for negotiations for Stages 6, 7 and 8 of the eight-stage process.

It appears those who oppose the Korea-US Free Trade Agreement and President Lee's policy have politicized the BSE issue to garner support from the general public. Korea's Minister of Agriculture appeared on national television in order to comfort Korean consumers by stating that American beef is safe to eat. Further, unnamed Korean Government sources also indicated that Korean consumers should not be concerned about BSE cases in Canada as no negotiations were yet underway to resume trade in Canadian beef.

TAIWAN'S NEW PRESIDENT MAKING GOOD ON ELECTION PROMISES

Taiwan's new President isn't wasting any time carrying out his election promises. Officially taking office June 1st, President Ma immediately moved forward with his plan to increase fuel and electricity prices to reflect actual costs on a global level. Fuel costs were increased by four percent in June, with electricity increases amounting to 25 percent slated to take place in July and October. Many businesses, stores and restaurants will need to adjust their prices to consumers to reflect the increases, with some experts prediction that the energy hikes may put some companies out of business altogether. The public sector, farmers and fishing concerns are not affected due to government subsidies.

Taiwan's retail and hotel and restaurant sectors continue to prosper and expand. The continued growth of these sectors is mainly attributed to President Ma's plan to ease restrictions on transportation links with Mainland China and on visits by Mainland China tourists to Taiwan. Many believe the tourists will help boost spending, thus attracting Taiwan investors who had relocated to Mainland China to return to Taiwan to pursue their business interests.

Market Access Status

Taiwan reestablished trade in Canadian beef June 23, 2007, granting access for Canadian boneless beef derived from under-30-months (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. This market expansion is expected in the short term.

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.

OLYMPIC GAMES FUELLING HOTEL EXPANSION IN BEIJING

As the opening of the Beijing Olympic Games approaches, the world's major hotel groups have positioned themselves to share in the influx of visitors. Hilton Hotels, with five properties in China, has add two more in Beijing. Marriott International has opened three, under the JW Marriott, Courtyard and Ritz-Carlton brands, and increased its own Beijing holdings to seven. Existing five-star hotels have also prepared, redecorating and expanding their facilities. While the hotel sector is looking to share in the wealth of Olympic Games' visitors, they are also looking to experience continued growth in a post-Olympic era of growing tourism in China. According to the Beijing Tourism Bureau, the number of tourists will grow at around 30 to 60 percent annually, rising to a peak in 2010 and with the annual hotel occupancy rate increasing to more than 72 percent in 2009.

Market Access Status

Mainland China *remains closed to Canadian beef. A political solution is required.*

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.*

Hong Kong *is open to U30M boneless beef. Hong Kong authorities have completed all steps required to expand Canadian access on a staged basis to include selected U30M bone-in beef and offal and boneless O30M products; and finally all bone-in U30M products. Canadian officials rejected this offer in deference to the existing Canadian and American request for trade normalization in one step. Twenty-five establishments have been approved by Hong Kong authorities. Political intervention may be needed to expand access for Canadian beef products prior to the US.*

HIGH FEED COSTS IMPACTING MEXICO'S CATTLE FEEDERS, PRODUCERS

Mexico's cattle producers have started to feel the effects of the high costs of grains and other raw materials. Coupled with the severe drought in Mexico's cattle production regions – resulting in the death of thousand of animals – it is expected that this year will see Mexico's beef production reduced by approximately 40 percent. In 2007, Mexico produced 1.6 million tonnes of beef. The expected 40 percent drop in production would bring that figure down to 1 million tonnes.

Market Access Update

Canada has access for all edible beef products derived from cattle under the age of 30 months (U30M). Canada has been granted restricted "industrial use" access for Protein-Free Tallow. A highly restricted number of beef processing establishments are currently approved to export U30M bone-in beef to Mexico; others have been waiting an extended period of time for inspection and approval by Mexican authorities.

On March 27, 2008, Canada, Mexico and the United States reached a trilateral agreement that would allow for the export of Canadian and U.S. breeding cattle to Mexico consistent with international standards. This agreement is also an important step in resolving issues related to the shipment of Canadian cattle through the U.S. to Mexico, as it allows provides Canada and the US the same access to Mexico's cattle breeding market.

Ted Haney, President, CANADA BEEF