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## 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

In the first four months in 2009, total exports of Canadian beef to world markets were up 1.5% over the same period last year. This increase was primarily due to the 3,000-tonne increases in both the US and Russia. Exports to key markets in Asia and Mexico, however, decreased 20% – reflecting the effect of the global economic crisis on these markets. The exception is Taiwan, which is showing signs of economic recovery; Canadian beef exports to Taiwan rose 94% for this period.

The rise in exports of Canadian beef to Russia is a result of several factors: enhanced Canadian Government pursuit of market access, increased interest of the Federation's Export Members in this market; and increased market development activities undertaken by the Federation in regards to this market. We will be bringing you more news about developments in the Russian market in upcoming issues of *Inside the Export Marketplace*.

### **JAPAN'S TRADE BALANCE IN DEFICIT FOR FIRST TIME IN 28 YEARS**

The global economic crisis continues to take its toll in Japan. For the first time in 28 years, Japan's trade balance at fiscal year-end on March 31, 2009, showed a massive deficit, dropping a record 16.4% from the previous year as the downturn increasingly affected exports to such markets as the US, China and the EU. On May 16<sup>th</sup>, Nikko Cordial Securities Inc. said that the combined net balance of the nation's leading companies listed on the Tokyo Stock Exchange fell into the red for the first time in seven years. The 979 firms showed a combined loss of about \$4 billion at the March fiscal year end, in sharp contrast to the previous year's \$235 million profit.

Financial statements released by the 979 firms show that the global economic crisis dealt a serious blow to the nation's export-dependent manufacturers, which had been among the nation's most lucrative earners. Hardships are likely to continue to plague the economy, given that the auto, home electronics and steel manufacturing sectors expect their net losses to continue in the current fiscal year to March 31, 2010.

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

Canadian beef exports to Japan in 2008 totalled 5,400 tonnes (\$31 million). In the first four months of 2009, exports totalled 416 tonnes (\$3 million), down 27% for the same period last year. (Note: Canadian statistics may be under-reporting Japan exports.)

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.

### **UNCERTAIN FUTURE FOR MANY KOREAN IMPORTERS**

On May 28<sup>th</sup>, one of Korea's three major importers, Phil Bong, declared bankruptcy. The bankruptcy is expected to financially impact smaller companies which had contracted for – and made payment on – product from the importer. Phil Bong is not the only importer to declare bankruptcy. In March 2009, another major importer, MeatKorea, was forced to close its doors, with many more importers facing bankruptcy as they fail to get extensions on bank loans. The collective losses run into the millions of dollars.

Earlier this year, the weakening Won and tight credit served to reduce the importers' cash flow, making it difficult to comply with overseas contracts. While some importers slowed their purchases – particularly purchases of US beef – others strengthened their US beef buying under the assumption that US beef export prices were reaching their lowest point. Many now have large inventories of US beef on hand, sales of which continued to decrease by the month due to a lack of consumer confidence in the safety of US beef.

The outbreak of H1N1 influenza was yet another blow. In addition to unsold US beef inventory, many importers suffered a 20% decrease in sales of imported pork with the news of the outbreak. These sales have since recovered slightly, but uncertainty in the import market remains.

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

Canadian beef exports peaked at 21,000 tonnes (\$99 million) in 2000. The market has remained closed to all Canadian beef and veal products since May 2003.

In February 2009, Canada requested Korea to establish a firm process and time line to resume commercially meaningful trade in Canadian beef by the end of March 2009. In March 2009, Korea indicated a willingness to resume technical negotiations by late June 2009, without a firm time line for the resumption of trade. On April 9, 2009, the Government of Canada requested consultations with the Republic of Korea (Korea) pursuant to Articles 1 and 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes, Article XXII of the General Agreement on Tariffs and Trade 1994 (GATT 1994) and Article 11 of the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement), concerning measures affecting the importation of bovine meat and meat products from Canada. The Federation encourages the Governments of Canada and Korea to continue negotiations with the goal of resuming trade in all edible beef and veal products derived from cattle less than thirty months of age (U30M) prior to the beginning of WTO Consultations. Should that

not be achieved, the Federation fully endorses the continued pursuit of Canada's beef and veal trade rights within the WTO Dispute Settlement process.

### **CHINA'S CONSUMERS UNAFFECTED BY GLOBAL DOWNTURN**

The Chinese Academy of Social Sciences reported that China might see a slower growth in retail sales in 2009 as a result of the economic slowdown, but the government's measures to boost the Gross Domestic Product were expected to lift the growth rate above a 30-year average. Retail sales reached \$159 billion in April, reflecting a 15% growth in the first four months of 2009 as compared to the same period last year. According to the Academy, growth in demand was strongest for food, clothing, automobiles and home decorating materials. The expansion in urban retail sales was outpaced by a 17% jump in sales in rural China.

#### ***Market Access Status – Hong Kong & Macau***

Canadian beef exports to Hong Kong and Macau in 2008 totalled 17,700 tonnes (\$73 million). In the first four months of 2009, exports totalled 4,047 tonnes (\$17 million), down 23% for the same period last year.

Hong Kong first opened to U30M 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.

#### ***Market Access Status – Mainland China***

Little progress has been made in negotiating a Canada-China protocol. However, the political engagement needed to move our market access agenda forward in this market is coming with increased Ministerial engagement.

### **SIGNS OF ECONOMIC RECOVERY IN TAIWAN**

Signs of economic recovery are appearing in Taiwan. In May, the country's consumer confidence index rose for the third consecutive month; the stock market recorded a 25% gain for the year so far; and the Taiwan dollar jumped to its highest level against the US dollar in more than five months. These are all welcome signs of growing confidence in Taiwan's economy by foreign investors and Taiwan consumers. Thanks to a stabilizing US economy and a Mainland China stimulus plan aimed at expanding domestic

demand, the second half of 2009 is expected to see Taiwan's economic decline slow even further. Taiwan's President Ma will completed his first full year as president on May 20<sup>th</sup>. During the year, the cross-strait relations between Mainland China and Taiwan have improved, and significant progress on improving bilateral economic and trade relations between the two has been made.

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

Canadian beef exports to Taiwan in 2008 totalled 2,882 tonnes (\$13.6 million). In the first four months of 2009, exports totalled 1,481 tonnes (\$5.7 million), a 94% increase over the same period last year. (Note: Canadian statistics may be over-reporting Taiwan exports.)

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.

### **MEXICO HARD HIT BY H1N1 FALL OUT**

The past three months have been extremely difficult ones for Mexico. Already suffering the effects of the US recession, which is impacting Mexico's auto industry, tourism and flow of revenue received from Mexican people working in the US, the announcement in April of a 'swine flu' outbreak has proven devastating. While strong measures were undertaken by Mexico to contain the outbreak of H1N1, during the first week, tourism fell by 50%, with hotel occupancy down as low as 8% occupancy. At the end of May, the Mexican Government announced a 28% decrease in the per capita gross income, a fall not experienced since 1995. On May 25<sup>th</sup>, the government announced that it would launch an aggressive promotion program (Vive Mexico - Live Mexico) to promote both domestic and international tourism.

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

Canadian beef exports to Mexico in 2008 totalled 11,820 tonnes (\$179 million). In the first four months of 2009, exports totalled 9,390 tonnes (\$38 million), a 21% decrease over the same period last year.

Canada has access in Mexico for all U30M edible beef products. Canada has system-wide approval for U30M boneless beef exports to Mexico. A restricted number of beef processing establishments are currently approved to export U30M bone-in beef

Canada, Mexico and the United States reached a trilateral agreement in March 2008 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 O30M cattle. This expansion has not yet occurred.

*Ted Haney, President, CANADA BEEF*