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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

Due to difficulties in obtaining reliable Canadian beef and veal export data from traditional government sources, the current statistics quoted in this newsletter refer exclusively to local imports in those markets where the Federation has local representation to provide these reports.

80TH ANNIVERSARY OF CANADA-JAPAN RELATIONS PROVING GOOD FOR BUSINESS

Canada already enjoys an enviable reputation in Japan as a country of vast and spectacular scenery, cold and clear-running rivers and lakes, friendly people and – not least – the home of Anne of Green Gables. This year, there is even more emphasis on the relationship between the two countries. Japan first established official relations with Canada in 1929, and 2009 year marks the 80th anniversary of this friendship. In July, Japan's Emperor and Empress travelled to Canada for the first time as part of the celebrations. The Federation's Japan office reports that the year-long anniversary celebration – along with the fact that British Columbia will host the 2010 Winter Olympics – is proving positive to gaining access to new clients for Canadian beef in the food service sector. With these topics of mutual interest serving to break the ice, the Federation's office reports potential clients are also showing interest in the quality of Canadian beef and the Federation's promotional support system.

Market Access Status

Exports to Japan peaked in 2001 at 29,000 tonnes (\$171 million). Exports continued to recover in 2008, increasing by 42% to 5,397 tonnes (\$31 million) in 2008. These increases were achieved despite the lack of availability of age-verified cattle, not having access to physiological assessment tools (i.e. A40) and the costs and logistical challenges of serving this highly-regulated market. As reported by the Federation's Japan office, imports of Canadian beef from January to June of this year reached 1,952 tonnes as compared to 1,498 tonnes for the same period last year.

Japan opened to boneless and bone-in beef and offal derived from cattle under 21 months of age (U21M) on December 12, 2005. At this time, ten Canadian plants have been approved for export to Japan. An agreement has been reached between Canada and Japan to allow stand-alone beef processors (who do not also own a beef slaughter establishment) to be approved for export. Minister Gerry Ritz confirmed in May 2009 that the Government of Canada formally requested the Government of Japan early in

2009 to expand access for Canadian beef to include all edible products (boneless, bone-in and offal) derived from cattle less than 30 months of age. The Food Safety Commission has yet to call a prion expert panel to initiate its risk assessment process. Many reasons have been offered for why Japan's Ministries of Health and Agriculture and delayed forwarding this request. Significant Canadian political engagement will be required at every step of this trade normalization process.

PROTESTS PART OF LIFE IN SOUTH KOREA

Protests are a part of life in South Korea. Beginning in the 1980s with the student-led pro-democracy demonstrations, protests have grown to where today an average of 11,000 protests take place each year. Of these, one notable protest was the result of the backlash against Korea's resumption of trade in US beef, which culminated with a candlelight vigil on June 10, 2008 – the largest anti-government protest in 20 years. A year later, this vigil was commemorated with yet another demonstration. There are some distinctions to be made, however, in the nature of the ongoing consumer reaction to US beef. The Federation's Korea office reports that Koreans in their 30's and younger, still living in the aftermath of the massive candlelight protests, continue to express safety concerns and are refraining from purchasing US beef. In contrast to this is the experience of a retailer specializing in premium beef: 80%-dependent on import beef sales, the retailer continues to rely on US beef sales because the store's customers are older and have positive memories of its quality and safety.

Market Access Status

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

The USA officially obtained full OIE-compliant access to Korea for all edible beef products derived from all ages of cattle in May 2008. In order to address political turmoil associated with this decision, the USA and Korean governments created a "voluntary" restriction to exclude trade in O30M beef products. This "voluntary" restriction can be removed at any time that the two governments agree - without any official political or regulatory process.

In February 2009, AAFC Minister Gerry Ritz 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. No agreement was reached during the one consultation held prior to July 8, 2009 - the date at which Canada requested a Dispute Settlement Panel (DSP). Korea exercised their right to refuse the DSP formation (it does not have the right to refuse a second

time). No negotiations have taken place since the first DSP request. On August 31, 2009, Canada issued its second request to form a DSP, and, on September 1, 2009, the WTO confirmed the setting up of a DSP to handle the Canada-Korea dispute. The two countries will now present their respective cases to the DSP.

CHINA'S ECONOMY KEEPS ON GROWING

The economic downturn has impacted some regions less than others. In Mainland China, the Municipality of Chongqing recorded \$9.3 billion in retail sales in the first quarter of 2009, up 18% from 2008. With a population of over 32 million people, Chongqing is one of China's four, provincial-level municipalities (the other three being Beijing, Shanghai and Tianjin) – and the only one located in the western region of China. In 2007, the Chinese Government designated Chongqing as an integrated city-country commercial zone, setting the stage for Chongqing to become the city of highest consumer demand in Western China.

According to the Government of Hong Kong, the economy is showing signs of recovery in the second quarter of 2009, with improvement in foreign trade and domestic consumption. Still impacting the speed of recovery is Hong Kong's unemployment rate, which in many industry sectors has not improved and is affecting consumer confidence. Macau's economy continued weak in the second quarter. Macau casinos continue to be impacted by the depressed global economy, with many downsizing and laying off workers.

Market Access Status – Hong Kong & Macau

Exports to Hong Kong and Macau peaked in 2005 at 20,000 tonnes (\$76 million). Exports continued steady in 2008, increasing by 2% to 17,675 tonnes (\$73 million) in 2008. As reported by the Federation's China office, imports of Canadian beef from January to June 2009 totalled 4,951 tonnes, as compared to 5,844 tonnes in 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 (March 9, 2009) gave Canada access for U30M bone-in beef products (excluding vertebral column). The second stage (June 30, 2009) provided additional access for O30M boneless beef and rib cuts, and offal from all ages of cattle. The third and final stage will give access for the remainder of U30M bone-in beef. Sales of high-quality grain-fed Canadian beef with a special focus on high-quality bone-in products have been significantly developed in Hong Kong. Some demand for O30M beef has been identified as well.

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. Direct shipments of Canadian beef and veal to Macau are being partially replaced by Hong Kong exports.

Market Access Status – Mainland China

Canadian beef exports peaked at 2,700 tonnes (\$7 million) in 2002. This market has remained closed to all Canadian beef and veal products since May 2003.

The USA has obtained boneless U30M access to the Chinese market. The USA, based on industry's advice and the bad experience with Korea's boneless U30M protocol, has refused to acknowledge this market access protocol (aside from facilitating one shipment of American beef to the American Team during the August 2008 Beijing Olympics). While this current access is not judged to be commercially-viable, it does set the base for future American negotiations to include at least U30M bone-in beef products.

Little progress has been made in negotiating a Canada-China protocol. It appears that Chinese authorities were unwilling to engage with Canadian regulators due to the belief that Canada maintained its American-led "all or nothing" trade policy until Spring 2009. In June 2009, AQSIQ (General Administration for Quality Supervision, Inspection and Quarantine) indicated that Canadian tallow (<0.15% insoluble impurities) would soon be approved for importation. AQSIQ further indicated that negotiations could then begin on a beef importation protocol based on incremental access that would not introduce risk of BSE to the market. Significant Canadian political engagement will be required at every step of this trade normalization process.

TAIWAN OPENS DOOR TO MAINLAND CHINA INVESTMENT

On July 1, 2009, the Government of Taiwan opened the door to investment by Chinese companies from Mainland China in Taiwan. While Taiwan has not made all investment categories available, this first opening served as the initiative for the two countries to begin formal negotiations on an Economic Cooperation Framework (ECFA) in September. The ECFA would see Taiwan add 1.7% to its GDP growth rate and gain billions in direct foreign investment over the next several years. It would also be the first move toward Taiwan becoming a member of the Association of Southeast Asian Nations (ASEAN); as a member, no import duties would be imposed on goods from Taiwan with the zone. China is now Taiwan's leading trading partner, largest investment outlet, biggest export market and largest source of trade surplus. Many Taiwanese businesses view the ECFA as an opportunity to expand their business, while many others fear that Taiwan will lose its independence and become heavily reliant on a single market.

Market Access Status

Exports to Taiwan peaked in 2002 at 8,000 tonnes (\$42 million). Exports continued to recover in 2008, increasing by 151% to 2,882 tonnes (\$14 million) in 2008. As reported by the Federation's Taiwan office, imports of Canadian beef from January to June 2009 totalled 1,236 tonnes, as compared to 944 tonnes in the same period last year.

Taiwan re-established trade in Canadian beef on 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 (December 2008) 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. Intelligence from Taiwan indicates that the USA will be granted OIE-consistent access (with possible voluntary restrictions to U30M product) prior to Canada being offered access for bone-in U30M products (but not offal). It appears that the Summer 2009 time frame for these events have been delayed due to disagreements on the detail of the Taiwan-USA draft agreement and the resignation of Taiwan's Minister of Health.

While CBEF recognizes the economic value of obtaining bone-in U30M access in Taiwan (up to double export volumes and values), it must also be recognized that Taiwan intends to discriminate against Canada by granting additional access - without scientific justification - to the USA. The Federation recommends political engagement to encourage Taiwan to proceed with Canada's simple U30M (bone-in and offal) protocol without waiting to implement the complex USA O30M protocol.

MEXICO PRODUCERS HARD HIT BY DROUGHT

Just as the cattle industry in the US State of Texas is suffering from a severe drought with little rainfall and successive days of 100-degree F temperatures – so too are cattle producers in Northern Mexico. The northern Mexican states are home to the highest quality beef produced in Mexico, and the extreme drought is expected to see a 30% drop in production this year. According to Mexico's Agricultural Health Authority (SAGARPA), Mexico currently imports 25% of the country's total beef consumption. In light of the drought – and the domestic producers' focus on exporting either live cattle or beef to markets of greater value than the domestic one – that import statistic could rise.

Market Access Status

Exports to Mexico peaked in 2004 at 87,000 tonnes (\$353 million). Exports continued to recover in 2008, increasing by 3% to 46,949 tonnes (\$179 million) in 2008. As reported by the Federation's Mexico office, imports of Canadian beef from January to June 2009 totalled 18,428 tonnes, as compared to 21,719 tonnes in 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

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 O30M cattle. This expansion has not yet occurred. Mexico's cattle industry continues to lobby their government to limit imports to U30M beef products, as they believe Canadian O30M beef would compete directly

with domestic Mexican products. Between 20-25% of Canada's beef exports to Mexico prior to May 2003 were of O30M beef products.

Mexican government officials indicated during meetings in mid-2009 that Mexico's risk assessment has been completed by COFEPRIS (Federal Commission for the Protection against Sanitary Risk, division of SALUD) and that SALUD (Ministry of Health) and SAGAROPA (Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food) had been informed that there are no further reasons to delay granting O30M beef access to Canada. These same officials encouraged the Canadian government and industry to dramatically increase their lobby pressure on the Mexican government, including communicating the potential for a WTO trade challenge. Significant Canadian political engagement will be required at every step of this trade normalization process.

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