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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.

RETAIL AND FOOD SERVICE TRENDS IN JAPAN

As an indicator of retail sales trends, the Japan Chain Store Association represents a pretty sound measuring stick. The association represents 70 member companies with a total 8,221 retail outlets located throughout the country. In November 2009, the association announced that total meat sales were down 5% at \$883 million compared to the same time last year. According to the association, the consumer buying trend is moving from higher grade expensive items to cheaper cuts – such as from loin cuts to hip items. The trend is also noticeable in the food service sector, with Western-style fast food outlets such as hamburger restaurants showing a good recovery over previous months, while Japanese hot pot and Korean-style barbecue restaurants are experiencing a loss in sales. The major food service chains are able to increase sales by expanding their businesses, but the small-sized or individual restaurants are facing a difficult situation with a decreased number customers dining out due to the current economic situation.

Market Access Status

Japan is open to boneless and bone-in beef and offal derived from cattle under 21 months of age. Canada is pursuing expanded access for Canadian beef to include all edible products (boneless, bone-in and offal) derived from cattle less than 30 months of age. Japan's Food Safety Commission has yet to call a prion expert committee to initiate its risk assessment process.

KOREAN IMPORTERS FEELING MORE OPTIMISTIC

For Korea's beef importers, the January 1st New Year and Lunar New Year in mid-February are bringing some much needed optimism, at least in the short term. Slow sales in the first ten months of 2009 had left the importers with growing inventories, resulting in an 11% drop in beef imports for the period as compared to last year. The slow sales were attributed to a combination of the downturn in Korea's economy and the H1N1 virus, which saw consumers cut spending and avoid places of public gatherings such as restaurants. It is expected that by the time of the Lunar New Year in February, most of the inventory of imported beef short ribs, which are used to make gifts traditionally given at this time, will be cleared. Rumours about importer bankruptcies have lessened; however, importers are still experiencing difficulties obtaining financing due to banks and lending institutions viewing the importing beef as risky business. The situation is expected to continue into the first half of 2010.

Market Access Update

Canada has no access in Korea. It is currently challenging Korea in the WTO, which has set up a Dispute Settlement Panel to handle the dispute. While this can be a lengthy process, Canada is hopeful of a successful resolution.

COLD WEATHER GOOD NEWS FOR BEEF EXPORTS TO HONG KONG

In the third week of November, temperatures in Hong Kong dropped to 11 degrees Centigrade, which is considered cold weather in Hong Kong. Cold weather signals the start of the hot pot season, a highly popular dish that utilizes thinly sliced beef dropped into a steaming broth. According to the Tao Heung Group, a large consortium of Chinese restaurants, sales of hot pot dishes increased over 30% during the week. The hot pot's popularity is so prevalent in Hong Kong that now some prestigious restaurant chains, such as the Tai Hing Roast Restaurant which operates 31 restaurants in Hong Kong and 7 in Mainland China, are adding the dish to their menus. For beef exporters, this is good news.

Market Access Status – Hong Kong , Macau and Mainland China

On December 6, 2009, the third and final phase of Canada's incremental access in Hong Kong went into effect, providing access for Canadian beef derived from cattle of all ages. Canada now has normalized trade for Canadian beef in Hong Kong.

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.

China remains closed to Canadian beef. In June 2009, China indicated that Canadian tallow (<0.15% insoluble impurities) would soon be approved for importation and that, following this, 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 continues to be required.

TAIWAN'S NORMALIZING OF BEEF TRADE WITH US NOT A POPULAR MOVE

On October 23, 2009, Taiwan granted full market access for US beef. The move was not a popular one, with negative feelings being express from all sides including Taiwan's Legislative Yuan, Department of Health, consumer groups and the general public. Consumer groups and opposition parties are pushing for a nationwide referendum to re-negotiate or block the US access. CBEF's Taiwan office reports that the public protest against the normalization of trade did not have as much to do with the fact that more US beef products would be coming into Taiwan; but rather that Taiwan's government gave into the US demand without gaining anything in return. This negative public sentiment has led Taiwan's regulators to question the safety of US beef and ask restaurants and retailers to identify the source of their beef products. In November, Taiwan's Department of Health started conducting restaurant inspections on product-of-

origin identification and examining every shipment of US beef in order to demonstrate to the people that the government is working hard to protect public safety.

Market Access Status

Canada has access for Canadian boneless beef derived from U30M cattle (excluding offals). In June 2008, 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.

This week it was reported that Taiwan's President Ma is sending a team to the US for damage control. The Taiwan Government has indicated it intends to amend the market access agreement reached with the US to re-ban a number of products (likely ground beef and offal products). This would leave the US with access for only under-30-month boneless and bone-in beef, which is what Canada has requested.

MEXICO'S CATTLE INDUSTRY CONTINUES TO FACE CHALLENGES

Mexico's cattle industry continues to face some tough challenges. According to the National Confederation of Cattle Organizations (CNOG), cattle stealing continues to be a serious problem – and is on the increase. The CNOG recently launched a prevention program to deal with the situation. Other challenges include higher costs for cattle feeders. In the State of Neuvo Leon, the local chapter of the Cattle Feeders Association announced that the price of molasses has increased 40% over last year to \$147 per tonne, a price hike that has increased costs for cattle feeders close to the point of unprofitability. The State of Neuvo Leon is the biggest cattle producing state in Mexico.

Market Access Status

Canada has access in Mexico for all edible beef products derived from cattle under the age of 30 months (U30M) and for liver derived from cattle over 30 months of age. Mexican government officials have indicated that its risk assessment has been completed and its Agriculture Ministry (SAGARPA) informed there is no further reason to delay granting O30M beef access to Canada. The officials encouraged the Canadian government and industry to dramatically increase their lobby pressure on the Mexican government, including the potential for a WTO challenge.

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