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Beef Mission 2001: Chengdu, Guangzhou, Panyu, and Hong Kong, China

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Executive Summary

The U.S. beef industry has many reasons for optimism about the potential for increasing beef and beef variety meat exports to China. China's recent accession to the World Trade Organization lowers tariff rates on imported beef muscle meats and variety meats, low per capita consumption among Chinese consumers means there is good potential for increased consumption, and increasing incomes will allow consumers to purchase more beef. In addition, the Chinese market is highly complementary to the U.S. domestic market and offers potential for additional exports of beef cuts and variety meats that are underutilized in the United States. Observations from a recent trip to China offer insight into the current and potential market for U.S. beef.

Key words: beef variety meats, China, consumption, distribution, packaging, production, retail sector, U.S. beef exports.

BEEF MISSION 2001: CHENGDU, GUANGZHOU, PANYU, AND HONG KONG, CHINA

THIS REPORT FOCUSES on the Chinese beef industry based on information gathered during the Iowa Beef Trade Mission to China in September 2001. The seven-member group traveled to Chengdu, Guangzhou, and Hong Kong, and visited cattle producers, beef processors, food importers and distributors, retail outlets, and restaurants. The report opens with the current situation and projections for beef import growth in China and the potential for exporting underutilized beef cuts to the Chinese market. The import situation is followed by observations regarding production and processing of domestic beef, and distribution and retail sales of imported beef.

Beef Import Situation

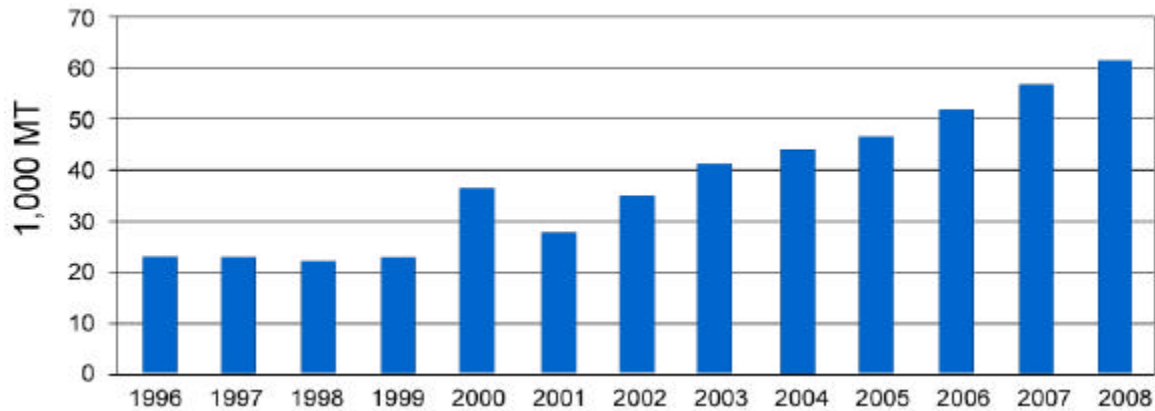
The U.S. Meat Export Federation (USMEF) has predicted growth in the Hong Kong/China market for U.S. beef from 28,000 metric tons (carcass weight equivalent) in 2001 to 62,000 metric tons in 2008 (Figure 1). China's sustained economic growth (currently around 8 percent) and recent World Trade Organization accession have contributed to the optimistic view of the opportunities for market development in China. In addition, current per capita beef consumption in China is around 4.4 kilograms (about 9.7 pounds) per year, with large potential for expansion. It is clear that development of this market will benefit the U.S. beef market. It is also clear that exporting underutilized beef cuts to this market offers the opportunity to add value to those cuts.

An example from USMEF demonstrates how the U.S. industry can add value to cuts by identifying a market. In the United States,

short rib and short plate are used domestically as manufacturing beef (50/50 trim). As shown in Figure 2, exporting these products to a market that has more specialized uses can add significant value. Variety meats such as liver and tripe are used primarily as pet food in the domestic market but have significantly more value as human food in an export market. The values presented in Figure 2 represent a potential for an increase in nearly \$20.00 per head of cattle slaughtered in the United States (based on domestic and export prices in 2000).

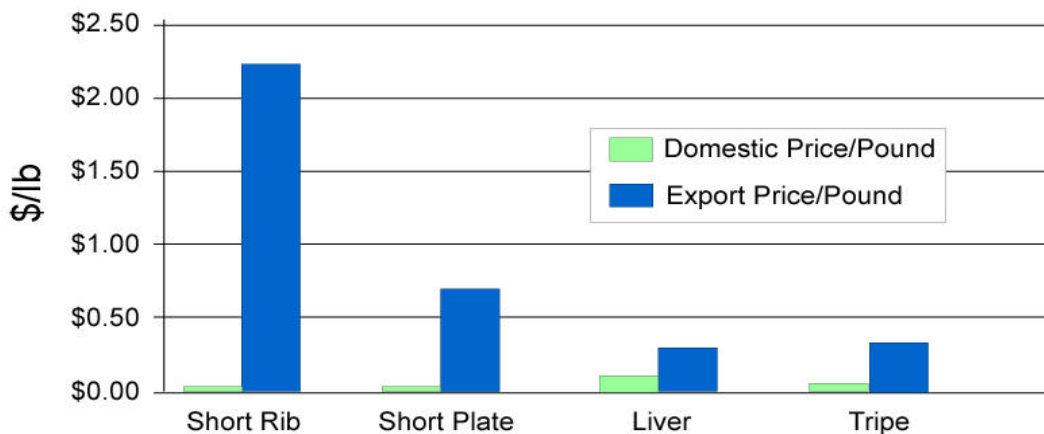
The United States is a major supplier of beef to China. The primary exported cut is short plate, which is typically sliced thin and used for hot pot, a highly popular Chinese dish. The other major muscle meat item that is exported to China is the top blade cut from the infraspinatus muscle in the chuck. Both cuts are regarded as high-quality cuts in most markets in China, whereas their use in the United States is typically as a sausage ingredient (this depends on the success of the current efforts to market the "flat iron" steak from the top blade in the United States). Short plate and chuck eye roll account for 60 percent of China's beef muscle meat imports, and about half of these imports are sold directly to hot-pot restaurants. The remainder is sold to supermarkets and into wet markets. Thus, the opportunity to add value to U.S. beef through export to China has considerable promise of success.

The USMEF expects consumption to rise as incomes increase and as beef becomes more available in urban centers. Supermarkets are offering more beef overall and more U.S. beef, typically frozen, than they have in the past. The majority of the growth in consumption



Source: U.S. Meat Export Federation

FIGURE 1. U.S. beef and beef variety meat exports and forecasts for Hong Kong and China



Source: U.S. Meat Export Federation

FIGURE 2. Adding value to beef cuts

will be in short plate and in top blade cuts. A small increase in middle meat imports may be expected as some Western-style steak houses become more popular, especially in southern China. The beef mission group visited two such restaurants in Guangzhou. These steak houses had strict specifications for portion-controlled, individually quick-frozen (IQF) ribeye, strip steaks, and tenderloin steaks from the United States, which had been imported with assistance from the USMEF. These high-

end cuts account for about 40 percent of U.S. beef imports. Although the popularity of these cuts seems to be growing, it appears that the greatest impact of this market segment will be an increase in the perception of quality of other beef cuts such as short plate.

In addition to these muscle meats, beef variety meats also remain in demand. Omasum sales are expected to increase, along with sales of other items such as backstrap, aorta, pizzle,

and tendon. The variety meat market is highly price sensitive, and importers are sometimes priced out of the market on higher-value items, but economic growth is increasing demand for these products.



A USMEF poster placed at a retail outlet shows U.S. beef cuts for hot pot use, and a display at a USMEF beef seminar held in Chengdu exemplifies USMEF efforts to increase this market.



The group visited a Western-style steakhouse in Guangzhou. A plaque at the entrance announced that this was a "U.S. Corn-Fed Beef Restaurant."

Beef Production

Chinese beef production is typical of that found in developing countries. Small producers with two to three cows are predominant in the beef sector in the rural areas, and meat from draft animals accounts for some of the beef supply. Although the number of cattle on feed is still very small, interest in more intensive feeding is increasing as processors have recognized the growth potential for beef in China. We visited a feedlot near Chengdu that housed approximately 300 head of cattle. The entire lot was concrete with a pitched roof in the center. Domestic cattle were tethered 23 hours a day, and cattle imported from Mongolia were in a free-stall pen. There was great variation in the age of the cattle, with animals ranging from young calves to cattle that were two to four years old. The cattle were fed a fine-ground, corn-based feed, but we were unable to determine the feed composition.

Currently, domestic production of cattle in China cannot compete with U.S. beef production on a quality or an efficiency basis. However, there is considerable interest in importing live cattle to serve as breeding stock to improve this situation. In addition, the number of dairy cows in the Chinese herd is small (about 5 percent), but growth in the number of dairy cows accounts for virtually all growth in the Chinese beef herd. As this trend continues, more dairy cattle will enter the beef supply chain.

Beef Processing

Perhaps the current state of the beef industry in Central China can best be illustrated by describing one of our visits to a modern beef processing plant in Chengdu (Chengdu Wuliangye Affco Golden Ox Industrial Company, Ltd.). This business was a joint venture between three partners (China Wuliangye Liquor Group, Affco Holdings Limited New Zealand, and Chengdu Jinli Industrial Co., Ltd.). The facility was designed to process beef, sheep, and goats, with a focus on



Cattle of varying age and size are fed a corn-based ration in a Chengdu feedlot. Cattle imported from Mongolia (shown above with the author) were held in a free-stall pen, whereas domestic cattle are tethered.



This spacious processing plant exemplifies the inability of many Chinese processors to operate their plants at full capacity.

beef and a slaughter capacity of approximately 300 head of cattle per day. This plant opened in May 2000 and ceased production in June 2000, when the operators concluded that the cattle being slaughtered were too variable in composition, size, age, and quality to make the plant profitable. At the time of our visit, the plant had been inactive for 14 months, and Affco Holdings was developing strategies to import genetics and production technology so they could have a steady supply of the type of cattle they desire.

Distribution of Imported Beef

China's meat distribution system is complex and somewhat inefficient, and the numerous unofficial import channels make it difficult to identify end users of U.S. products. U.S. meat products are delivered to the major ports in Shanghai or Hong Kong. Our tour of the CSX World Terminals in Hong Kong demonstrated the impressive management of the logistical challenge of coordinating the movement of ships, containers, trucks, and rail cars. However, distribution of the actual product appeared to be somewhat less efficient. As containers are unloaded in cold storage facilities, pallets are broken down, and tracing the product becomes difficult or maybe even impossible. It is likely that there is more U.S. meat exported to China than we are aware of, as some of these transactions may not be reported. If this practice continues, it may be important to review export statistics as an aggregate Hong Kong/China statistic.

The cold storage facilities we visited in Chengdu and Panyu were open for business six and a half days a week. Vendors maintained a business license, a sanitation license, and certification of personal health. In addition, each vendor pays for a booth and freezer space. Meat product vendors displayed variety meats and some lower-value muscle cuts such as short plates. Competing vendors had virtually identical products from the same companies and even the same processing facilities. U.S. companies with a strong



The ports at Hong Kong (above) and Panyu.

presence at both facilities included Tyson, IBP, ConAgra, Wayne Farms, and Excel. Packages for some poultry products were labeled “For export to Hong Kong.”

Packaging is probably the most significant challenge for exporters, but one that could be addressed relatively quickly. One challenge that traders identified is the size of the boxes. Boxes with a net weight of 10 kg would be easier to handle in the current distribution model. Most boxes of imported product currently weigh at least 20 kg. The integrity of the boxes also is a significant issue for distributors and even retailers. Most boxed meat is removed from the pallets in cold storage units and therefore each box is handled individually. The result is damage to boxes and, in some cases, to the packaged



Perishable items, including U.S. beef, are transported from cold storage to restaurants and other end-users in individual boxes. By the time product reaches this stage in the distribution system, packages are often breaking down.

meat. Improvement in the distribution infrastructure in China will undoubtedly improve this situation. Product losses because of damaged boxes have not been quantified but appear to be significant.



USMEF point-of-sale items are popular in retail outlets. Here, U.S. sliced short plate is displayed with USMEF stickers in a membership-type supermarket.



Some wet market vendors utilize modern freezer space with considerable inventory. This photo shows frozen processed foods and boxes of Certified Angus Beef short loin (on the top shelf).



At the same supermarket, U.S. top blade is cut and wrapped for retail display.



Consumers inspect meat at a supermarket display in this Japanese retail store in Chengdu. Bags are provided so consumers can select and package their meat much like produce is handled in U.S. supermarkets.

U.S. beef and beef variety meats have a high quality image. However, discussions with vendors and traders regarding specifications (for example, safety and quality) illustrated that price is still the driving force in this market.

Retail Sales

Although wet markets remain a popular place to purchase food, the supermarket industry has grown considerably over the past ten years in China. In many instances, however, it appears that consumers prefer the traditional wet markets to retail stores when buying meat. Several chain hypermarkets have begun to offer frozen meat from the United States.

One challenge that I observed for marketing frozen products is that retailers had opened packages, thawed the product, and put it on display. Thawed product does not hold well, and significant product loss occurs because of moisture loss. These observed conditions might explain the belief among consumers that the wet markets are the ideal source for meat products.

Summary

Opportunities for U.S. beef in China should continue to improve. The extent to which this market meets its potential will depend on how the U.S. industry responds to the following strengths and weaknesses.

U.S. Supplier Strengths in Chinese Markets

- Chinese consumers regard U.S. beef products as being of high quality.
- Urban centers have sizable populations of high-income consumers.
- Many Chinese consumers appear to be open to using U.S. beef and beef variety meats to modify traditional recipes.
- Domestically produced beef is of relatively low quality.
- USMEF promotional materials have high visibility in cold storage facilities, wet markets, and other retail outlets.

U.S. Supplier Challenges in Chinese Markets

- Average consumer income is very low.
- Distribution is inefficient.
- Domestic production is improving.
- New Zealand and Australian beef are typically lower cost than U.S. beef.
- USMEF posters are used by vendors that do not sell much (or any) U.S. meat.