



# Export Newsline

April 13, 2009

The Latest Trade News, Information and Insights for USMEF Members

## CHINA

- China Moves Aggressively to Assist its Pork Industry ..... 1

## EXPORT STATISTICS

- February Pork, Beef Exports Maintain Strong Momentum.....3
- Pork Exports .....4
- China Building Its Domestic Pork Industry.....4
- Korea, Vietnam Lead Beef Exports Upward .....4
- Lamb Exports Increase Sharply, Led by Caribbean Demand .....5

## MEXICO

- Combo Packaging Issue Shows Progress, But Work Continues .....6

## SOUTH AMERICA

- Chile Now Open to Exports of Under-30-Month Boneless Beef .....7

## USDA NEWS

- ARC Branch Unveils New USDA PVP Shield.....7

## TRADE SHOWS

- USMEF Will Fly Flag at Baghdad Agricultural Show.....8
- Join USMEF at a Taste of the Caribbean in Sunny Puerto Rico This June.....8
- Special Rates Available at Marriott for WorldFood Moscow .....8
- Hospitality Industry Trade Show in Cancun.....8
- Food & Hotel Indonesia .....8
- World of Food Asia in Bangkok.....8

## CHINA

### China Moves Aggressively to Assist its Pork Industry

By Joel Haggard, USMEF Senior Vice President for the Asia-Pacific Region

#### Highlights:

- In 2008, China imported over 1.9 million tons of pork and pork products, a single-year record for any country in history
- China is investing – at a minimum – several billions of dollars in hog industry support programs
- Live hog inventories on Jan. 1, 2009, totaled 462.64 million head - 5.2 percent above the previous year
- Current Chinese hog prices are lackluster, at about RMB 10.5/kg. live weight (about \$70/cwt.)
- Sluggish demand, ample live hog supplies and low domestic pork prices have reduced China’s demand for imports

China’s government has invested billions of dollars in recent years to accelerate the transformation of a hog industry, made up primarily of small farms, to one in which larger units dominate the production landscape. Since these subsidies are creating incentives to expand production, they may also have serious trade implications. Assistance has included direct cash subsidies to large-scale farms, tax breaks for hog producers and development of targeted hog-raising counties throughout the country. These policies seek to flatten China’s volatile hog cycle in which tens of thousands of small hog producers have traditionally moved in and out of the industry in response to rapidly changing profit signals. An industry made up of larger players is also viewed as beneficial to China’s efforts to improve its animal health situation.

While China is still home to approximately 100 million small hog raising units, the makeup of China’s hog industry is rapidly changing. Collecting accurate data from China’s hog farmers is notoriously difficult, but recent statements by the Ministry of Agriculture (MOA) estimate that in

2008, approximately half of the total live market hog output originated from “scale” farms - those farms marketing more than 50 animals per year. Earlier in the decade, these data showed that only 30 percent of China’s hog output was from scale farms, indicating a large increase in the number of operations qualifying for scale status. In fact, MOA has stated that the country had 2.244 million scale farms in 2007, which is more than double the number (approximately 1.1 million) recorded several years ago.

In recent weeks, MOA has trumpeted the results of its hog support programs. Under its sow subsidy program, RMB 1.957 billion (about \$286 million) has been allocated to support the production of more than 52 million sows, or more than 80 percent of the country’s total sow herd. Another RMB 2.1 billion (\$307 million) in production support subsidies has been allocated to targeted hog production counties, and RMB 2.8 billion (\$410 million) was spent on the development of large-scale production units. Under this program, cash payments were awarded to farms based on size, with units producing more than 3,000 head of market hogs per year eligible for up to RMB 8 million (\$1.17 million). In another major stimulus aimed at increasing pork production, China recently revised its enterprise tax law to exempt hog-raising operations from corporate tax.

It is difficult to accurately assess the impact of these subsidy programs on hog production because in late 2007 and the first half of 2008, surging imports and high pork prices also sent strong profit signals to producers, stimulating expansion. According to figures released by China’s national statistics agency, live hog inventories on Jan. 1, 2009, totaled 462.64 million head - 5.2 percent above the previous year. The number of live hogs processed in 2008 reached 609 million head. This represented an increase of nearly 8 percent over 2007, when a confluence of disease and a low in the hog cycle created one of the most serious pork shortages of recent decades. USMEF estimates that in 2008, China imported more than 1.9 million metric tons of pork and pork products, a single-year record for any country in history. Anecdotal reports also suggest that the loss in manufacturing jobs related to the global recession has forced some unemployed migrant workers to return to the land and try their hand at hog raising.

Current Chinese hog prices are lackluster, at about RMB 10.5/kg. live weight (about \$70/cwt.), with some areas priced as low as RMB 10/kg. Falling wholesale pork prices are nearing levels not seen since May 2007, an indication of both sluggish demand and ample live hog supplies. Reports of significant disease outbreaks have failed to rally the market, and this week live hog prices tumbled based on belief that prices are heading lower. In field visits undertaken by USMEF last month, some producers predicted that hog prices would dip below RMB 10/kg. before summer. Some industry observers claimed that a new spate of reported Clenbuterol findings was evidence of weakness in the hog sector, as hog raisers try to salvage profits by trying to illegally stretch gains. In recent weeks, some local livestock markets have banned hogs shipped in from other provinces because of possible Clenbuterol abuses. But this week MOA officials declared China’s feed supply safe, claiming that it analyzed 25,000 samples in 2008.

Low domestic pork prices have also reduced China’s demand for imports. China’s pork imports – including those into Hong Kong – have fallen from their record pace of a year ago, but still remain high by historical standards. According to Chinese customs data, pork and pork product imports during the first two months of 2009 reached 89,770 tons, down 25 percent from the pace of a year ago, but still well above the 2003-2007 average of 38,000 tons.

Despite the current market weakness, the transformation of China’s hog industry structure is expected to continue. On the slaughter side, the Chinese government’s crackdown on unlicensed slaughter facilities – numbering in the thousands - is creating an opportunity for the establishment of larger, more efficient meat plants. While its total number of certified slaughter establishments is 23,318, China currently has only 78 plants capable of processing more 1

million hogs per year. A series of news reports in recent months has highlighted new investments in hog industry infrastructure, including market-leader Shuanghui's announcement of a new RMB 400 million (\$58 million) facility in Hunan, and a RMB 4 billion (\$585 million) investment by COFCO in an integrated hog production project near the port city of Tianjin. While China's largest meat processors are moving in the direction of greater integration, it is expected that contract procurement and cash hog purchasing will remain the industry norm in the medium term.

On the live hog side, China's MOA has announced an eight-year plan to establish 437 targeted hog production counties (China has approximately 2,000 counties) where large-scale production of hogs will be supported. According to MOA's plan, 400 million market hogs will be produced by these counties by 2015, with 65 percent of hog production within each county coming from scale enterprises. If achieved, this would be a 25 percent increase over the current output from these areas. In order to encourage market stability, China has announced a hog price alert system whereby the Chinese government will implement market stabilization measures - including the restriction of imports and the promotion of exports - if the ratio of the average live hog price to corn prices moves beyond certain trigger points. Although it produced a record 528.5 million tons of grain last year, China has announced that it would aim to boost annual grain production to 550 million tons by 2020. Economists believe this effort will require increasing the average annual per mu (1/15th of a hectare) subsidy of RMB 100 (\$15.64).

**Upcoming events related to the China pork market include:**

- USMEF will be participating in the Global Pig Forum in Chengdu, China, May 14-15. The forum will include a discussion of the future development of China's hog industry, as well as the status of the world pork industry during the current economic downturn.
- A team from the Nebraska Pork Producers Council will visit China the week of April 13 to assess market conditions and explore potential areas for pork export growth.

## **EXPORT STATISTICS**

---

### **February Pork, Beef Exports Maintain Strong Momentum**

*Variety Meat Surge Helps February Pork Export Value Grow by Nearly 5 Percent over 2008*

A 45-percent jump in pork variety meat exports in February helped overcome a slight decline in pork muscle cuts to power total pork exports to a 4.7 percent increase in value over February 2008.

Total beef exports were up slightly for the month on a year-over-year basis: 4 percent in volume and just under 1 percent in value. The trend, however, was the reverse of the pork model with beef muscle cut exports increasing nine percent while variety meat declined slightly.

“We anticipated sharp declines in pork exports to certain markets, including China, when compared to the results we saw last year,” said USMEF President and CEO Philip Seng. “But markets such as Japan and Mexico continue to perform extremely well, and U.S. pork is really gaining traction in many key regions across the world. The diversity and global reach of our marketing efforts are really paying off.”

Seng also noted that the slumping currencies in both Mexico and Canada have been affecting U.S. beef exports to those two markets, but said that situation is starting to improve. “We are also seeing some impact from the declining volume of live cattle imports from those two countries, which is increasing their own domestic beef supplies,” he said.

## **Pork Exports**

Total U.S. pork exports in February were valued at \$368.2 million. Pork muscle cut exports (\$305.6 million) declined by about 1 percent compared to last year, but still remained 45 percent above the February 2007 value. In terms of volume, pork plus pork variety meat exports of 158,471 metric tons (349.3 million pounds) represented an increase of 1 percent over February 2008 and 57 percent over February 2007. Through January and February, year-to-date pork plus pork variety meat exports increased 3 percent in volume over last year to 315,121 metric tons (694.7 million pounds) and 6 percent in value to \$728.4 million.

Japan continues to be the top-performing value market for U.S. pork. Its February total of 37,774 metric tons (83.3 million pounds) valued at \$138.6 million outpaced February 2008 by 18 percent in volume and 32 percent in value. Mexico showed even more remarkable growth as its February volume (42,458 metric tons or 93.6 million pounds) surged by 64 percent over last year and value (\$65.6 million) jumped by 60 percent.

Other markets showing excellent growth included Taiwan, where pork plus pork variety meat exports doubled in value compared to February 2008 and increased by 107 percent in volume. Exports to the ASEAN region climbed by 60 percent in volume and 80 percent in value, with the Philippines and Singapore leading this region's gains. Exports to Australia climbed by a similar percentage, increasing by 76 percent in both volume and value. Exports to the Caribbean jumped by 122 percent in volume and 114 percent in value over February of last year, led by a near-tripling of shipments to the Dominican Republic.

Global pork exports are proving to be very resilient, as these gains helped the U.S. pork industry weather steep declines in sales to Russia and China. Year-to-date pork plus pork variety meat exports to Russia have declined 49 percent in volume and 57 percent in value compared to January-February 2008. Exports to the China/Hong Kong region are down 46 percent in volume and 48 percent in value compared to 2008, with exports to China declining nearly 75 percent. These results are not particularly surprising, considering both countries' concerted efforts to increase domestic pork production and reduce their reliance on imports.

## **China Building Its Domestic Pork Industry**

China has been particularly aggressive in this area, according to Joel Haggard, USMEF senior vice president for the Asia-Pacific region.

"China's efforts to bolster its hog industry include assistance in the form of direct cash subsidies to large-scale farms, tax breaks for hog producers and development of targeted hog-raising counties throughout the country," Haggard said. "To the extent that these subsidies are creating incentives to expand production, they can have very serious trade implications."

## **Korea, Vietnam Lead Beef Exports Upward**

Increased beef exports to South Korea and Vietnam helped overcome declines in the beef industry's leading markets of Mexico and Canada. February beef plus beef variety meat exports increased 4 percent in volume (66,155 metric tons or 145.8 million pounds) and showed a slight increase in value (\$220.5 million) over February 2008. Contrary to the trend in pork exports, beef muscle cut exports increased by 9 percent in volume to 40,964 metric tons (or 90.3 million pounds) and 7 percent in value to 172.9 million, while beef variety meat exports dropped slightly in volume to 25,191 metric tons (or 55.5 million pounds) and declined nearly 17 percent in value to \$47.6 million. Year-to-date, beef muscle cut exports have increased 11 percent in both volume and value over the same period last year, while variety meat exports have declined 11 percent in volume and 20 percent in value.

Beef exports to Korea slumped near the end of 2008, with December results totaling 3,335 metric tons (7.4 million pounds) valued at \$15.2 million. But the new year has seen a rebound in exports to Korea, with the January-February monthly average now standing at 6,550 metric tons (14.4 million pounds) with an average value of 24.9 million. This places Korea third among all destinations for U.S. beef – trailing only Mexico and Canada – in both volume and value.

Vietnam ranks fourth in volume and fifth in value for U.S. beef plus beef variety meat exports, with year-to-date exports to Vietnam doubling in volume over 2008 (to 10,972 metric tons or 24.2 million pounds) and increasing 174 percent in value to \$36.2 million.

Japan continues its steady rise as a destination for U.S. beef exports, with 2009 totals through February increasing by 19 percent in volume (to 8,056 metric tons or 17.8 million pounds) and 17 percent in value (to \$43.3 million).

The strong performance of these markets helped offset a slowdown in exports to Mexico, Canada and Taiwan. Though Mexico and Canada have held their position as the top two destinations for U.S. beef, year-to-date exports to Mexico have declined 22 percent in volume (to 51,238 metric tons or 113 million pounds) and 17 percent in value (to \$179.1 million). Export volume to Canada declined 14 percent (to 18,116 metric tons or 39.9 million pounds) and by 22 percent in value (to \$73.1 million). Beef exports to Taiwan have dropped even more sharply, declining by 29 percent in volume (to 2,750 metric tons or 6.1 million pounds) and 28 percent in value (to \$13.3 million).

While consumers in some global markets are “trading down” in terms of the U.S. beef cuts they are purchasing, Seng noted that customers in Taiwan are not as well-positioned to do that because of market access limitations.

“We are still restricted in Taiwan to boneless beef from cattle under 30 months of age,” he said. “If we are able expand our market access there, I feel we can reverse any further declines in that market by exporting a strong volume of short ribs and other bone-in beef cuts.”

Despite continued economic uncertainty in key markets, Seng reiterated USMEF’s commitment to recapturing U.S. beef market share and growing the reach of high-quality U.S. middle meats.

“Certainly it’s a tough marketing environment for beef right now, both globally and domestically,” he said. “But we currently have some high-end cuts to offer at very competitive prices, and USMEF is having notable success with those cuts in certain markets. We are also encouraged to see the currencies of some of our key trading partners beginning to stabilize. That will also help make U.S. beef more affordable overseas.”

### **Lamb Exports Increase Sharply, Led by Caribbean Demand**

Led by continued strong sales in the Caribbean, January-February exports of U.S. lamb climbed 50 percent in volume (to 1,528 metric tons or 3.4 million pounds) and 72 percent in value (to \$5.6 million) over the same period last year. The Caribbean region has accounted for about 69 percent of this value, led by mainstay market Bermuda and a strong surge in exports to the Netherlands Antilles. Lamb exports to Canada have also increased by 132 percent in volume and 44 percent in value over 2008, with exports to Mexico climbing by 12 percent in volume and 32 percent in value.

# MEXICO

---

## Combo Packaging Issue Shows Progress, But Work Continues

Negotiations between the United States and Mexico on the combo packaging issue have shown progress, but USMEF is still working closely with officials from both governments to reach an acceptable solution.

Large quantities of U.S. pork and some U.S. beef are shipped to Mexico in combo containers, which have proven to be an efficient and effective packaging method. In December, however, Mexico announced its intention to ban all incoming meat shipments in combo containers effective January 15. Mexico later revised this policy change by only prohibiting the use of combo containers for frozen meat. Fresh and chilled meats shipped in combo containers are still being accepted in Mexico, but these shipments are scheduled to undergo a change in inspection procedures on April 20.

Under the proposed change, products from the top, bottom and middle of each combo bin would require inspection. According to Chad Russell, USMEF regional director for Mexico and the Dominican Republic, this type of inspection creates significant obstacles because of the time and resources required, and the potential for damaging the product.

“While nothing has been issued officially yet, we are very hopeful that a further postponement of these changes in inspection procedures will be announced soon,” Russell said. “We have explained to Mexico’s officials how this could create serious problems for its companies that import meat. Also, if Mexico wants to incorporate new technology or new equipment into these inspection procedures, they need to give their inspection points more time to prepare.”

One reason for progress in the discussions with Mexico is that USMEF and U.S. trade officials have raised awareness of how combo bins are actually used. An aspect of this effort was a five-minute video prepared by USMEF, which displayed and explained the methods by which U.S. pork is prepared, sorted and loaded into combo bins at U.S. processing plants.



*A video prepared by USMEF shows officials from Mexico the process involved in sorting and loading hams in combo bins*

“USMEF received very positive feedback on the video from the officials in Mexico that reviewed it,” Russell said. “It was very effective in showing how products are sorted on the production line and how combo bins are filled. There is absolutely no difference in the products

that are loaded in the bottom, top or middle of the container, which was one of the concerns that had been previously raised.”

Another positive development took place recently when a Mexican delegation led by Arturo Calderón Ruanova, SENASICA-SAGARPA’s general director of phyto-zoosanitary inspection, visited U.S. and Canadian facilities for a first-hand look at inspecting, packaging and shipping procedures. While no formal announcements have emerged yet from this tour, it allowed officials from Mexico to gain a better understanding of the safety measures that are in place and the difficulties involved in inspecting 100 percent of combo bins and their contents.

With approximately 80 percent of the pork and 10 percent of the beef exported from the United States to Mexico being shipped in combo bins, Russell says it is essential that a solution is reached that addresses Mexico’s concerns without adding undue costs and obstacles to industry shipping practices.

“It would have a huge impact on the U.S. industry if Mexico would either ban the use of combo bins or establish inspection procedures that create unreasonable burdens and delays,” Russell said. “Our recent discussions have been very encouraging, but with Mexico being our No. 1 (combined) destination for U.S. beef and pork it is important that we continue to communicate and make progress toward the right solution.”

## **SOUTH AMERICA**

---

### **Chile Now Open to Exports of Under-30-Month Boneless Beef**

On April 6, the FSIS Library of Export Requirements was updated for Chile, clearing the way for resumption of U.S. beef exports. The certification and labeling requirements were updated to allow for export of boneless beef from cattle less than thirty months of age.


Exporters should note that the USDA quality grade designation and its equivalent Chilean grade designation must be included in the “Product as Labeled” entry on the FSIS 9060-5, effective April 6, 2009. The actual product label must also include this grade information. Further details can be found online in the [Export Library](#).

Additional changes with regard to beef trade with Chile are anticipated soon, and work continues on the possible inclusion of bone-in products. But for the time being, exports are limited to boneless beef from cattle less than thirty months of age. For further assistance, please contact Courtney Heller at 303-623-6328 or [cheller@usmef.org](mailto:cheller@usmef.org).

## **USDA NEWS**

---

### **ARC Branch Unveils New USDA PVP Shield**

The USDA’s Agricultural Marketing Service’s Audit, Review and Compliance (ARC) Branch yesterday (April 8) announced the creation of a new USDA Process Verified Programs (PVP) Shield. The USDA PVP Shield representing approved USDA material must be reviewed by the the use of the USDA PVP Shield  may only be used on promotional material Process Verified Programs. All promotional ARC Branch prior to use. Instructions regarding are in the [ARC 1001 Procedure, Section 6 \(PDF\)](#). The original USDA PVP Shield may still be used on PVP promotional material. More information on PVPs is [online](#). If you have questions regarding changes to this document, please [contact](#) the ARC Branch.

## **TRADE SHOWS**

---

### **USMEF Will Fly Flag at Baghdad Agricultural Show**

USMEF is planning to promote U.S. red meat products at a four-day agricultural trade show, organized by the U.S. Embassy and Iraqi companies, at the Baghdad Airport Hall in July or August. The Foreign Agricultural Service (FAS) is encouraging attendance by U.S. companies that wish to export to Iraq. The trade show will be an opportunity to meet potential clients and learn more about consumer preference and culture. The FAS is inviting Iraqi ministry of agriculture officials, representatives of the chamber of commerce, importers, distributors and the owners of agricultural companies. For more information, contact USMEF Middle East consultant [Simon Bakht](#) or Mohammed Abood Ibrahim, FAS agricultural business advisor at the Embassy.

### **Join USMEF at a Taste of the Caribbean in Sunny Puerto Rico This June**

Sunny Puerto Rico is the site of this year's Taste of the Caribbean, a major trade show and Caribbean chef competition for exporters to the region. USMEF Caribbean consultant Liz Wunderlich will be there and she is looking for USMEF members who want to share the federation's booth. The show will be held at the Caribe Hilton, June 12-14. Each Caribbean island holds individual competitions to select a national team of three chefs, a pastry chef and a bartender for a prestigious Caribbean-wide competition. The chef competition attracts buyers and importers from the whole of the Caribbean basin. For information on participating, E-mail [Liz Wunderlich](#).

### **Special Rates Available at Marriott for WorldFood Moscow**

The 18<sup>th</sup> WorldFood Moscow 2009 on 15-18 September is Russia's largest food show. It attracts more than 50,000 buyers from Russia and the states of the Former Soviet Union. If you wish to exhibit with USMEF at this show, contact Tammy Connolly at 303-623-6328.

USMEF has booked 25 rooms at the Marriott Grand Hotel at the U.S. government rate of \$255 including breakfast. To take advantage of this special offer, contact Tammy Connolly by July 15.

### **Hospitality Industry Trade Show in Cancun**

Billed "as the place where pleasure and business are combined," Expohotel 2009, June 17-19, in Mexico's resort mecca, Cancun, is focused on the huge Mexican hospitality industry. Last year more than 6,200 qualified visitors came to the show. USMEF-Mexico will have an information booth and members wishing to rent a booth at the show can contact Tammy Connolly at 303-623-6328 or [tconnolly@usmef.org](mailto:tconnolly@usmef.org).

### **Food & Hotel Indonesia**

[Food & Hotel Indonesia](#) will be held April 15-18, at the Jakarta International EXPO Kemayoran in the Indonesian capital. ASEAN Director Sabrina Yin will fly the flag for USMEF. For details, contact Tammy Connolly at (303) 623-6328 or [tconnolly@usmef.org](mailto:tconnolly@usmef.org).

### **World of Food Asia in Bangkok**

[Thaifex – World of Food Asia](#) is scheduled for May 13-15 at the Impact Exhibition Center in Bangkok. ASEAN Director Sabrina Yin will represent USMEF. Contact Tammy Connolly at (303) 623-6328 or [tconnolly@usmef.org](mailto:tconnolly@usmef.org).

U.S. Meat Export Federation: 1050 17th St. Suite 2200 Denver, CO 80265 Phone: 303-623-6328 Fax: 303-623-0297

E-mail Michael Igoe at [migoe@usmef.org](mailto:migoe@usmef.org). Visit the USMEF Web site [www.usmef.org](http://www.usmef.org)

The written policies and practices of this organization include the nondiscriminatory bases required by the USDA.