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Product Brief

Shanghai Regional Market Profile: Pork

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Report Highlights:

Exports of U.S. pork to China increased by a whopping 350% in 2004, underscoring the potential for pork in key markets like Shanghai. This report profiles the opportunities and obstacles for U.S. pork in the Shanghai region.

Includes PSD Changes: No
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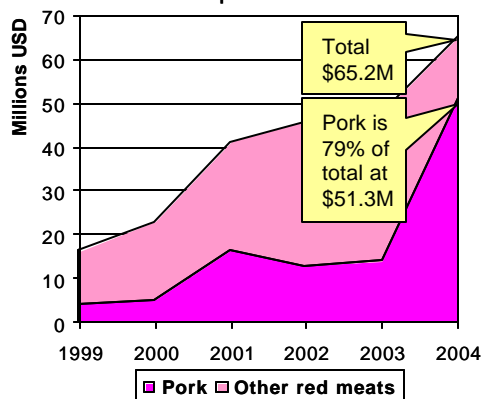
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Shanghai Region Pork Market Profile

Pork: It's What's for Breakfast, Lunch and Dinner

The word for "meat" in Chinese is almost synonymous with the word for "pork", and many traditional Chinese foods such as steamed breakfast buns and meat dumplings use ground pork. Stir-fried pork liver, soy-braised pork hock, Cantonese sliced roast pork, and spicy pork hotpot are all common family-style dishes. In a country where vegetarianism is still uncommon, pork is the meat of choice for China's some 1.3 billion citizens. In the past, pork was a rare commodity for mass consumption, but has become freely available in cities within the last generation. U.S. pork exports to China have grown steadily over the last few years, and pork composed 79% of U.S. meat exports to China in 2004, partly as a result of a ban on imports of U.S. beef due to BSE concerns. U.S. pork has the potential for even further growth in the upscale pork market in the region surrounding Shanghai (commonly called the Yangtze River Delta), given the area's high incomes and provided market development efforts for U.S. pork continue.

Chart 1: Pork Exports vs. Other Red Meat Exports to China



U.S.D.A. FAS Trade Data

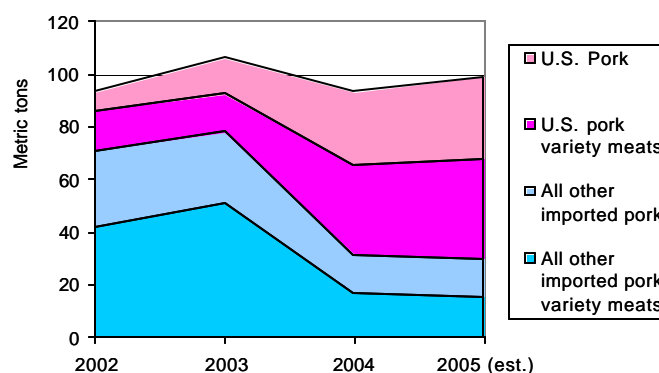
The Mighty Yangtze: Affluence in the Shanghai Region

The Yangtze River Delta, which includes Shanghai and the prosperous cities of neighboring Jiangsu Province to the north and Zhejiang Province to the south, is a key consumer market. Shanghai residents have among the highest per capita disposable incomes in China at US\$1,800 per year. Residents of nearby cities are not far behind, with average annual disposable incomes in major cities ranging from \$1,200 in Nanjing (Jiangsu) to \$2,070 in Ningbo (Zhejiang). The region is highly urbanized, and receives nearly half of all China's FDI. As the middle class expands and incomes continue to rise, the consumption of high-quality, high-value products is expected to rise as well.

2003 and 2004 have both been encouraging years for U.S. pork exporters. Exports of U.S. pork to China grew by 350% in 2004, up to \$51.3M from \$14.0M in 2003. The U.S. surpassed Canada as the top pork exporter to China. (Factoring in re-exports, the U.S. has been the de facto primary exporter to mainland China for years). Some products doubled and even tripled in total value year-on-year, including boneless butt, a traditional Chinese food cut, and fresh and chilled hams and shoulders. The volume of pork and pork products exported to China will most likely increase in 2005, albeit at a more moderate rate than last year.

Sales of offal were also at record highs in 2004. Offal such as pork ears, feet, intestines, and tongue are popular for their health benefits: cartilaginous parts (i.e. snout and ears) are said to strengthen arthritic joints. Pork intestines (stomach), tongue, feet, and other offal all sold well in 2004.

Chart 2: Pork Imports to China, U.S. and All Other Countries



MEF Hong Kong

Behind the Numbers: BSE is an Influence

A major factor in the rise in demand for U.S. pork and pork products in 2004 was the sudden absence of many other meat products. For over 14 months, China has suspended imports of U.S. beef due to concerns over BSE. Imports of U.S. poultry were suspended for much of the year (from February to December, 2004) due to concerns over avian influenza (AI). AI outbreaks in China and Southeast Asia also dampened poultry consumption during the year. As a result, demand for pork increased, raising domestic prices and narrowing the gap between the price of domestic and imported pork. This has allowed U.S. pork to play to its natural advantages: according to consumers, U.S. pork simply tastes better. One consumer noted that the U.S. product needs no MSG—a common flavor enhancer in Chinese cooking. In addition, a rash of food adulteration and contamination scares in China has strengthened the common perception among consumers that imported foods in general are of higher quality and safer.

“The Pork Medallions? Excellent Choice, Madam”

The hotel and restaurant industry is U.S. pork’s primary market. These venues prefer high quality meat for both western-style and Chinese dishes, and are thus very receptive to U.S. pork. Last year’s increase in pork demand most likely came from the HRI sector, as food receipts were up 20%. HRI will continue to be an important market sector as China develops and more consumers dine out in better restaurants.

Sales direct to consumers through nationwide or multinational super and hypermarket chains are a second, smaller but growing, market. Savvy consumers concerned with taste and quality will choose American pork, but this market is small today as consumers lack education on how to best prepare U.S. pork. At the point of sale, they cannot distinguish the advantages of U.S. from domestic pork and pork products, which can be priced similarly. Marketing campaigns targeting consumers in restaurants is the best way to promote a good image of U.S. pork.

One point to note is that super and hypermarkets are not the largest source for fresh food purchases among Chinese, even in most urban areas. Many consumers still prefer to buy pork at local wet markets, which are conveniently located within walking or biking distance and welcome bargaining (supermarkets, of course, do not). Also, wet markets allow consumers to have meat specially cut to their needs. However, wet markets are a headache to local authorities because of the lack of sanitation and regulation, and their importance is waning as modern retail outlets continue to displace them.



Millions and millions to be served: hypermarkets like Walmart are expanding their presence in the Shanghai region

These Piggies Are Going to Market: Marketing Assistance in China

The Agricultural Trade Office/Shanghai is one of four FAS offices located in China to provide marketing support for U.S. companies. The U.S. Meat Export Federation (MEF) is more specialized, and also has several representative offices in China working to support and develop U.S. meat exports to China. ATO provides general market development support, conducting a wide variety of activities designed to build distribution channels for U.S. agricultural products. ATO works closely with MEF to ensure that U.S. meat products are an integral part of these development activities, and also provides official support for MEF’s activities and issues. MEF in turn supports ATO activities, bringing experts to speak on handling and use of U.S. meat products, and using their well-established networks of supplier and distributor contacts to ensure that products are available for ATO-sponsored activities. Two recent market development activities that have featured U.S. pork were the Chengdu Menu Promotion & Chef Seminar, and the American Festival Gift Basket Promotion in Shanghai.

In fall of 2004 ATO Shanghai and USMEF, along with other USDA cooperators, jointly conducted a market development activity in Chengdu, Sichuan Province that included development of sourcing and distribution channels, chef training programs and menu promotions in local restaurants. Chengdu is an inland city

deep in the heartland of China's pork producing region. As a result of the distant location, the activity involved extensive work piecing together distribution channels for U.S. pork. The success was immediate and remarkable: pork products sold out several times during the activity. Within one month of the menu promotion and seminar, eight restaurants that had never used U.S. pork before became regular customers. The seminars highlighted U.S. pork's advantages: superior taste, product quality and safety, and price relative to up-scale local brands; and introduced American pork recipes. The menu promotion served to build demand among restaurants that a) put the newly established distribution channels to work, and b) allowed the chefs to put the seminar training into use.

The American Holiday Gift Basket Promotion took market development to an entirely different type of venue: Shanghai's upscale Superbrand Mall. This event was used to test-market U.S. pork products with affluent, younger consumers. As in Chengdu, the event discovered that many Chinese consumers recognize the high quality of U.S. pork products, and are often willing to pay a premium. At the event, promoters offered suggestions for uses of American pork in Chinese-style dishes, and introduced U.S. pork to shoppers through taste tests of pork grilled on-site. The taste tests proved so successful with the consumers that all of the pork products for sale at the promotion sold out.

Detailed contact information for ATO and MEF offices is included at the end of this report.

TABLE I. Positives and Negatives of Exporting Pork to the Chinese Market

| Positives | Negatives |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| China is a developing country; improving living standards means a growing and high potential market for high quality goods | Improved living standards are encouraging people to move away from the traditional pork to newer flavors such as beef and seafood |
| Import tariffs on frozen meat and offal were systematically reduced 7-8% between 2001-2004 per WTO commitments | Labeling and other standards are often unclear, often change, and continue to constitute a barrier to imports |
| The Euro has become inflated relative to the USD, to which the RMB is pegged, making US imports relatively less expensive | EU members such as Italy and Ireland are working with China to establish positive trading relationships for pork (USMEF Hong Kong) |
| Distribution channels for super and hypermarkets, where high-end consumers tend to shop, feature a high degree of transparency and reliability | Distribution channels remain underdeveloped outside the major cities, and mass market shopping is still dominated by wet markets |
| Taste superior to Chinese pork; adding MSG for flavor not necessary | While taste is paramount for HRI and high-end shoppers, the mass market is still price-driven |

Get Your Products to Shanghai without Getting Shanghaied

In the past, significant quantities of U.S. meat were transshipped to mainland China via Hong Kong, avoiding both restrictions on certain products and evading high tariffs. Since China's entry into the WTO, however, direct shipments of pork have become legal, and direct shipment is slowly replacing transshipment as the primary means of supplying the market. Exporters have learned that products that are transshipped may be tampered with during the process and that, in addition to losing control over the quality of their product, they also lose the opportunity to make contact with and learn the needs and interests of their end buyers. Recent government crackdowns on illegal transshipments have further helped to ensure that this channel continues to decline in importance. Most recently, in November, 2004, the government announced that all meat arriving in Hong Kong for re-export to the mainland must be pre-inspected by the China Inspection Company, Hong Kong at an additional cost of roughly \$475 per container.

Import Laws and Regulations

Pork imports are subject to tariffs ranging from 12% for frozen meat to 20% for fresh/chilled meat and offal. In addition, pork is subject to a 12% VAT, calculated on the value after the duty has been included. The combined total places U.S. pork at a slight price disadvantage to domestic product in Chinese markets. ATO experience indicates, however, that the quality advantage of U.S. pork is recognized even in Chengdu, the heart of China's pork producing region. Labeling requirements for imported pork are complex and subject to change. An experienced importer/distributor should be able to walk an exporter through the current requirements for containers and packaging.

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Table II: Pork products with the largest volumes, 2002-2004

| Products (simplified USDA export names) | 2002 | 2003 | 2004 | % change 2003-2004 |
|------------------------------------------------------------------|-------|-------|--------|-----------------------|
| Fresh swine meat | 6,484 | 6,210 | 11,153 | 80% |
| Fresh pork intestine | 239 | 237 | 8,770 | 3,600% |
| Fresh/chilled swine meat (butt) | 371 | 3,489 | 6,481 | 86% |
| Salted, dried or smoked swine not elsewhere specified (nesoi) | 0 | 3 | 8,022 | 267,300% |
| Other frozen swine offal | 2,279 | 1,595 | 4,664 | 192% |
| Frozen tongue | 2,300 | 364 | 4,413 | 1,112% |
| Frozen feet | 390 | 771 | 4,041 | 424% |
| Unprocessed frozen ham shoulders, bone- in | 74 | 595 | 1,762 | 196% |

Source: U.S. Trade Data

TABLE III. Swine & Pork Products by Harmonized Code (HC) Import Code System

| HC | Description |
|---------------------------------|-----------------------------------------------------------------------------------------------|
| <u>Swine & Pork</u> | |
| 0203110000 | Carcasses and half-carcasses of swine, fresh or chilled |
| 0203121000* | Hams, shoulders and cuts thereof, of swine, bone-in, processed, frozen or chilled (kg) |
| 0203129000 | Hams, shoulders and cuts thereof, of swine, bone-in, except processed, frozen or chilled (kg) |
| 0203192000 | Meat of swine, nesoi, processed, frozen or chilled (kg) |
| 0203194000 | Meat of swine, nesoi, except processed, frozen or chilled (kg) |
| 0203210000 | Carcasses and half-carcasses of swine, frozen |
| 0203221000 | Hams, shoulders and cuts thereof, of swine, bone-in, processed, frozen (kg) |
| 0203229000 | Hams, shoulders and cuts thereof, of swine, bone-in, except processed, frozen (kg) |
| 0203292000 | Meat of swine, nesoi, processed, frozen (kg) |
| 0203294000 | Meat of swine, nesoi, except processed, frozen (kg) |
| 0210120020 | Bacon |
| 0210110000 | Hams, shoulders and cuts thereof, of swine, bone-in, salted, in brine, dried or smoked (kg) |
| 0210190000 | Meat of swine, nesoi, salted, in brine, dried or smoked (kg) |
| <u>Pork Variety</u> | |
| 0206300000 | Offal of swine, edible, fresh or chilled (kg) |
| 0206410000* | Livers of swine, edible, frozen (kg) |
| 0206490000* | Offal of swine except livers, edible, frozen (kg) |
| 0206490010 | Edible offal, of swine (pork), frozen, tongues |
| 0206490020 | Edible offal, of swine (pork), frozen, hearts |
| 0206490030 | Edible offal, of swine (pork), frozen, feet |
| 0206490040 | Edible offal, of swine (pork), frozen, headmeat |
| 0206490050 | Edible offal, of swine (pork), frozen, skins |
| 0206490090 | Edible offal, of swine (pork), frozen, other |
| <u>Stomach & Intestines</u> | |
| 0504000080 | Pork intestine, frozen |
| <u>Processed Pork Products</u> | |
| 1602411000* | Hams and cuts thereof, of swine, containing cereals or vegetables, prepared or preserved (kg) |
| 1602412000* | Hams and cuts thereof, of swine, boned and cooked and packed in airtight containers (kg) |
| 1602419000* | Hams and cuts thereof, of swine, nesoi, prepared or preserved (kg) |
| 1602422000 | Shoulders and cuts thereof, of swine, boned and cooked and packed in airtight containers (kg) |
| 1602424000* | Shoulders and cuts thereof, of swine, nesoi, prepared or preserved (kg) |
| 1602491000* | Offal of swine (except liver) prepared or preserved (kg) |
| 1602494000 | Meat of swine nesoi, not containing cereals or vegetables, prepared or preserved (kg) |
| 1602497000 | Meat of swine prepared or preserved, including mixtures, nesoi (kg) |

* Has not been exported to China for the past 5 years.

Table IV. USDA Data for Swine and Pork Products Exports to China, 1999-2004

| | HS 10-DIGIT EXPORTS | VALUES IN 1000 DOLLARS | | | | | | % CHANGE | 2005 TARIFF RATE (%) |
|------------------|---------------------|------------------------|-------------|--------------|--------------|--------------|--------------|----------------|----------------------|
| | | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | | |
| SWN CRC,FR,CH | 203110000 | 0 | 35 | 0 | 0 | 0 | 0 | -- | 20 |
| HM/SH X PC,FR,CH | 203129000 | 0 | 0 | 0 | 0 | 0 | 38 | -- | |
| SWN MT,PRC,FR,CH | 203192000 | 0 | 26 | 279 | 333 | 0 | 18 | -- | |
| SWN MT,FR/CH | 203194000 | 0 | 77 | 157 | 371 | 3489 | 6481 | 85.76 | 12 |
| SWN CARC,FZ | 203210000 | 0 | 0 | 0 | 0 | 0 | 341 | -- | |
| HM,SH,PRC,FZ | 203221000 | 0 | 30 | 38 | 0 | 0 | 0 | -- | |
| HM/SH,X PRC,FRZ | 203229000 | 73 | 1232 | 0 | 74 | 595 | 1762 | 196.13 | 20 |
| SWN MT,NE,PRC,FZ | 203292000 | 99 | 116 | 1371 | 377 | 462 | 446 | -3.46 | |
| SWN MT, FR | 203294000 | 2919 | 2069 | 8270 | 6484 | 6210 | 11153 | 79.6 | |
| SWN OFL,ED,FR,CH | 206300000 | 0 | 0 | 542 | 0 | 40 | 107 | 167.5 | 12 |
| SWN OFL,FZ,TNGUE | 206490010 | 43 | 668 | 2115 | 2300 | 364 | 4413 | 1112.36 | |
| SWN OFL,FZ,HEART | 206490020 | 0 | 14 | 1525 | 239 | 63 | 943 | 1396.83 | |
| SWN OFL,FZ,FEET | 206490030 | 54 | 0 | 644 | 390 | 771 | 4041 | 424.12 | 25 |
| SWN OFL,FZ,HDMT | 206490040 | 0 | 0 | 0 | 0 | 0 | 74 | -- | |
| SWN OFL,FZ,RIND | 206490050 | 0 | 0 | 0 | 8 | 0 | 0 | -- | |
| SWN OFL,FZ,OTHER | 206490090 | 781 | 742 | 1401 | 2279 | 1595 | 4664 | 192.41 | 25 |
| HM,SH,ST,DR,SMK | 210110000 | 0 | 9 | 103 | 82 | 153 | 0 | -- | |
| BACON | 210120020 | 10 | 0 | 0 | 0 | 7 | 0 | -- | |
| SWN NE,ST,DR,SM | 210190000 | 179 | 9 | 0 | 0 | 3 | 8022 | 267300 | 25 |
| PK INT,FZ,X SSGC | 504000080 | 10 | 106 | 340 | 239 | 237 | 8770 | 3600.42 | |
| SH,CT,BND,CK,CTR | 1602422000 | 0 | 0 | 3 | 9 | 0 | 0 | -- | |
| SW MT NE BND/CK | 1602492000 | 0 | 0 | 0 | 0 | 0 | 20 | -- | 25 |
| SWN NE,PRP,PRS | 1602494000 | 0 | 48 | 0 | 0 | 44 | 0 | -- | |
| SWN MT PRP,PR,NE | 1602497000 | 89 | 0 | 0 | 0 | 0 | 0 | -- | |
| TOTAL | | 4257 | 5181 | 16788 | 13185 | 14033 | 51293 | 265.517 | |

Note: '05 tariff rates are from Customs Import and Export Tariff of the People's Republic of China.