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## China, Peoples Republic of

### Livestock and Products

### Shanghai Region Beef Markets

### 2006

**Approved by:**

Ralph Bean  
U.S. Consulate

**Prepared by:**

Leanne Wang/Justin Hagel

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**Report Highlights:**

Although U.S. beef has been restricted from the Chinese market, it has never disappeared entirely. Demand remains strong, and U.S. beef enters through diverse channels. The market potential, once restrictions are lifted, is very good.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Shanghai ATO [CH2]  
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**Introduction**

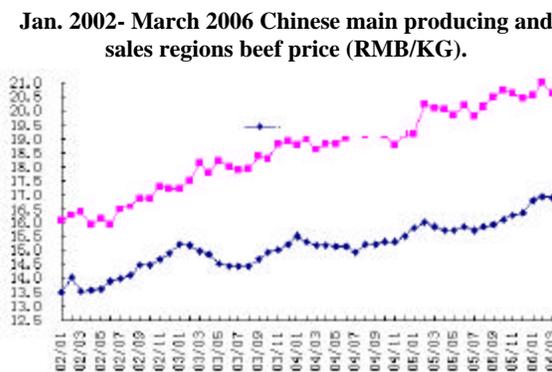
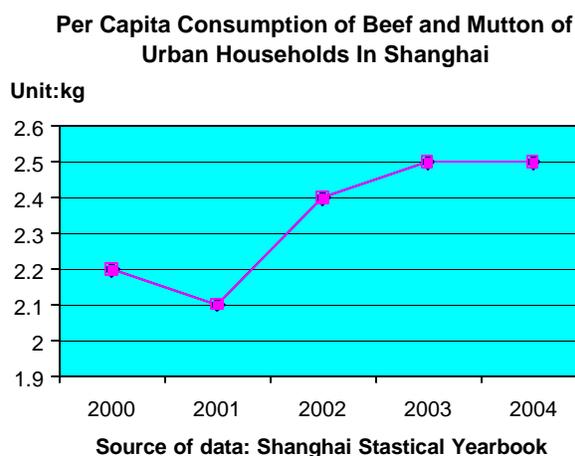
Although China has banned imports of U.S. beef since December 25, 2003, U.S. beef continues to filter into the market through various means. Currently, U.S. beef enters China via one of two channels: smuggled via South China; and U.S. beef relabeled to show a different country of origin (especially Canada). Confusing matters further, some distributors re-label domestic Chinese grain-fed beef as originating in the U.S. While making it virtually impossible to know exactly how much U.S. beef is actually entering the market, this phenomenon certainly demonstrates the popularity of U.S. beef and the potential demand once the market is re-opened. The following brief examines markets for beef in Shanghai and the surrounding region.

**Market Size**

Shanghai is China's most cosmopolitan urban center and its largest city, with total population estimated at as high as 21 million, with an estimated 350 thousand foreign national expatriates (mostly Taiwanese). Shanghainese have one of the highest average per capita urban incomes in China at U.S. \$2,085 in 2004, with growth of nearly 20% compared to the year before.

High incomes in Shanghai have helped to support a higher level of meat and seafood consumption, particularly of beef and mutton. This has been boosted even further in recent years by concerns about avian influenza (AI), which caused many of Shanghai's very risk-conscious consumers to switch away from poultry. AI is proving to be a consistent concern as outbreaks in China and neighboring countries continue to make the news (the first human infected AI case occurred in Hong Kong in May, 1997). This has helped to build a consistent base of growth for other meat products, including beef. Beef prices have increased in Chinese major urban consumption centers (Shanghai, Beijing and Tianjin cities, and Fujian and Guangdong provinces) and production areas (Henan, Hebei, Shandong, Anhui, Jilin, Liaoning and Heilongjiang provinces).

Higher incomes and increasingly busy lifestyles are changing people's dining patterns, with more people dining out instead of cooking at home. Local residents, expatriates, and tourists have all spurred the growth of a sophisticated and rapidly expanding hotel, restaurant and bar industry. In Shanghai alone, there are 24 five-star, 37 four star, 132 three star hotels, more than 200 Japanese restaurants, and an undocumented number of Korean and Western restaurants in Shanghai (see the section on Food Service for more details). These high-end hotels, restaurants and bars prefer to use imported beef to cater



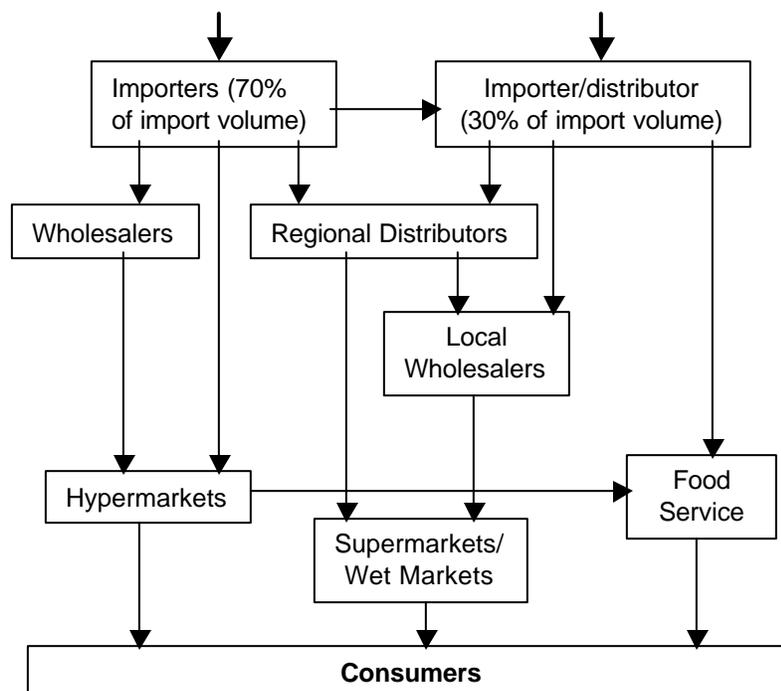
Source: Animal Husbandry Dept., Ministry of Agriculture, China. Exchange rate: U.S. \$1.00 = Approx. RMB 8.0

to

## Channel Evaluation: Distribution Channels for Beef Imports

of the

their customers' needs. One leading



% Indicates the % of volume flowing through the channel.  
Source: analysis based on trade interview

hotel chefs stated that 90% of the beef used by his restaurant was imported. The most popular imported beef cuts are chuck rolls and rib eye rolls for hot pot, a type of restaurant popular throughout China. Chinese domestic beef is typically unable to meet the demand of these restaurants: limited supplies of feed constrain the quantity of high-quality grain-fed beef that can be produced, and deficiencies in management, quality control and cold-chain transportation place further limits on the ability of domestic producers to meet the demand of high-end restaurants. Rapid growth in domestic demand for beef has further increased this gap, creating great potential for imports.

### Food service

In the catering industry alone, there are more than 30,000 businesses, in addition to over 359 hotels in Shanghai in 2004. The value generated from catering businesses increased 51% in 2004, and profit increased 23% from 2003 to 2004. The number of western restaurants in Shanghai is estimated at roughly around 1,600. Most of them use imported beef to serve to their customers, as cuts and quality suitable to western cooking are in short supply domestically. Many Chinese restaurants also add imported beef into their dishes. Taiwanese, who bring with them a taste and familiarity with foreign foods, dominate Shanghai's large expatriate community. With the increasing health concerns, mainland Chinese have shifted consumption away from poultry due to concerns about AI, and are now favoring red meats. In the process, many have developed an interest western cooking

methods and western dishes such as steak. As a general rule, however, food service remains the most attractive and fastest expanding sector for imported beef products, with a shorter credit period (1 to 2 months) and higher profit margins. It is also less sensitive to price changes, and U.S. grain-fed beef enjoys a positive image in food service. Importers and chefs alike continue to inquire as to when U.S. beef will become available again, making it clear that, once available, imports are likely to be strong.

### Retailing

Shanghai's retail sector is well developed, and home to large number of supermarkets, hypermarkets and an extremely strong convenience store sector. Although the sector is dominated by state-owned supermarket giants Lianhua and Hualian, foreign-invested stores are becoming increasingly commonplace. Carrefour, Wal-Mart, Metro and Lotus lead the way, and are more familiar with and willing to promote both imports and high-end consumer goods. Despite this, imports remain vanishingly small even in these stores, typically accounting for less than 1% of SKUs. Flagship hypermarkets geared to expatriates carry a larger number of imports, typically under 5% of SKUs. Distribution is a major problem. Retail distribution channels have not grown to match the number and quality of retail outlets. With some notable exceptions, distribution is handled on a store-by-store or city-by-city basis, with stores receiving most imports through a local distributor. Because of their relative size, stores are able to negotiate highly favorable terms that include free return of unsold products, high listing fees for new products, and credit terms. The market risk is effectively passed onto the distributor, which makes distributors unlikely to introduce new products they may not potentially sell. Metro and Lotus are moving in the direction of unified distribution of imports, but retail distribution in general has a long way to go.

Top Players in Shanghai Retail, 2004			
Company	Total Outlets	Outlets in Shanghai	Sales Volume (\$million)
Lianhua	3,290	1,796	3,835
Hualian	1,693	583	2,690
(Carrefour China)	*70	*7	*2,030
Nonggongshang	1,224	1,164	1,713
RT-Mart	25	5	1,736
Metro	23	4	796
Hualian GSM	25	16	520
Lotus	12 *41	10	570 *924
Jieqiang	312	193	227
Jiadeli	117	105	208
Auchan	3	3	162
Changfa Dept. Stores	1	1	50
E-Mart	2	2	48
Watson	17	17	50
Jiajiale	39	39	38

Source: Shanghai Statistical Yearbook, 2005, except for \* derived from CCSFA figures. Note that CCSFA and Shanghai Yearbook numbers for Lotus differ sharply.

Several factors limit the demand for imported beef from a consumer's point of view. 1) Chinese consumers prefer to shop on a daily basis at a nearby wet markets, having the beef cut to order while they watch. Frozen or pre-packaged meats are generally mistrusted. As a result, most sales of meat occur in informal markets where imports are rarely seen. 2) Chinese consumers are not accustomed to imported cuts, such as steak, and uncertain how

to prepare them. Factors of importance to Chinese buyers include nutritional value, color, smell, taste and style of the food. Further development of retail markets will require continued consumer education, particularly with respect to cooking methods and recipes specific to U.S. beef.

### Key players in Chinese market

#### U.S.

Although U.S. beef imports into China were banned beginning December 25, 2003, the market regards U.S. beef products as being higher in quality and better tasting. Demand for U.S. beef in particular remains high, and has led to both smuggling and counterfeiting (i.e., beef from other sources is claimed to be from the U.S.). The U.S. Meat Export Federation continues to work in China, promoting pork and other products, and working to maintain the distribution networks needed to distribute product once the market re-opens. As a result, recovery should be fairly swift.

### SWOT analysis of U.S. beef products

<p style="text-align: center;"><b>Strength</b></p> <ol style="list-style-type: none"> <li>1. Quality is better and consistent.</li> <li>2. Taste better than competitor products</li> <li>3. Good-looking package</li> <li>4. Positive product image among importers, wholesalers, retailers and consumers</li> </ol>	<p style="text-align: center;"><b>Weakness</b></p> <ol style="list-style-type: none"> <li>1. <b>Legally Banned from import to China</b></li> <li>2. BSE concern&amp;fear among consumers</li> <li>3. High price</li> </ol>
<p style="text-align: center;"><b>Opportunity</b></p> <ol style="list-style-type: none"> <li>1. On-going Sino-U.S talks may resume U.S beef export to China</li> <li>2. Chinese consumers' income increase and consumption shift from poultry to red meats create strong demand</li> </ol>	<p style="text-align: center;"><b>Threat</b></p> <ol style="list-style-type: none"> <li>1. New entrants entered into Chinese market with cheap price such as products from Uruguay.</li> <li>2. Counterfeit products from Canada and Chinese locally made beef, claimed as U.S beef</li> <li>3. Substituted products such as pork, poultry. Pork has been the traditional meat product for Chinese people, now still in a dominant position.</li> <li>4. Competition from Australia, New Zealand, etc</li> </ol>

### Australia

In the absence of U.S. beef product, Australia has become the preferred supplier, and is now the number one beef exporter to China. Australia supplies more than 90% of China's total imports of beef. In 2005, Australia exported 1012 MT (metric tons) of beef to China. This includes 313 MT of fresh-chilled beef, increasing almost 30% compared with 2004. Australian beef is usually grass-fed, but there are some grain-fed products exported to China. The feeding time is usually 70–120 days as products with longer grain-fed period are supplied to the Japanese market. Due to strong demand in China and other parts of the world, Australian beef prices have increased to a similar level to the U.S., although the grass-fed products' taste and packing does not compare. If U.S. beef exports to China resume, importers and distributors expect prices for Australian beef to fall.

### Uruguay

Uruguay took second place in beef exports to China, but mainly targets the low-end market with cheap prices. From January through September 2005, Uruguay exported 21.46 MT of beef to China. The total export quantity from Uruguay and Australia was 853.87 MT, accounting for 98.88% of the total market. The main import areas were Shanghai and Guangdong province, respectively. Total import value was marked at U.S. \$5.34 million, occupying an 86.46% share of total imports by value.

### Canada

Although Canadian beef is also banned from the mainland Chinese market, like U.S. beef, it can enter into Hong Kong. As a result, small amounts make it into the market by various means. Although the beef smuggled from Canada is similar to U.S. beef in many respects, it is often sold as U.S. product, due to the U.S. product's more widespread recognition among consumers.

### Other Foreign Players

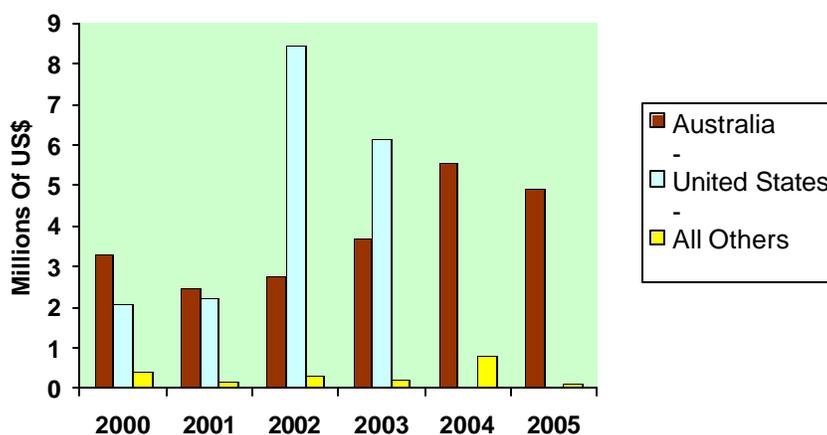
New Zealand took the third place in beef exports to China, but it is a distant third place, accounting for a very small amount in terms of both quantity and value. Argentina is another minor player, having sold small amounts of cooked beef, but suffers from restrictions on the type of beef they can export to China. To date, China only has open beef markets to Australia, New Zealand, Uruguay and Argentina.

### Chinese domestic players

Growing demand for high quality beef has led to the establishment of a domestic grain-fed beef industry, centered particularly in Shandong and Hebei provinces, and to a lesser extent, Henan.

The grain-feeding period from these areas is usually 50-60 days. Branded beef products from QingDao regularly appear at Carrefour stores. Major problems that face Chinese beef products are quality inconsistency and product packing. It is an open secret among beef buyers that some domestic producers are injecting water into the cattle prior to slaughter in order to increase slaughter weights. (Industry sources claim that cattle injected with water

**China Imports Of Frozen Beef (HS Code 0202)**  
(Source: China Customs)



increase their weight by up to 20%. In some places, there is even public listed price based on different water injection percentages). This is symptomatic of the general lack of effective market monitoring systems and consumer recognition which have become a major problem for the Chinese beef industry.

### Marketing assistance in China—ATO/Shanghai and USMEF

The Agricultural Trade Office in Shanghai (ATO/Shanghai) is one of four FAS offices located in China to provide marketing support for U.S. companies. Other FAS offices include ATOs in Beijing and Guangzhou, and the Agricultural Affairs Office in Beijing. The U.S. Meat Export Federation (USMEF) also maintains offices in several Chinese cities, including Shanghai. USMEF represents the U.S. meat industry with staff dedicated to promoting U.S. meat exports to China. ATOs and USMEF work closely together to provide a broad range of market development activities, promotions and support services. Companies interested in marketing their products in China should contact both USMEF and the appropriate ATO. Contact information is included at the end of this brief.



ATOs and USMEF both support activities that include trade networking events, trade shows, trader education seminars, chef education programs, consumer education activities, menu promotions, retail promotions and multi-level activities that integrate one or more of these activities together. Contact ATO/Shanghai directly for a current list of upcoming activities.

### Ongoing Sino-U.S Beef Talks

China remains off-limits to legal imports of U.S. beef. A recent announcement by the Chinese government that conditionally opened the market was done outside of ongoing negotiations with the U.S. Without the implementing regulations needed to give substance to the announcement, it has had no effect on access. Discussions with China are ongoing, and traders can expect that any market opening, when it occurs, will be publicly announced by USDA.

**Contact Information**

U.S. Agricultural Trade Office  
Suite 331, Shanghai Center  
1376 Nanjing West Road  
Shanghai CHINA 200040  
Tel: +86 (21) 6279-8622  
Fax: +86 (21) 6279-8336  
atoshanghai@usda.gov

USMEF Shanghai  
Central Plaza Room 1010  
227 Huangpi Bei Road  
Shanghai CHINA 200003  
Tel: +86 (21) 6249-4640  
Fax: +86 (21) 6375-8041  
shangahi@usmef.org