



As one door closes, another opens

- **US beef's re-entry into China could put the squeeze on NZ beef exports.**
- **At the same time, US consumers' increasing shift to grass-fed beef presents an opportunity for NZ.**
- **Whether NZ loses or gains from this could depend on traceability requirements at either end.**

China re-opens the door to US beef...

Thirteen years ago, the Silver Ferns won the Netball World Championship, The Datsuns won best album of the year at the New Zealand Music Awards, the All Blacks beat France to take third place at the Rugby World Cup and China banned the import of beef from the United States. While the first three accomplishments are noteworthy, it is on the fourth that I will comment. China implemented its 2003 US beef ban because of mad cow disease in the US.

But the Chinese government has now started to allow US beef imports. Also signalling another change in the industry is the growing preference of US consumers for grass-fed beef. This column discusses how these market changes – one brought by a government and the other by consumers – might impact New Zealand producers.

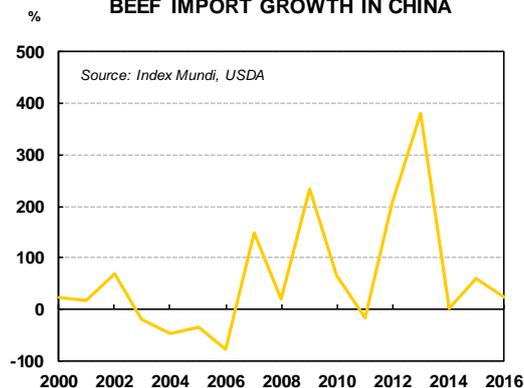
...as Chinese beef consumption surges

China's recent decision to lift the US beef import ban is probably related to China's increasing demand for beef. Since 2012, beef imports into China have increased 10 fold – from 86,000 metric tons to 825,000 metric tons in 2016. And this year alone, China's beef imports have surged over 50% from 2014 levels, in part a result of domestic production problems. Overall, the US Department of Agriculture sees Chinese beef and veal imports for 2016 exceeding 2015 levels by nearly 25%. The growth in Chinese demand for beef is well-documented and follows patterns seen in other countries. As incomes rise, the demand for beef also rises as people substitute less expensive protein sources for beef. In 1990, per capita consumption of beef in China was 0.9 kg a year. By 2013, it had grown to 4.3 kg – more than a four-fold increase. Per capita income in 1990 was US\$348. In 2015, it was estimated at US\$8,000.

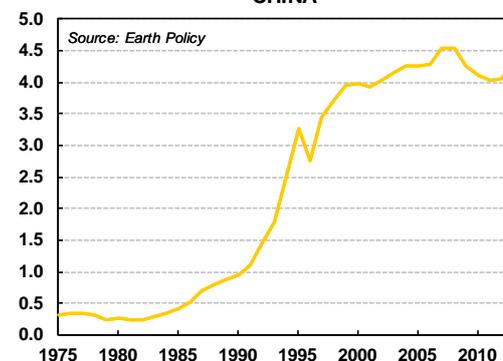
While beef consumption has grown, per capita consumption remains low when compared to a variety of other countries. For example, per capita consumption in New Zealand is almost 74 kg per year while Chinese per capita consumption is only 4.3 kg. However, with China's huge population – nearly 4 times larger than the US – a small increase in per capita consumption translates into a significant increase in demand. The USDA estimates a 1% increase in Chinese consumption of beef results in an increase in demand by over 60,000 metric tons of beef.

In the year prior to China's ban on US beef imports, the US exported nearly 50,000 metric tons of beef to China. The next year, 150 metric tons were exported. In 2003, US beef exports plummeted because of worldwide concerns about mad cow disease in the US. Although total US exports slowly started to grow from 2006, it was not until 2011 that beef exports reached levels seen the year before mad cow concerns. When the Chinese mad cow ban was put into effect, other countries, mainly Australia, Brazil, Uruguay and New Zealand, stepped in to meet China's beef needs that US exporters were no longer permitted to meet.

BEEF IMPORT GROWTH IN CHINA



PER CAPITA CONSUMPTION OF BEEF IN CHINA



Let the negotiations begin!

While China has agreed to lift the ban on US beef imports, what they really agreed to was to begin negotiations with US officials to establish protocols that would permit imports. There are a series of steps that must be negotiated between US and Chinese officials to establish an export protocol that will specify conditions US exporters must meet. The protocols will include detailed veterinarian standards and traceability requirements. While US exporters are pleased to have this first step taken for them to re-enter the Chinese market, the timeline for when the first shipment might arrive is very unclear. Further, the protocol could establish costly procedures that make the Chinese market less lucrative than earlier.

Eventually though, the protocols will be established and US beef will be permitted, once again, into China. When that happens, some exports from New Zealand will probably be squeezed out. But when the US restarts exports to China, that move may well open up new opportunities for New Zealand exporters as US exports move from current markets to China. And one of those opportunities might be in the US because, if total US exports increase, the domestic market might be under supplied.

As one door closes, another opens...

There is another opportunity in US grass-fed beef. US demand for this product has really taken off. While constituting only slightly more than 1% of total US beef sales, grass-fed beef is a market segment that is growing as per capita beef consumption declines.

Last year, grass-fed sales grew 40% from the previous year, while conventional beef sales grew only about 6%. That growth came despite grass-fed beef having a price premium, often substantial, over conventional beef. As an example of the fast growing grass-fed beef market, retail giant Wal-Mart Stores Inc., after nibbling at the market for two years, saw demand grow and now sells grass-fed beef hamburgers in almost all of its 4,600 stores.

To meet the growing demand for grass-fed beef, US companies have turned to importing beef from a number of countries, including suppliers that are important beef suppliers to China – Australia, Uruguay and New Zealand. One US grass-fed importing company has reported its grass-fed beef sales last year, in volume terms, were more than 40 times greater than in 2008. Further, reflecting the price premium, revenue also increased almost 70 times during that period.

...though 'Country of Origin' labelling could present a hurdle NZ grass-fed beef

One of the retailing challenges for selling grass-fed beef is the lack of uniform labelling of the product. Organic products have clear requirements that must be met (enforced by the US Department of Agriculture), before the product can carry an organic label. There is no similar program for grass-fed beef.

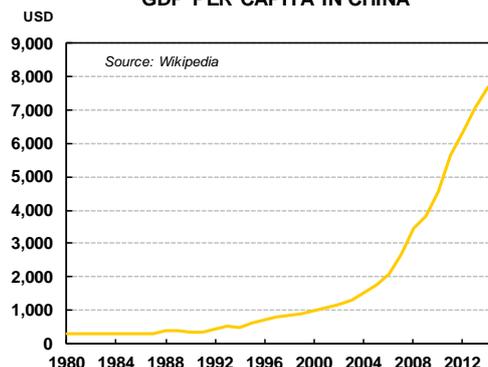
To address this issue, the American Grass-fed Association has established its own set of guidelines to provide some consistency to inform consumers that products, labelled as grass fed, meet certain standards. Those 4 standards include the following:

1. Diet – animals are fed only grass and forage;
2. Confinement – pasture raised only;
3. No antibiotics or hormones; and
4. Origin – all animals must be born and raised on American family farms.

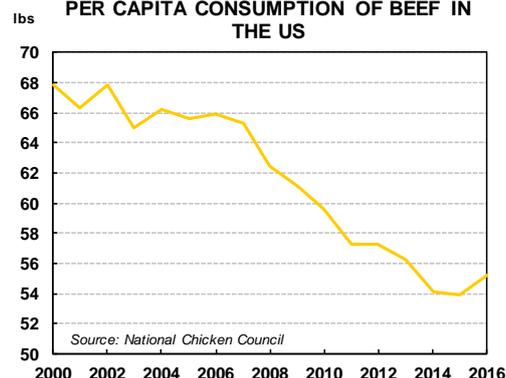
It is the fourth standard that could affect New Zealand beef that is sold in the US as grass-fed. For example, details on the "Born in the USA" standard include very strict traceability requirements including: "producer records that trace an animal from birth to harvest must accompany animals when delivered to processor."

So several changes have taken place in the beef export market that could have an impact on New Zealand agriculture. First, the Chinese government driven change in that market may, and most likely will, result in a displacement by US beef exports of New Zealand exports. While it is not clear when precisely US exports will again flow, there is time for New Zealand to adjust to this market change. The other change in the US market is consumer driven, as they look for healthier and tastier beef. As a result of an attempt by the US grass-fed industry to improve labelling and consistency of product, the traceability requirements in those standards mean US grass-fed beef could meet the new traceability standards that will be in the protocols established for exporting US beef to China. Such a step could provide a significant advantage to US grass-fed producers as they look to new markets, potentially also displacing New Zealand exports to China.

GDP PER CAPITA IN CHINA



PER CAPITA CONSUMPTION OF BEEF IN THE US





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