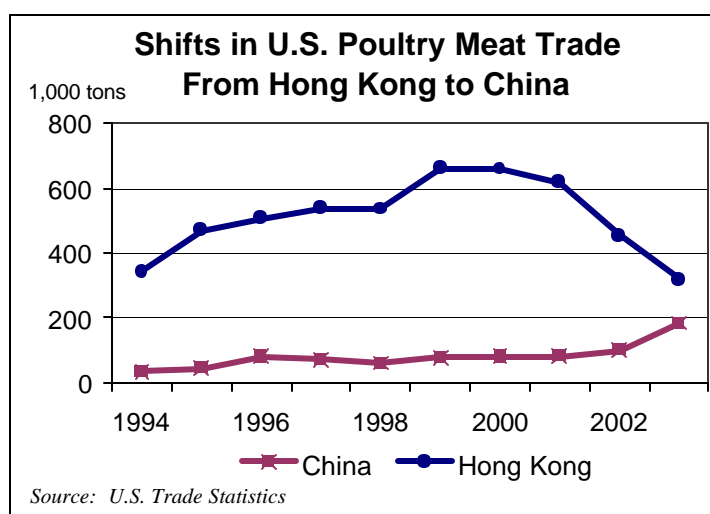


## The Changing Face of China's Poultry Meat Imports; More Competition and Shifts in Port Inventory

Over half of China's poultry meat imports are transshipped through Hong Kong. However, direct shipments to China's ports have been increasing since 2000 and are forecast to increase in 2005 due to stricter inspection requirements imposed by China to eliminate smuggling from Hong Kong. China's new import regulation (No.49) is expected to increase direct shipments to Mainland China.

Effective November 1, 2004, all meat re-exported to China through Hong Kong's port is required to comply

with a pre-inspection requirement by China Inspection Co. in Hong Kong. The extra layer of inspection is expected to eliminate the smuggling, the re-labeling or the re-packaging of product in efforts to improve China's quarantine and food safety system. However, the new measure involves a compulsory additional pre-inspection fee of HK\$4,000 (US\$514) per container to Hong Kong traders. The additional cost is expected to eventually shift more direct shipments to China rather than transship or re-export containers through Hong Kong's port.



### New Chicken Feet Certification Requirements

In the last seven years, U.S. chicken feet exports over 50 percent of the total poultry meat export volume to Hong Kong. It is expected that U.S. chicken feet exports to Hong Kong will increase significantly before the new measure takes effect April 30, 2005 and following implementation will drastically decline. Hong Kong will require the U.S. Department of Agriculture's (USDA) Food Safety Inspection Service (FSIS) certificates accompanying chicken feet shipments to certify ante and post mortem inspection. It remains uncertain how many U.S. exporters are willing to modify their production to accommodate Hong Kong's new certification requirements.

### Increased Competition from Argentina and Brazil

In 2004, after China banned broiler meat imports from Thailand, Canada and the United States, total Brazilian broiler meat exports to China grew by more than 400 percent to 60,000 tons. Similarly, Argentine broiler meat exports to China grew by 103 percent to nearly 18,000 tons. Although U.S. poultry meat has benefited from its high quality reputation with Chinese consumers, the strong presence of Brazilian and Argentine poultry meat presents challenges to U.S. exporters. Brazil and Argentina's aggressive marketing strategies and promotions helped to push sales higher in 2004. Their willingness to meet Chinese quarantine requirements ensures greater market access. In 2004, China signed meat quarantine protocols with Argentina and Brazil. Upon China's Animal Quarantine Inspection Service (AQSIQ) completion of plant

inspections, these countries can export poultry meat for direct retail sales. Currently, the only poultry imports approved are from the United States.

<b>Factors that Chinese Buyers Prefer</b>	
<i>Chinese wholesale buyers cite five determining factors when purchasing poultry meat: price, color, weight, water content and grading quality.</i>	
<b>1 - Prices</b>	Chinese buyers tend to have a preference for U.S. chicken-leg-quarters and can be price sensitive. Many Chinese buyers prefer to buy U.S. poultry meat because of steady prices and flexibility and attention that U.S. exporters give Chinese buyers. According to Chinese traders, South American exporters do not respond as promptly to their concerns as U.S. exporters. Personal attention and well-established relationships with Chinese importers have brought about greater success when negotiating prices and trade disputes.
<b>2 - Color</b>	Chinese importers also prefer poultry meat products that look fresh in appearance. Freezer burn can often change the color and texture of poultry meat and is unappealing to Chinese buyers.
<b>3 - Weight</b>	Chinese importers report that the actual weight of the poultry meat is often less than the stated weight on the label. Some importers maintain that underweight poultry meat shipments are common.
<b>4 - Water Content</b>	Hong Kong traders generally prefer Brazilian's soldier packaging method rather than the U.S. layer packing. Chinese importers claim that U.S. poultry meat packaging has approximately 12 percent more water/ice-content than packaging of South American competitors.
<b>5 - Grading</b>	Brazil and Thailand's certified system for grading certain poultry meat cuts, (i.e. feet and paws) offers buyers more options in how to market their product. For example: grade "A" Brazilian feet are select product that is uniform in size, has heavy meat content, and has specialized packaging. Grade "B" paws have lower quality and are inferior in size. The lack of grading in U.S. chicken paws causes Chinese buyers to question if U.S. paw imports are inferior relative to graded Brazilian paws.
<i>Sources: USDA-FAS-Dairy, Livestock &amp; Poultry Division, USDA-FAS Shanghai and Hong Kong ATOs</i>	

## Conclusion

Better cold chain infrastructure and development Shanghai port facilities have facilitated direct shipments. China's import tariff reductions on poultry products have increased trader profit margins on direct shipments, which will increasingly result in less volume being transshipped via Hong Kong. Another reason for shifts in exports to Mainland China from Hong Kong was China's inspection officials clearing more U.S. poultry product stock in Shanghai ports than those held in Hong Kong ports. Additionally, increased transportation costs in Shenzhen (Hong Kong/Mainland China border), the Hong Kong's new import regulations and chicken feet certification requirements have made re-export raising overall costs to Hong Kong comparable to direct shipments to Shanghai. China's pre-inspection fee alone is an important cost factor that encourages direct shipments that would otherwise have been re-exported from, or transshipped through Hong Kong.