

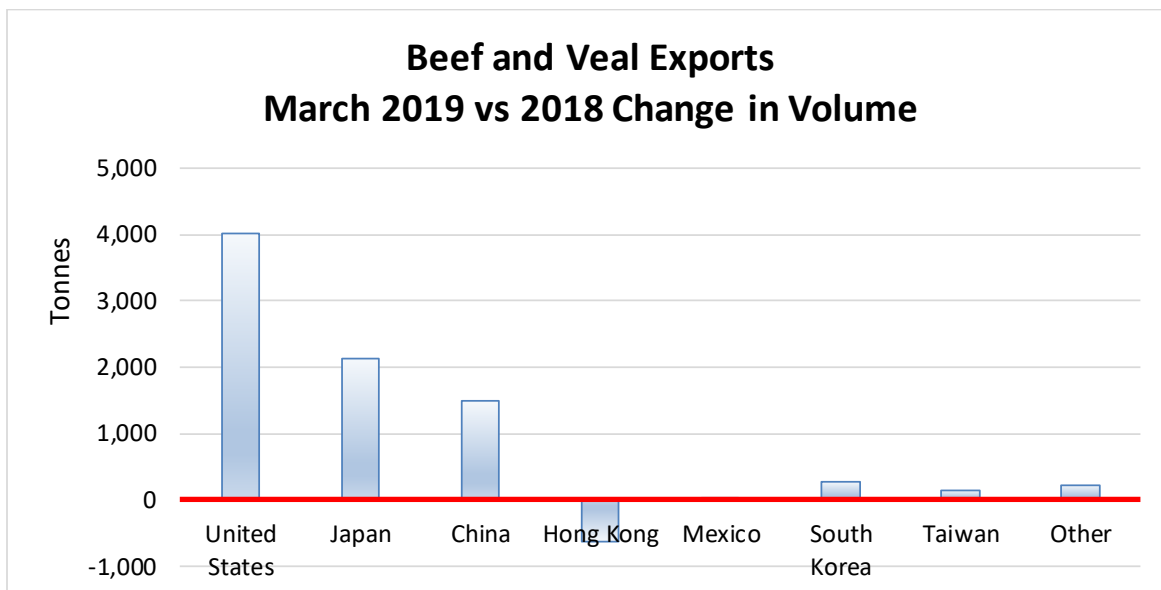


Canadian Beef Exports to China Soar, but...

Perspective is in order.

Total beef and veal export volumes were up by 27% compared to March last year. What was interesting was that the volumes to Japan were up over 140% and Chinese shipments increased by 260%. Those percentage increases are impressive, but the increases only seem large given that they are on top of very small numbers. Everything about China generates a great deal of interest and an expectation that traders to China are receiving great wealth.

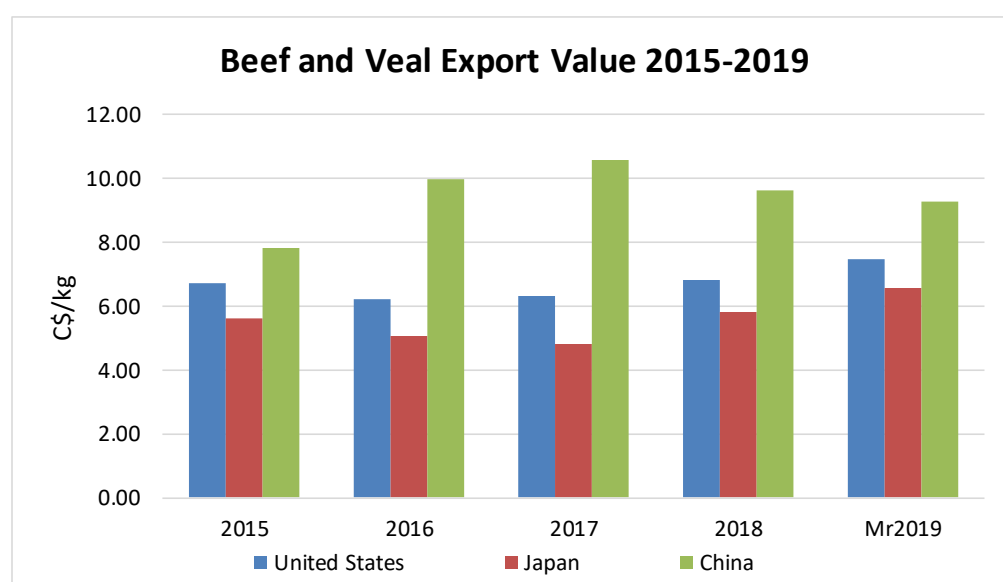
For reference note that in March the U.S. was the destination for 74% of Canadian exports. That compares to 77% for all of 2018 and just under 78% in 2017. For further perspective, the total increase in exports in March was 7,700 tonnes versus March 2018. Of that increase, over half, or 4,000 tonnes was to the United States while 2,100 extra went to Japan and 1,500 extra went to China. In other words, the increase in year over year volume to the United States was greater than the combined total increase to Japan and China. The increase in exports to the U.S. was 2.7 times greater than the Chinese increase year over year in March. In addition, part of the increase to China may have been due to a 600 tonne drop in volumes to Hong Kong.



Small Share but Valuable

For further perspective, note that exports represent about 37% of total production, typically. While the U.S. comprises about three quarters of exports, China represented less than 6% in March 3% in 2018 and 2% in 2017. Even at 6%, China represents about 2% of total Canadian production. Again, the point is that even large increases in Chinese exports is not a market mover of any kind for the Canadian industry.

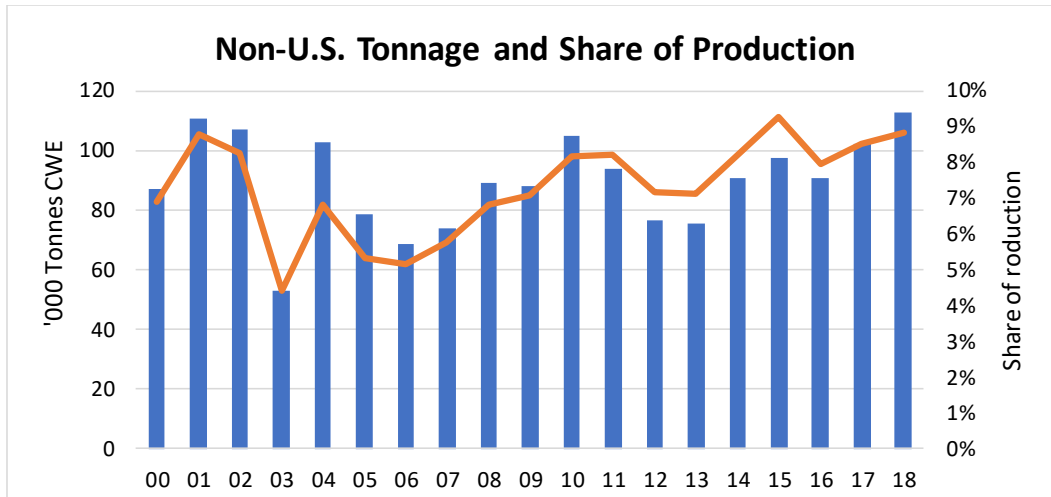
It is interesting however to note that the value of product shipped to China is remarkably high. Over the past four years and into March of 2019, the unit value of beef exports to China, not including offals, has been much greater than to either the United States or Japan. As such while the volumes are tiny, the market values are understandably attractive.



Another interesting and positive point of the Chinese exports is that the market does take a good cross section of the carcass. There is likely less value derived over the course of the year for some of the middle meats, but demand is strong across the carcass. Furthermore, and again depending on timing, there is often better value in China for the thin meats such as skirts and even flanks.

Given the Chinese problems with African Swine Fever, it can be expected that Canadian beef exports to China will continue to grow. That is of course assuming the political problems with China are addressed. The Chinese banned two Canadian pork plants recently. Most in the industry consider the Chinese rational to be political shots across the bow regarding the ongoing dispute.

One main point is that the non-U.S. share of Canadian exports is on an upward trajectory. Generally having more customers is better than fewer, so that should be beneficial to the Canadian industry. With that said, the non-U.S. share still represents just 8-9% of total Canadian beef and veal production. As such, while there was significant growth in non-U.S. exports in recent months, particularly to China, they are still very small.



Perhaps just as importantly for the Canadian packing sector, the logistical and marketing barriers to Canadian product in the United States are easing. While Mandatory Country of Origin Labeling ended three years ago, its impact over the last few years was still real and difficult. Retailers were used to segregating and differentiating if they were even willing to take Canadian product, which of course many were not. That takes time to change. Now however, there are more and more outlets and channels that are taking Canadian product and acceptance is increasing. Canadian packers increasingly utilize the U.S. as a ready alternative whenever values in Canada begin to wane.

This article first appeared in the May 13, 2019 edition of the [Canadian Cattle Market Report](#). That edition, as with all editions, contained price forecasts, marketing insights and Canadian slaughter estimates. Please email me at kevin@kevingrier.com for a free two-month trial.