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Chinese 'sweet spot' offers opportunities for Australian agriculture

Although China looks set to remain largely self-sufficient in its food staples, a number of opportunities exist for Australian agriculture in the lucrative Chinese market, according to a visiting authority on Chinese food and agribusiness.

Chenjun Pan, senior analyst with Rabobank in China, says good opportunities exist in the 'sweet spot' of the Chinese food market for Australian-produced beef and grain and, to a lesser extent, pork.

"This sweet spot is where you see the intersection of three conditions – the point where strong demand potential, insufficient supply or resources and access to market all coincide," she said.

Ms Pan, who was in Australia recently as part of Rabobank's Visiting Experts program, said it was on these niche areas, rather than the Chinese mass market, that Australian producers needed to focus.

In beef, she said, this was in high-end and offal products; in grain, in barley, oats and durum wheat and in pork, in high-end processed meat and pig offal products.

The rapidly-growing affluent sector in China was also driving a change in eating habits – with an increase in meat consumption and a rising concern about food safety. And this also offered opportunities for Australian producers.

"Overall, meat demand is driven by rising affluence, population growth and urbanisation," Ms Pan said. "Moreover, with rising income level, food safety, nutrition and other value-adds are increasingly important considerations for meat consumption."

However, Ms Pan warned, Australian players face a number of challenges in cracking the prized Chinese export market with issues including price (with the strong Australian dollar relative to the RMB), competition from lower-cost producers and market access barriers.

Self-Sufficiency

Ms Pan said the Chinese central government was committed to the long-term policy goal of self-sufficiency in food staples, although China is expected to import corn in the foreseeable future.

"With only seven per cent of the world's land, but 22 per cent of the world's population, China has been surprisingly successful at feeding its population, achieving self-sufficiency in the past three decades under severe conditions such as lack of water and land resources," she said. "Indeed, the country has gone even further to step up as a major processed food exporter."

China's current food and agribusiness imports are mainly in resource and land-intensive commodities (such as soybean, cotton and palm oil) or products for processing (such as frozen fish).

Ms Pan said the long-term feasibility of remaining self-sufficient was now under question with China's grain reserve at record lows and demand for food growing.



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“We believe that China will become a small importer of meat and corn to feed the rising demand for meat consumption in the coming years, but will keep 95 per cent self-sufficiency,” she said.

Beef

Ms Pan said China was set to become a net importer of beef in the future as Chinese herd numbers decline.

China is the fourth largest beef producer in the world with annual production of 7.7 million tons, but production growth slowed significantly in 2007, due to several factors including low economic returns and rising labour costs. China is now experiencing a serious beef shortage, Ms Pan said.

Consumption of beef is still low in China – lower even than other Asian regions with similar dietary patterns – and has been decreasing since 2007 due to tight supply and soaring prices in the local market.

“It is expected however that when beef meat becomes affordable again, there will be great potential for the market to expand and that, going forward, China will become a net beef importer given the big supply gap in the local market,” Ms Pan said.

China mainly imports beef offal and a small amount of frozen beef and only four countries – Australia, Uruguay, New Zealand and Brazil – have legal access to China’s market. China’s beef exports are mainly frozen and processed meat to Asia and the Middle East.

Until recently, Australia has been the largest supplier of beef meat to China, with Australian beef accounting for 55 per cent of China’s imports in 2006.

However, Ms Pan said, the first four months of 2008 had seen Uruguay usurp Australia’s position as largest supplier, due to the much cheaper price of Uruguayan beef.

The high-end market for beef in China, however, did not seem to be affected by the higher Australian prices, Ms Pan said, with Australia remaining the dominant supplier of fresh and chilled beef.

“After marketing efforts in the past few years, Australian beef is highly recognised by Chinese consumers. It is mainly consumed in hotels, high-end restaurants and recently, though very rarely, it can be found in supermarkets of large cities,” she said. “Beef is not a traditional meat for Chinese people and many do not know how to cook at it home, so it is a popular dish for dining out.”

From 2003 to 2006, the chilled beef supply from Australia has increased steadily and in 2007 it sharply increased. Australia frozen and chilled beef exports to China more than doubled in 2007, compared to 2006.

“This shows China’s strong demand for high-end products and it is expected the Olympic Games in August this year will push this trend forward,” Ms Pan said.

Grain

Ms Pan said China’s total grain production was above 500 million metric tons a year, with rice, corn and wheat the major crops.



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While grain production has grown overall in past years, this has been due to technology improvements and increased investment by farmers, not on expansion of cropping area. Of the major crops, only corn acreage has been increasing in response to strong market demand and rising prices.

China has a higher crop yield than the world average, but its average yield of some crops – such as corn and wheat – still lags behind western countries.

“While there is some potential to further improve yield by means of more scientific use of fertiliser, seed variety improvement and better farm management, this will be less so in the future when these means of enhancing productivity have been exploited and full use has been made of the country’s limited resources, such as land and water,” Ms Pan said.

China’s grain stock has been declining over the past years, with population growth, rising meat consumption and the constraints for further agricultural development putting great pressure on the future grain supply.

“The great challenge for grain supply will be whether China will have enough feed grain for large-scale livestock production in the future, particularly pork,” Ms Pan said.

“China is currently self-sufficient in its corn supply, but there is a big question mark over whether China can have enough corn supply to meet feed demand in the next three to five years.”

China is a major importer of soybean. Although the country is a net exporter of wheat, it imports durum wheat due to the strong domestic demand for this variety.

From Australia, China mainly imports durum wheat, barely and oats and Australia has been gaining increasing share of the Chinese durum wheat and barley markets in recent years.

Ms Pan said strong demand would continue for durum wheat, due to the booming food processing sector, and for malting barley, due to the rapid growth in beer production.

However, she warned, Australia had keen competition in the wheat market from Canada and there was also a possibility that China may substantially develop its own domestic durum wheat production due to the country’s heavy investment in seed variety research and development.

Pork

For Australian pork, market entry is the issue, with currently very little access to China’s attractive pork market. And this is a situation which is unlikely to change in the near future.

Only five countries have existing access to China’s wider pork market – the United States, Canada, Denmark, France and Ireland – with only a small amount of processed pork imported from Australia.

There is currently no market access for Australian raw pork meat exports to China, although trade talks have been underway for some time, Ms Pan said.

Pork is still the dominant meat in China and is experiencing faster consumption growth than poultry, beef and mutton.



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China is the largest pork producer in the world – with Chinese production accounting for half of the world total.

In past decades, China's pork production had experienced steady growth, making China not only self-sufficient in supply, but also a net exporter. However, since the second half of 2006, Chinese pork production has entered a low production cycle, Ms Pan said, with the outbreak of disease decreasing breeding herds and also impacted by rising input costs.

"Pork production fell an estimated 20 per cent in 2007 on a year-on-year basis and as a result, China experienced a serious shortage of pork supply, which saw prices almost doubling last year," she said.

Ms Pan said a full recovery in production was not forecast until 2009, with prices not expected to return to previous levels even then, due to rising input prices (including feed grain and labour) and structural changes in the industry.

Rabobank expects that pork consumption in the country will continue to steadily grow, while the demand for safe meat (i.e., meat slaughtered and processed according to national standards) will grow more rapidly.

As a result of the domestic shortage, there has been a substantial increase in the importation of pork meat into China in 2007 and 2008, with imports flowing into retail markets to make up shortfall, where previously imported meat had been mainly destined for hotels, high-end restaurants and processing factories.

"Our view is that China will continue to increase its pork imports in the short-term. In the long-term though it will depend on whether China can find sufficient substitute feed for corn to produce enough pork to maintain self-sufficiency," Ms Pan said. "But it is a very likely scenario that China will increase imports for both meat and grain to meet domestic pork demand."

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