Overview of the Chinese Meat Industry

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Introduction

The total scale of China's meat industry is one of worlds' largest. But the Chinese meat industry is fragile in ways of production, production structure, and protection system.

Meat industry used not to be a major concern for the Chinese economy in the past. In recently years, however, its role has shifted from "secondary food" to a strategic importance. In 2007, meat, poultry and eggs contributed for 4.7 % of China's GDP and 40.1% of the total output of the primary industry.

Increasing food prices are one of the principal drivers of the CPI hike in 2007. Up to January 2008, CPI went up 7.1% year on year, food price up 18.2%, and pork, beef and mutton up 68.2%, 50.1%, and 40.8% respectively. In February 2008, CPI rose to 8.7%, an eleven-year high. Food was still the most important contributor to the increase, which stood at 23.3%; meat and poultry prices were up 45.3%, and pork up 64.4%.

I. Chinese Meat Industry in Transition
- Traditional ways of meat production cannot meet demand.

Aside from the rise in feed prices, issues in animal diseases, meat quality, environment protection, technology services are also factors in the meat price hike. Other reasons include decrease in agricultural land, labour migration to urban areas, unfavourable prices of hogs, piglets in relation to pork for farmers, and lack of power on the part of pig producers, most of them of very small scale, in negotiation of prices. All the mentioned is forcing small producers to quit the industry. In the province of Shandong, for example, only 20% of the farmers still keep their backyard pig farms, compared with 60% of last year. The total meat production in China decreased 3.2% in 2007, and that of pork dropped 7.8%. Frozen port inventory keeps decreasing. In 2008, with some large companies, the inventory dropped 80% compared with the same period of last year.

China's meat industry is facing an imperative issue of industrial structural reform. Strategic readjustments will have to be addressed.

- Food safety receives more and more attention from the public.

China does not have a positive reputation for food safety. The Olympics has indeed made the Chinese government commit more efforts on food safety. In August 2007, the State Council launched a four-month nation-wide safety inspection and correction campaign. Pork safety was one of the priorities. The campaign was lead by the Ministry of Commerce and jointly implemented by the Ministry of Public Security, the Ministry of Agriculture, the General Administration of Industry and Commerce, and the General Administration of Quality Supervision, Inspection and Quarantine. As a result, 1304 slaughter houses were closed due to breach of regulations, 7596 unregistered slaughter houses were banned. Food safety during the Olympics will be critical in proving China's commitment to food safety to the world.

- Import and Export Shift

China exported 919,000 tons of meat in 2007, which is a 15% drop from the previous year. Pork exports declined even further, at 37.3%. China's meat imports reached 1,347,000 tons, an increase of 57%. Pork imports increased 116.22%. The shift is historical as imports have, , overtaken exports for the first time. High local pork prices are making import more feasible.

According to experts at the State Council Development and Research Centre, 90% of the Chinese people are increasing their meat consumption in 2007. In rural areas, there will be even larger room for increase.

The following factors are contributing to the shortage of meat: material cost, labour cost, and higher safety standard imposed.

- Financing Challenges

Most Chinese meat enterprises are facing difficulties such as shortage of funding, low credit level, insufficient deposable assets, government-set financial restrictions, low profitability. These
challenges prevent them from healthy and sustainable development. Acquisition by domestic leading enterprises and consolidation of small producers, as well as the government's preferential policies and innovative financial services by banking institutions are among the solutions to these challenges. The government may also have to address the heavy taxation, double taxation and unreasonable fees on enterprises in the meat industry.

II. Sustainable Development

- Coordinated Development Needed

Coordinated development is being advocated among different agricultural regions, urban and rural areas, and between livestock rising and meat processing. Meat industry waste treatment and resource conservation also top the agenda.

- Production scale needs to increase, industrial modernization and consolidation being the solution.

The sizes of most meat processing plants are far from economies of scale. The technology level and innovation are also what the industry needs to improve. Industrial modernization and consolidation are taking place and will be the solution for long term development of the industry.

- Regional advantage will be optimized.

Structural readjustment in terms of geographic location and advantageous production bases are the strategy set for China's meat industry according to the "Eleventh Five-Year (2006 - 2011) Plan for the Food Industry." According to the Plan, production increase should be from the north-east, north, west and south-west, in which areas pork production and processing bases will be further developed. In the central and north-east areas, beef-cattle and beef processing bases will be supported. In the north-west, Inner Mongolia, northern Hebei, central, and south-west areas, sheep/goat industry will be further developed. In central and eastern China, poultry will be set as the priority.

- Environment protection shows up on agenda

China lacks essential natural resources for the animal husbandry industry such as land, water and energy. New development will have to be environment-friendly in order to be approved by the government. Advanced environmental technologies are more and more employed by major enterprises.

III. Branding is a major strategy for leading enterprises.

- Market share of major brands keeps increasing.

In the context of an ever competitive marketplace and with food safety being a major concern for more and more consumers, a correct branding strategy can demonstrate the technology level and product reliability, thus creating a better image with general public. The China Meat Association
has recently developed with a list of the 90 most competitive meat companies in China. Their combined production capacity is 74.2% of the national total.

According to the China National Commercial Information Centre, the total market share for the ten most famous brands for high temperature meat sausage brands with major retailers is 82.73%, their order being Shuanghui (Shineway), Jinluo, Yurun, Delisi, Xiwang, Boniya, Wangrun, Meihao, Longda and Kangerwei.

For low temperature meat products, the ten biggest brands have a total market share of 56.95%. The rank is as follows: Shuanghui (Shineway), Yurun, Shierde, Xiwang, Longda, Jinluo, Delisi, Jiajiakang, Fanfu, Caoyuanxingfa.

- Spectrum of products keeps enlarging.

As people's wealth increases further, and as the market becomes more and more mature, low temperature meat products are replacing high temperature meat products at a rapid speed. Large cuts of meat are more and more replaced by fine cuts. Hot fresh meat is increasingly replaced by chilled meat. More varieties and more innovative meat products can be seen on the shelves of supermarkets to meet the demands of more picky consumers nowadays.

Source:

2. 2007 China Meat Import and Export Profile, by China Meat Association
3. Pig Industry in Shandong Province, by Shandong Meat Association