

**HD** **China** rounds up beef supplies to satisfy middle-class hunger

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\* **China**'s official beef imports quadrupled last year

\* Beef smuggled from countries such as Brazil, India

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\* **China** likely to allow Indian, Brazilian beef shipments soon

\* To fill gap as Australian beef exports hit by drought

By Naveen Thukral and Dominique Patton

SINGAPORE/BEIJING, March 19 (Reuters) - Sidestepping Beijing's import curbs, industry sources estimate hundreds of thousands of tonnes of beef from countries such as Brazil and India is being smuggled into **China** via neighbouring **Hong Kong** and Vietnam.

The massive, unofficial trade reflects **China**'s hunger for beef. Official imports quadrupled last year, as the growing ranks of the middle class demanded more high-protein food, while the grey market could be more than double that size.

Beijing is expected to lift earlier mad cow-related curbs on Brazilian beef imports soon and to finalise a deal to allow in Indian buffalo meat as other import channels shrink.

**China**'s top supplier Australia, which accounted for about half of official imports last year, faces a slump in production.

Drought has forced cattle farmers in the world's third-biggest beef exporter to cull cows, stoking fears of a looming global beef shortage with the herd in rival exporter the United States also at the smallest in six decades.

Concern over supplies and strong demand helped push U.S. live cattle futures to a record high last month.

With steps afoot to ease import restrictions, Brazil and India are fighting to corner a bigger share of the **Chinese** beef market and fill the gap left by Australia, which could struggle to regain its foothold given lower pricing by some competitors.

The volume of beef imports in the grey market is thought to be well above official imports of 400,000 tonnes last year.

"This isn't easy to estimate but according to industry it could be around one **million** tonnes, more than twice official imports," said Meng Qingxiang, professor at the **China** Agriculture University in Beijing.

India's official data show Vietnam is its biggest beef export market, although Hanoi does not include shipments from India in its data, indicating meat is transported to **China**.

Indian buffalo meat exports to Vietnam jumped 17 percent to 330,109 tonnes in 2012/13 from a year ago, the data shows.

Buffalo meat is shipped from Mumbai's Jawaharlal Nehru port to Vietnam's Hai Phong port in 40-foot refrigerated containers holding 28 tonnes, exporters and industry official say.

"From there the meat products reach **China** by land because of the low transportation costs, which are below shipping costs," said one dealer at a forwarding **firm** in Hanoi.

In the case of Brazilian beef, **Hong Kong** displaced Russia as the top buyer in 2013, with shipments climbing three-fold to 360,000 tonnes, according to data from Association of Brazilian Beef Exporters, much believed to be destined for **China**.

"Brazil's sales to **Hong Kong** have grown since 2007 and during this period the population size and beef consumption in **Hong Kong** have stayed relatively constant," said Pan Chenjun, senior analyst at Rabobank in Beijing.

**China**'s customs said it was continuously cracking down on beef and frozen meat smuggling and in 2014 had launched a campaign against smuggling of agricultural products.

It said customs had investigated 96 cases involving 88,000 tonnes of frozen products last year.

#### SET TO END RESTRICTIONS

While it does not currently **buy** beef directly from India or Brazil, **China**'s restrictions are likely to be eased soon.

A Beijing delegation is expected to visit Brazil to inspect facilities, with an eye to lifting the 2012 mad-cow related ban.

Brazilian beef shipments could start before a June summit of the BRICS bloc of emerging nations at Fortaleza, where President Xi Jinping will meet his Brazilian counterpart Dilma Rousseff, said the agriculture attache at Brazil's embassy in Beijing.

"It's not about approval as we already have the protocol to export to **China**," said Andrea Bertolini. "It's about re-opening the market. We really believe there are no technical reasons to keep this ban in place."

**China**'s quarantine authority, responsible for approving importers, said it was doing a risk assessment on Brazilian imports and redirected queries on Indian and U.S. beef to another department.

**China** signed a memorandum of understanding last year with India on importing buffalo meat, with the two sides trying to resolve final issues, officials said in New Delhi.

U.S. beef is also currently barred from mainland **China** due to previous mad cow cases but in any case the country is unlikely to be in a position to significantly increase exports.

"If you consider **China**, Vietnam and **Hong Kong**, the option for larger supplies are India and Brazil," said Brett Stuart, chief executive of Global AgriTrends in Denver, Colorado.

#### STIR FRY TO STEAKS

**China**'s beef imports this year could climb to 550,000 tonnes, up from 400,000 tonnes in 2013, boosted further as poultry consumption is hit by a bird flu outbreak, said the U.S. Department of Agriculture attache in Beijing.

Brazil has close to 200 **million** head of cattle while the Indian buffalo population is estimated at 327 **million**. This compares with Australia's 27-28 **million** head of cattle, which is shrinking by the day as pastures wither in a severe drought

"The herd size in India and even Brazil is so big that it will be a much bigger challenge and much more competition for Australia," said Simon Quilty, meat and cattle analyst at FCStone Australia.

Indian buffalo meat, **sold** as a by-product of the **dairy** industry, is mainly used in making sausages, hot pot and stir fried dishes in **China**. Brazilian beef, which is similar to grass-fed Australian meat, is mainly used for steaks.

Indian beef is cheaper than Australian beef. Indian boneless buffalo meat in Vietnam was offered at around \$3,200-\$3,600 per tonne to Vietnam, two exporters said.

That compares with an average \$4,528 per tonne for Australian beef shipped to **China** last year, according to the U.S. Meat Export Federation.

In 2012, when Brazil was still exporting directly to mainland **China**, its beef cost an average \$4,404 per tonne.

Still there are uncertainties. Indian beef exports could take a hit if Hindu nationalist Bharatiya Janata Party-led coalition takes power in an election starting on April 7.

The BJP, like many Hindus, views cows as sacred and is opposed to beef consumption and exports. (Additional reporting by Meenakshi Sharma in MUMBAI, Ho Binh Minh in HANOI and Theopolis Waters in CHICAGO; Editing by Ed Davies)

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