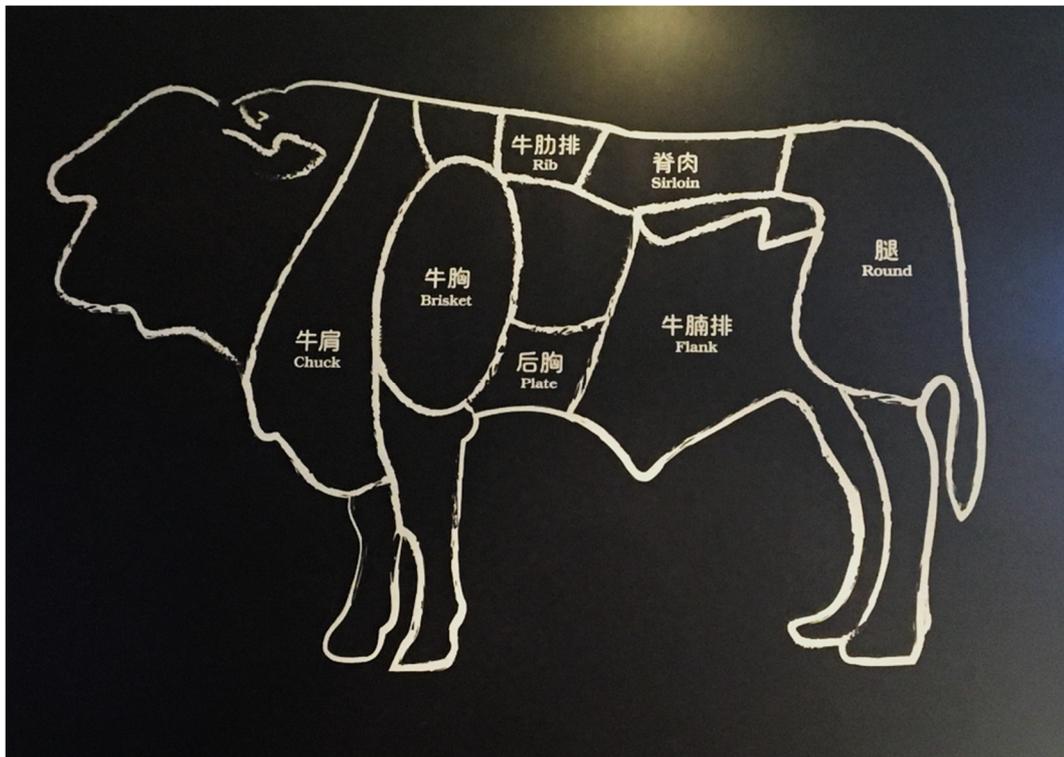


Yulgilbar Travel Award

An investigation into the Chinese beef industry and the opportunities for Australian beef exports

Nicola Gilder



Beef cuts labelled at beef restaurant - Beijing

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Introduction

The Australian agricultural industry has the opportunity to better promote and market itself to international trade partners. Having lived and worked in China, I am particularly interested in marketing high quality premium beef products to China. Combining existing skills in Chinese language and culture with agribusiness and marketing skills gained from Marcus Oldham, I plan to help Australia capture some of these marketing opportunities.

I have recently returned from a five-week study tour to China and Hong Kong. During my visit, I undertook a research project exploring the Chinese beef industry and the current position Australia holds in this market. This report will focus on mainland China. I have a sound understanding of the Australian beef supply chain and was interested to meet with businesses in China to learn more about the complexities of the Chinese beef industry and opportunities available to Australia.

My research focused on 3 main areas:

1. Beef Consumption
2. Marketing
3. Supply Chain Challenges

Beef Consumption

The way meat, and particularly beef, is consumed in China has a huge impact on the gaps in the market available for Australia. Traditionally meat was not part of the average Chinese diet. In the early 1980s, annual consumption per capita averaged 13kg (total meat) and beef was known as the “millionaire’s meat” due to scarcity (The Guardian, 2016). The average consumption of meat is now over 60kg, however, just 5kg of this is beef. (MLA, 2016) Despite this, ‘demand for beef has continuously grown from only 1kg/person consumed in the early 1990s’ (Mercado, 2014).

The majority of meat consumed in China is pork, with approximately 5% of average meat consumption being beef. (see Figure 1)

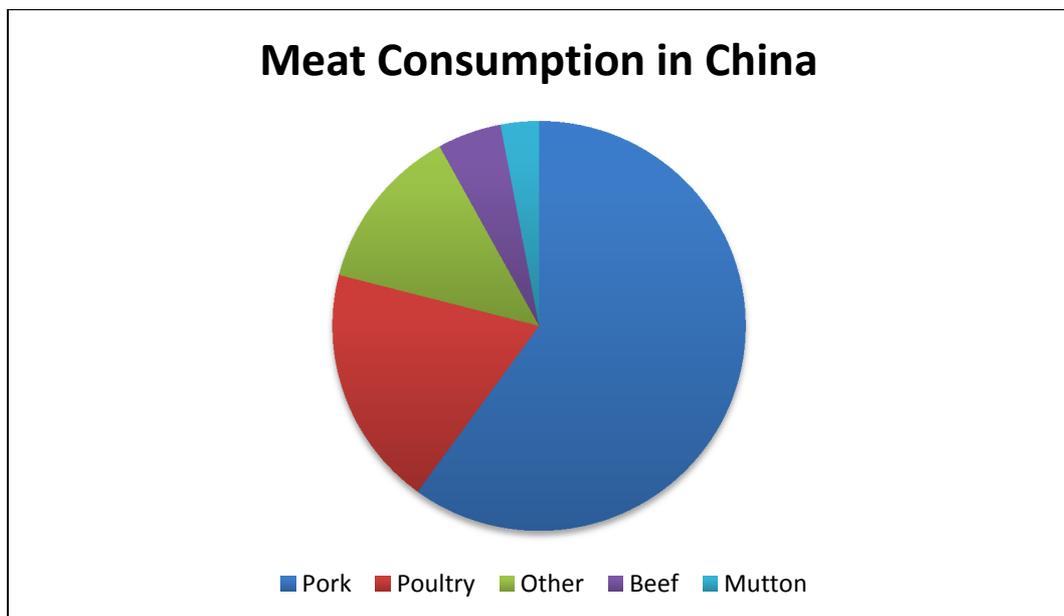


Figure 1 Composition of meat consumption in China (adapted from MLA, 2016)

An innovative culture with a history of food shortages, the Chinese make use of the entire animal carcass, which compares to the smaller percentage of beef processed for human consumption in Australia. During my visit to China, I studied the various ways beef was served in restaurants and by street vendors. I was fortunate to sample the tongue, cheeks, ears, lungs, rumen, reticulum, oesophagus, and small and large intestines. At wet markets I witnessed the brain, eyeballs and the spine for sale. All bones, including the skull were used in broths and soups used extensively in Chinese cooking.

Figures 2 and 3 show some of the meals I ate featuring beef cuts not typically used in Australia.



Figure 2 Noodles with Beef Intestines - Yangshuo



Figure 3 'Husband and wife Lung Dish' – Shanghai

Figure 4 shows Uyghur spicy BBQ beef skewers. These are typically prepared using meat cuts of less quality and include a chunk of fat between each piece of meat to add flavour and compensate the meat quality.



Figure 4 Uyghur spicy BBQ beef – Shanghai

Figures 5 and 6 show beef cuts available for purchase at a Beijing wet market.



Figure 5 Tongue, reticulum, rumen and other internal organs - San Yuan Li Market, Beijing



Figure 6 Tail and organs of the digestive system - San Yuan Li Market, Beijing

Quarantine restrictions prevent Australia from exporting most of these cuts of beef to China. Edible offal sourced from the 'head, feet and alimentary tract (such as tripe, intestines and respiratory tract) and processed meat products are not yet eligible for export to China' (MLA, 2016). A small volume of frozen offal is currently exported (mostly heart, tendon and kidney), and Australia remains China's 2nd largest supplier of frozen bovine offal. (MLA, 2016) Nevin Zheng, Elders International, believes live export is an economical decision for China as all parts of the animal can be sold for human consumption when processed in China. This poses a real challenge for Australia to be price competitive with boxed beef exports.

A popular dish throughout China is hot pot, which uses thinly sliced brisket. Figure 7 shows how the meat is prepared for purchase from supermarkets.



Figure 7 Australian brisket - Jing ke long Supermarket, Beijing

Brisket is the largest export boxed meat from Australia to China with 31,500 tonnes shipping weight (swt) of frozen and 670 tonnes swt chilled product exported in 2015. The secondary cut remains the highest cut exported, reflecting Australia targeting the consumer demands in China. Shin shank is used in a thinly sliced meat dish and is the second highest frozen cut exported, while chuck roll, blade and knuckle are the top cuts exported as chilled. (see Figure 8 and 9)

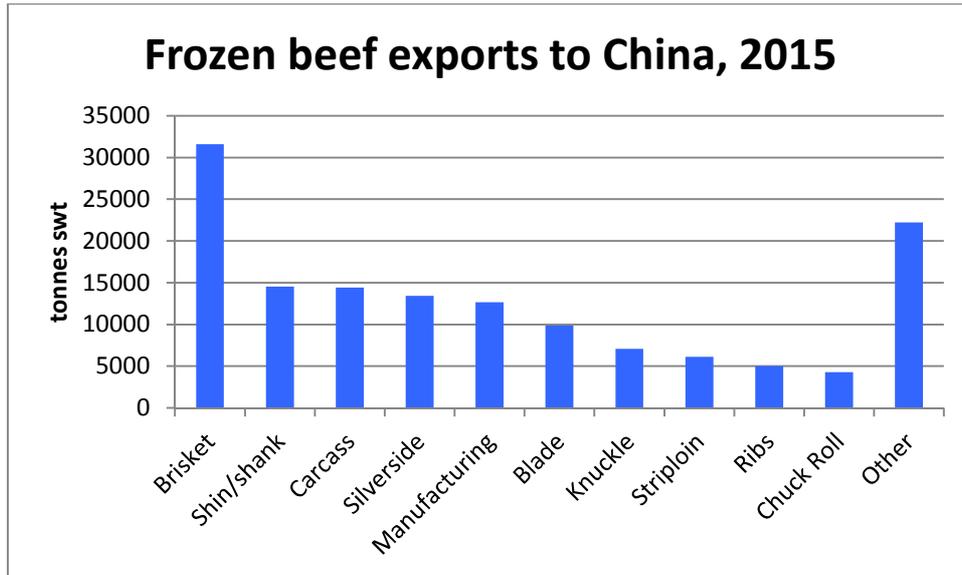


Figure 8 Australian frozen beef exports to China, 2015 (adapted from MLA, 2016)

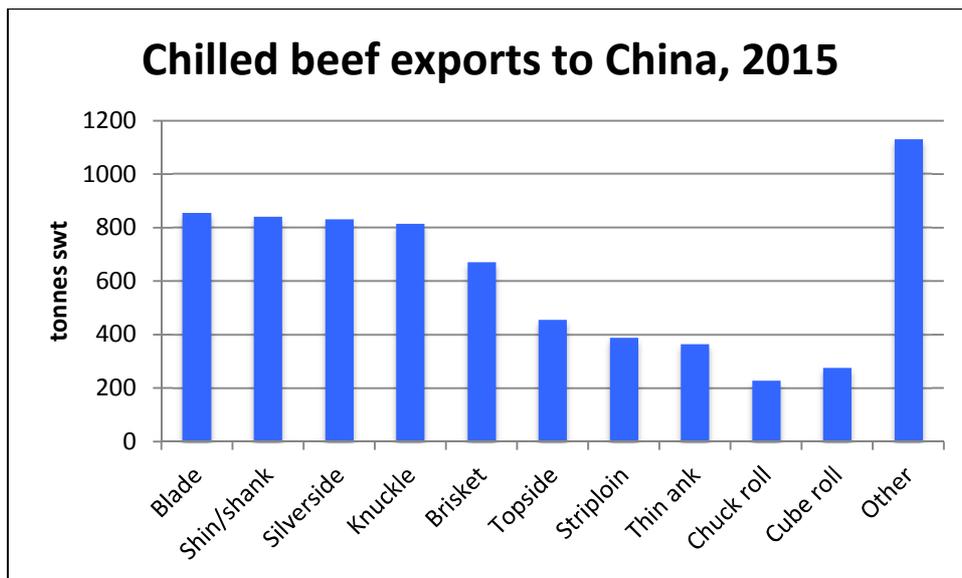


Figure 9 Australian chilled beef exports to China, 2015 (adapted from MLA, 2016)

Beef is a relatively new meat in Chinese diets and is mostly only consumed by the 'urban affluent sub-group of the middle class' (MLA, 2016). This group typically have an annual disposable income of \$50,000 or more. The foodservice sector is a major user of Australian beef and is used by many restaurants targeting the urban middle class. Beef is the highest consumed meat at restaurants, however consumers are generally hesitant to cook beef at home due to the unfamiliar cooking methods.

Figure 10 shows the protein preferred by Chinese diners.

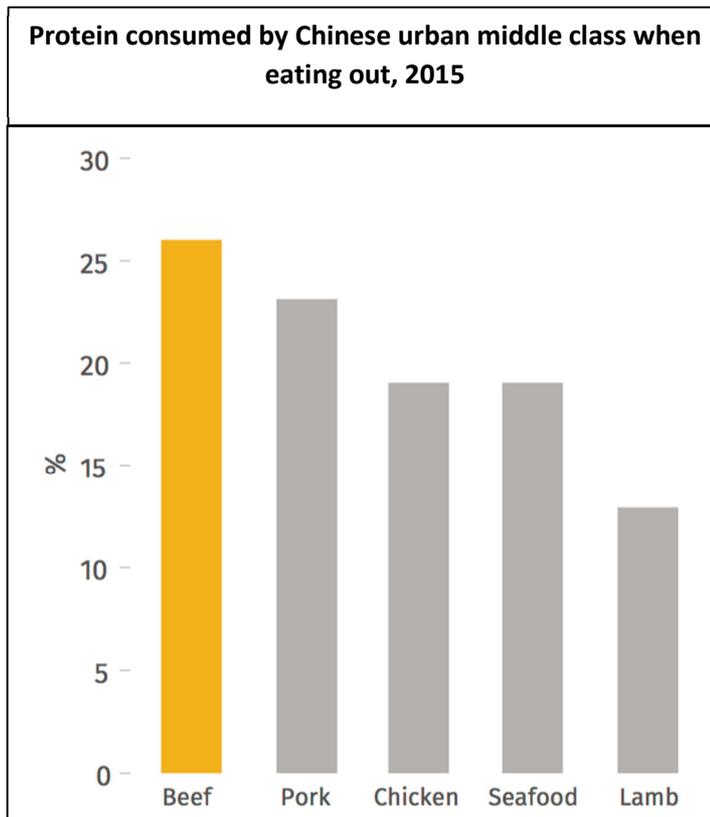


Figure 10 Protein consumed by Chinese urban middle class when eating out, 2015 (MLA, 2016)

As China gradually opens its doors to the culture and cuisine of outside countries, the food available in China is changing. Beef consumption is no exception. China's eastern neighbours have introduced their specialties with Korean BBQ and Japanese Yuki Niku available in most cities. These meals are similar to Chinese hotpot in the sense that the meat is finely sliced and customers cook their own meal on a cooking apparatus in the middle of their table. (see Figure 11 and 12)



Figure 11 Korean BBQ - Yangshuo



Figure 12 Japanese Yuki Niku - Hong Kong

American style burgers are a popular choice by young Chinese at Western style cafes. The same cafes were inhabited solely by Westerners less than 5 years ago. The novelty of a 250g piece of steak is reserved to the restaurants attended for business trips, special occasions or by Westerners.

Marketing

There are many marketing opportunities for Australia to incorporate strategies to infiltrate the Chinese beef market. The speed at which the Chinese market changes must be considered when planning marketing strategies and Australia must maintain market relevance. A clear message was to not sit idle but continue marketing our premium and niche products. (Paul McNamara, Department of Agriculture and Water Resources) While Australia's message of "clean and green" products is well received, we must continue marketing our products successfully to maintain the reputation of our brand.

Amidst food safety scares across all agricultural industries in China, many companies are making the move to include traceability barcodes on their products. The transparency traceability codes provide encourages confidence and trust in customers. Australian brands: Argyle Prestige Meats and Cape Grim Beef (distributed by Elders Fine Foods Asia-Pacific) have the infrastructure available to commence this labelling for the China market. Sam Guthrie (Austrade, Hong Kong) insists the benefit in providing traceability of product legitimises Australian beef as clean, safe and honest produce and provides an opportunity to tell the "Australian producers" story.

Chinese people want functional products according to Andrew Kuiler, The Silk Initiative. There is currently a nation-wide push to increase protein consumption and a focus on healthy lifestyles and diets in the Chinese middle-class. There has never been a more perfect time to target beef as a good source of protein. Mothers are looking for healthy Western-inspired alternatives for their children. Despite being priced much higher, Australian beef is viewed as an attractive part of a balanced and healthy diet for middle-class families. (Joy Tang, MLA)

Figure 13 shows steak marketed towards mothers for their children.



Figure 13 Packaging marketed towards children - Metro Supermarket, Chengdu

When meeting with Ben Willis, Argyle Prestige Meats and Craig Aldous, Elders Fine Foods Asia-Pacific the importance of maintaining the reputation of high quality meat distribution was emphasised. Australia must also highlight its premium product with strong marketing strategies.

Australian beef is available in many supermarkets targeting upper middle class and expatriates in China, however the unique “Australia” brand is not clear and often does not stand out. The following photographs show different packaging of Australian beef in Chinese supermarkets.

Figure 14 is beef knuckle packaged by Australian Meat Holdings. There is limited detail on the packaging of the country of origin.



Figure 14 Australian Meat Holdings (frozen knuckle) - Metro Supermarket, Chengdu

The small “Australian Beef – Natural & Safe” sticker on the packaging in Figure 15 is the only suggestion to customers of the country of origin.



Figure 15 “Natural & Safe” frozen beef - Jing ke long Supermarket, Beijing

Figure 16 shows Australian beef in the window of a 'deli-style' display bench. Although the product card lists the origin as Australian and the Australian flag is displayed, it is hard to tell from a distance that the meat is from Australia.



Figure 16 Tenderloin in display window - Ole Supermarket, Shanghai

Figure 17 shows beef packaged by Mort & Co. It is branded as Australian and includes a map of Australia on the box. This packaging is possibly the most identifiable labelling as "Australian" that I witnessed while in China.



Figure 17 Mort & Co (frozen beef) - Metro Supermarket, Chengdu

Andrew Forest, Chairman of the Minderoo Group, highlights that the Australian beef industry in China is “fragmented and unfocused” which is “confusing our biggest export customers, and costing [Australia]” (The Land, 2016). Australia is a brand itself and it should be marketing products under a large “Australian” label rather than individual or state-based labelling. The MLA launched a “Brand Australia” international marketing campaign in 2014 with the aim to promote Australian protein as a superior premium product to international competitors. *True Aussie Beef* builds on Australia’s reputable provenance and trustworthy agricultural products.

Figure 18 shows the True Aussie Beef imaging and logo.



Figure 18 True Aussie Beef imaging and logo by MLA (MLA, 2014)

Figure 19 shows beef packaged with the *True Aussie Beef* brand attached.



Figure 19 True Aussie Beef branded product - Ole Supermarket, Shanghai

The packaging in Figure 20 includes the MLA *True Aussie Beef* sticker clearly branding the beef as Australian. The products were also in the ‘Australian beef’ section of the supermarket.



Figure 20 Australian beef section - Ole Supermarket, Shanghai

Supply Chain Challenges

This project investigated the channels through which consumers purchase meat varying from traditional wet markets, supermarkets targeting Chinese middle and high income earners and expatriates, e-commerce delivery services and various restaurants.

Australian meat is not typically sold in wet markets and thus the local market trade is a main competitor to our beef trade (Danny Chen, 2016). The traceability of meat sold at wet markets in China is not transparent and there are concerns with property of origin guarantees. Much of the meat sold in markets is either locally produced or smuggled into the country illegally, taking advantage of the trade agreements and geographical closeness to Vietnam.

Figure 21 to 23 show Chinese meat for sale at local wet markets.



Figure 21 Beef for sale - San Yuan Li Market, Beijing



Figure 22 Customer purchasing beef - San Yuan Li Market, Beijing



Figure 23 Wholesale wet markets - Chengdu

Australia is fortunate to have agreements to export frozen and chilled beef to China. Currently the only country permitted to export chilled product, Australia has 11 licenced processing plants. As beef is a perishable commodity, there are huge logistical challenges in maintaining the quality of product from the Australian processing plants to the Chinese customer's kitchen.

Nick Hunt, Harvey Beef, emphasised the challenges faced with poor cold storage and delivery infrastructure. Collaborative work between the Australian and Chinese governments, MLA and individual businesses is being undertaken to improve cold storage at ports and delivery services. (Ben Mitchell, Department of Agriculture and Water Resources) Education and training of local chefs and restaurant staff is also underway to ensure the product arrives to the customer at the same high quality that it left Australia.

Figures 24 and 25 show packaged Australian beef available for purchase in supermarkets.



Figure 24 Australian grain-fed sirloin - Metro Supermarket, Chengdu

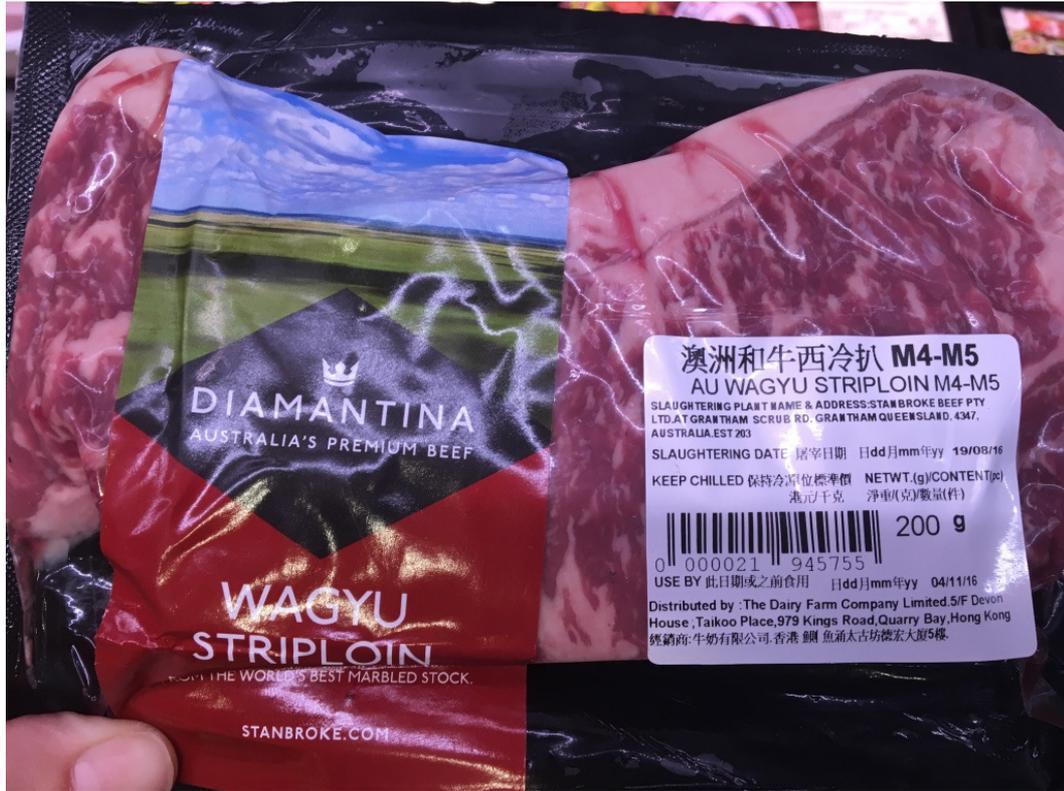


Figure 25 Diamantina packaged strip loin – Hong Kong

E-commerce is an important part of the food service and retail industry in China. The business structure of Meat Market in Hong Kong is to provide an e-commerce, just-in-time home delivery service with orders delivered within 3 hours of purchase. Owner Ivy Wong believes this is a crucial strategy in vertically integrating their business as well as keeping product relevance in the fast paced market.

Delivery services such as Food Panda and Deliveroo compliment the e-commerce scene with just-in-time services. Figure 26 shows one of the many delivery scooters in China.



Figure 26 Food Panda delivery scooter

Control of the supply chain of perishable items in China is a difficult challenge faced by many businesses. A challenge Olivia Fowler, Tuck Shop Pies, has experienced is control of product quality as she processes her product in China. Her business has overcome this challenge by investing in a chef from New Zealand based in Shanghai. Olivia and her business partner deliver most of their product personally and rely on a quality distributing team for nationwide deliveries.

Future Aspirations

My aspiration for the future is to promote and market sustainably produced Australian beef products.

Growing up on a large beef operation, I hope that I will be involved in the industry in a role that supports and develops the Australian beef brand. My recent tour in China and Hong Kong has allowed me to see not only see the opportunities for the industry but also opportunities for my involvement in this market.

I plan to continue my studies at Marcus Oldham College to graduate in 2018 with a Bachelor of Business (Agribusiness). Marcus Oldham has already provided me with incredible experiences and exposure to different positions within agricultural, prompting me to gain confidence in my own skills and contribution. Next year I will use my study time as a time to further develop skills in international marketing, corporate finance and human resource management.

I will also continue to study Mandarin and Chinese culture to advance my communication skills and understanding of China. I have had the privilege of meeting incredible business people in China who I hope to maintain contact with. I plan to undertake a 3-month internship working closely with Australian and Chinese industry towards the end of 2017. I will utilise this time to commence my career working with China, marketing Australian beef products.

Promoting the Australia beef industry is my passion and my strengths are my awareness but endless curiosity into how each detail of the industry works. My specialty of working with Chinese businesses will benefit the industry as I work towards future marketing of our premium product.

Conclusion

I believe Australian beef products have a secure future in the China export market. My tour throughout China and Hong Kong has given me a greater understanding of the challenges associated with international beef trade logistics. However, it has also allowed me to see the many opportunities that Australia has to further develop product demand and marketing strategies in this market.

The opportunity to gain on-the ground involvement in China's beef industry and to see Australia's contribution has been greatly appreciated. This experience has not just been an interesting research project. I consider this to be the beginning of my career marketing an industry that I am passionate about in a country that I find an endless curiosity.

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