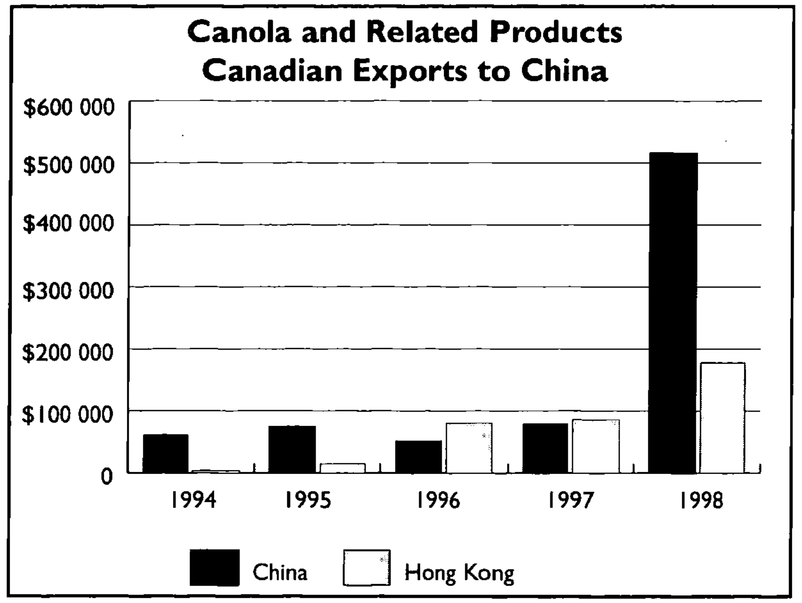

vegetable protein sources and increased animal protein, as a result of improvements in Chinese diets.

In processed foods, opportunities exist despite barriers and stiff competition. For example, Canadian pork and beef may soon have direct entry capability.

Export strategies must recognize that China is more than one large, homogeneous market; rather, it is composed of several regional markets. Companies need to have the right product, competitively priced and supported with good distribution, to reach the targeted clientele. The Yangtze Delta region is becoming increasingly accessible via Shanghai.

Canadian finfish and shellfish are popular in the China market, especially in South China. Exports of Canadian fish and seafood (particularly live or frozen) to China remain buoyant at both the food service and retail levels. Demand for product mix is diversifying, beyond stronger sales of lobster and salmon, to include oysters, crab, clams, mussels, freshwater fish and other premium products. Local tastes and environmental concerns mean that import growth rates for seafood exceed those for meat generally.

Constraints

Doing business in China's agricultural sector is difficult for all Canadian companies, but achievable for some. Institutional challenges are created by a number of factors, including a lack of transparency in business matters; poorly developed credit and payment mechanisms requiring extensive supplier credits; and a lack of consistency and transparency around tariffs, sanitary and phytosanitary (SPS) conditions, related technical procedures (labelling, packaging, regulations specific to quality, etc.) and other rules of entry. Theft of intellectual property is a key issue for branded foods and beverages. The legal system is only beginning to take shape, particularly in the areas of contracts and land tenure.

Despite well-publicized tariff reductions in 1996, China is still generally a high-tariff market that discourages imports, while stimulating local manufacturing. Specific Canadian products may be disadvantaged against competing products from other countries (soy vs. canola, feed peas or barley vs. feed corn, etc.) In addition, there is the perennial issue of tariff escalation between raw and processed products. The announcement of tariff rate quotas (TRQs) for products such as wheat, barley and oilseeds has not clarified the situation, since China has never revealed what volumes are attached to the TRQs or how they will be administered.

Deficiencies in physical infrastructure are a serious impediment both to exporting beyond China's coastal regions, and to ensuring consistent food supply and quality. The lack of reliable refrigeration capacity and the congestion and state of repair of roads, railways, waterways and ports, create constant challenges.

China attempts to be self-sufficient in food products. Markets are characterized by high market entry costs and low trading margins. In order to succeed, proper export readiness, consistent follow-up, relationship building and a great deal of patience are necessary.

Canada faces stiff competition from third-country suppliers such as the United States, Australia, New Zealand and the European Union. The Americans and Australians are well-established in some areas, after years of investment by national companies and industry associations. Canadian suppliers must be aggressive and innovative to give customers reason to displace existing foreign products.

Since mid-1998, China has put in place measures to stop "unofficial" trade. For many years, much of the trade by other countries in agri-food and seafood products to China avoided tariffs and licensing restrictions through the use of unofficial trading channels through Hong Kong.

To prevent unexpected changes in distribution, Canadian suppliers must closely monitor the flow of their products, regardless of how they reach the end user. In particular, product currently moving into the Yangtze Delta region or China's industrial northeast via Hong Kong or Hong Kong traders, is likely to see significant shifts in its distribution, as regional buyers develop the capability to deal directly with foreign suppliers.

Action Plan

Canada's missions in China differentiate themselves through the services they provide, reflecting the different clientele they serve. The Canadian Embassy in Beijing addresses the widest range of interests, specializing in agriculture, items of national interest, government interaction and policy negotiation. CIDA's bilateral aid program for China is delivered from Beijing as well. Offices in Shanghai address the diverse needs of companies doing business in East China. The Consulate General in Guangzhou covers China's southern coastal market, with an emphasis on processed foods, beverages, meats and seafood. Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency are also key players, and are heavily involved in trade, market access and market development issues. Collectively, these offices will accomplish the following in 1999-2000:

CFIA CANADIAN FOOD INSPECTION AGENCY
ACIA AGENCE CANADIENNE D'INSPECTION DES ALIMENTS

***The Canadian Food Inspection Agency's website can be found at* http://www.cfia-acia.agr.ca/**

***Visit Agriculture and Agri-Food Canada's online trade services at* http://atn-riae.agr.ca**

- negotiate improved access related to SPS conditions, including the removal of the ban on seed potatoes, improvement of the import protocol for pork, and registration and inspection of interested Canadian meat-exporting plants;
- focus efforts on China's WTO accession, resolving bilateral irritants and obtaining lower tariffs for priority products;
- provide technical assistance in developing WTO-consistent regimes for trade and policy;
- increase value-added exports into targeted regional markets, while maximizing sales opportunities for primary and semi-processed agricultural commodities;
- increase awareness and build on the existing positive image of Canada as a reliable agri-food supplier;
- assist Canadian trade associations (e.g., beef, pork, salmon, lobster) in undertaking generic promotions in China;
- provide timely market intelligence to companies capable of acting on this information;
- preserve and expand Canada's markets in China for our traditional export products, while building markets for Canadian products, services and technologies new to the market; and
- encourage the participation by Canadian firms in targeted trade shows, including the China Fisheries and Seafood Expo, Food and Hotel South China, Food China and Agrifood-Tech.

Hong Kong

Business Environment

Hong Kong imports almost all of its food. In 1998, total food imports were $12.92 billion. Local agricultural production of $265 million accounted for less than 2 percent of food requirements. As a business *entrepôt*, Hong Kong re-exported $5.78 billion of agriculture and agri-food products in 1998, of which $4.25 billion went to China.

Despite the Asian economic turmoil, 1998 was a record year for Canadian agriculture exports to Hong Kong. Canadian agri-food exports to Hong Kong have grown consistently for the past 15 years. Including inedible products like hides and skins,