

## Themes From The USDA Shanghai Trade Mission

*Law360, New York (April 12, 2012, 1:36 PM ET)* -- Faegre Baker Daniels LLP was pleased to participate in the recent U.S. Department of Agriculture agribusiness trade mission to Shanghai. As head of the firm's food and agriculture industry group, I represented the firm in this trade mission led by USDA Under Secretary Michael Scuse. We were joined by state agriculture secretaries and commissioners for Iowa, Oklahoma, North Dakota and South Dakota. John Grobowski, head of the firm's Shanghai office, joined portions of the delegation in meetings with Shanghai CIG, including a visit to the Yangshan Port.

The delegation also included more than 50 participants from a broad range of agribusiness segments and regions across the country. Various federal officials stationed in China also participated, along with China and Asia leaders for several U.S. trade associations. This trade mission resulted from the earlier visit by China's vice president to the U.S., including his personal visit to Iowa, where he reinforced China's commitment to agribusiness trade. China is the top market for U.S. agricultural goods, with purchases of \$20 billion.

Among the various events held in Shanghai, (including country tours of leading livestock, retail and lumber operations), the delegates benefited from:

- panel presentations by the U.S. Consulate's Office;
- overviews on grain and livestock markets by senior China representatives of Cargill and CHS Inc.;
- discussion of the retail segment by SweetMart, RT Mart and Internet success YiHao Dian;
- a review of agribusiness growth potential by Yum Foods China and HuMa Trading; and
- my presentation on core strategies for successful expansion in China, which also included an overview of current food safety issues.

In addition, the senior government delegates, along with me and trade group representatives, participated in a unique small group briefing on China economic outlooks and trends sponsored by AmCham Shanghai. Speakers included Nor Coquilard (former head of Cargill China) and Berenice Voets, both of APCO Worldwide Inc., and Bob Theleen of ChinaVest, an international mergers and acquisitions group; and other senior industry leaders from companies such as Ecolab Inc., Hormel Foods Corporation and CSM were also present.

Several key themes emerged during the trade mission, including:

### **Need for Investment in Agricultural and Food Production**

- Chinese economy continues to grow at a strong pace, and consumer purchasing power is increasing.
- China does not have sufficient land and water resources to meet the food needs of the growing population.
- At the same time, China wants to be self-sufficient in corn, wheat and rice, but it is also the largest importer of soybeans.
- So to work toward food security for its citizens, the Chinese government recognizes the importance of biotechnology but still has not fully embraced its utilization.
- The government also is prioritizing the modernization of its agricultural system, which relies heavily on small segmented producers (as an example, more than 50 percent of hog production is from herds of 100 or fewer). This is a long-term focus with short-term challenges, but the government has set its third-highest spending on agriculture.
- The resource and agricultural system limitations are resulting in China's support of international investment in agricultural and food production, including in the U.S., and significant investment resources are available.

### **Consumer Sentiment and Trends**

- A growing group of Chinese consumers are able — and choosing — to spend greater amounts on food, and pork remains a primary meat choice.
- The Chinese people have very strong concerns about food safety (in light of a number of significant incidents, such as melamine in baby formula), and they blame the Chinese government for this problem.
- Imports will likely continue of pork and poultry because of their strong demand as diet staples (with growth contingent on increasing consumer spending capacity), and beef has the largest meat growth potential (trade restrictions remain, but efforts to eliminate them continue).
- Chinese consumers enjoy U.S. food products and believe the products are safer; double-digit growths in purchasing demand is anticipated.

### **Chinese Retail Market**

- From a retail market perspective, China is not dominated by national chain systems, and regional chains predominate.
- Shopping is a leisure activity, powered by women 25-45, but the "basket size" purchases per trip are smaller than in Europe and the U.S.
- Retail stores experience use by citizens representing a broad spectrum of income levels, so there is less store-level segmentation by economic status.
- For much retail, more than 50 percent of sales occur during the important holidays, and low-price promotion fuels revenue success.
- Internet shopping is very strong and growing at a very rapid pace.
- E commerce is growing at five times GDP growth.
- Food is a strong segment.
- Imported goods are very well received.

As a result, it is clear that China presents U.S. agribusiness with both opportunities and challenges over the next five years. At the same time, China investments in the U.S. itself will also increase, which will create more competition domestically for U.S. business interests. While there are restrictions in a number of states on foreign land ownership, there are ample opportunities for other China participation in U.S. agribusiness.

Simply put, it is critical for large multinational agribusiness companies, as well as companies operating at a midmarket level, to establish and implement both an offensive and defensive China market strategy; and senior management teams need to be prepared to adjust those strategies as public policy in China and the U.S., along with consumer trends and characteristics, change and evolve.

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