



A Chinese Food Strategy

Has your company got a China strategy? If not, according to Canada's International Trade Minister, Jim Peterson, you're making a big mistake. Speaking to the Canadians who were part of the Canada Trade Mission in January 2005, the minister said: "With China redefining global trade, a China business plan is no longer an option for Canadian companies; it is a must."

Even though agri-food was one of the six themes for the trade mission, there were surprisingly few food companies as part of the Canadian delegation. Of the several deals announced, only a handful were related to food. The Canadian food industry was noticeable by its relative absence.

In a less-than-scientific-sound research study (wherever I travel I like to check out the food stores and I went through three in China) I found no evidence of a clearly Canadian product on the well-packed shelves of the modern supermarkets. Some big multi-nationals have a major presence but I couldn't find a maple leaf icon anywhere.

The potential market is unprecedented with a huge emerging middle class with high discretionary spending power (over 125 million now, with an expected 300+ million by 2010). One of the grocery supermarkets I visited was beside a Mercedes dealership, across the street from a Lexus showroom. They've come a long way in 25 years when Deng Xiaoping finally unleashed the vast reservoir of entrepreneurial energy and pent up demand by accepting, "It does not matter whether a cat is white or black, as long as it catches mice." Now they have millions of rich cats.

Ever heard of Zibo or Huaian or Xiangfan? I hadn't. These cities are all much bigger than Toronto. China is the world's second largest economy measured by purchasing power and will likely pass the U.S. by the end of the decade. Average GDP growth in the past 24 years is 9.7 per cent. China is the largest recipient of foreign direct investment with CDN \$60.67 billion in 2004. Eighty per cent of foreign companies operating in China report a profit. The massive privatization means that very few prices are controlled and less than 50 per cent of the GDP is still state controlled. Prior to 1978 the private company was illegal and now China has over 2.5 million firms.

Of course, Canada has been selling certain agricultural products for many years. Our historic wheat sales go back to 1960. A less well known but equally impressive story, is the sale of Canadian pork to China. While it took nearly a decade of persistence and hard work by industry pioneers like Ted Bilyea and government veterinarians like Dr. Gilles Dulac, I remember vividly how proud we were to break into the Chinese market, even before the U.S. Last year Canada exported an extraordinary 36,825 tonnes of pork, doubling the amount from just three years ago. We've come a long way from the first Maple Leaf plant; Canada now has 35 pork plants across the country approved for exports to China.

According to Jacques Pomerleau of Canada Pork International, this historic achievement was only made possible by "a real collective effort by the Canadian Food Inspection Agency, the Canadian Embassy and industry."

Breaking into the Chinese market and doing business there is not without problems. In spite of assurances by both Prime Minister Martin and Premier Wen, there are still major issues with intellectual property (IP) protection and while the complexity of obtaining state approvals has been reduced somewhat, penetrating the bureaucracy can still be difficult. Courts are a very risky place for the resolution of commercial disputes. Many of these IP, regulatory and commercial law problems can be minimized if your

lawyer has a good working relationship with an established Chinese law firm; this is why Gowlings was there.

Interestingly, the Canada China Business Council, which has been active in China since 1978, estimates that one of the main untapped sectors that can benefit from the explosion of consumer demand is processed foods. Of course, exporting value-added products is a tougher sell than commodities and here again we'll need a real collective effort between government and industry. According to the Council and Minister Peterson, if your company doesn't have a strategy to go after this market, you'd better at least have one to cope with China as a dangerous competitor.

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