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China, Peoples Republic of

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Chicken Paw, Wing and Wing Tip Exports to China

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Approved by:

Maurice House
U.S. Embassy

Prepared by:

Casey Bean, Joseph Jacobson and Suzanne Ryan

Report Highlights:

Despite being China's single largest chicken paw supplier, the U.S. poultry industry still faces many challenges that threaten its ability to continue expanding or even maintaining its current export level. High quality and higher profit margin product from Brazil and Argentina is an increasingly attractive alternative to U.S. product. Meanwhile, U.S. producers remain reluctant to modify their production lines to meet FSIS standards and compete with Brazilian producers. Lingering concerns of additional U.S. plant delistings, zero-tolerance salmonella standards, and scant profits have discouraged investment, despite burgeoning Chinese chicken paw demand. Nevertheless, until U.S. producers modify production lines to improve quality, not only do they remain vulnerable to supply increases from South American competition, they fail to maximize their potential in exporting high-value poultry parts to a growing market.

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Table of Contents

Executive Summary	3
China's Domestic Paw Production	3
Limited domestic supplies force China to import over 300,000 MT of paws	3
Consumption Trends	4
Consumer preferences depend upon geographic location.....	4
Trade	5
Processors reluctant to modify production lines to meet certification requirements.....	5
Elimination of "Hong Kong Standard" limits paw supply	6
Processors risk financial losses due to China's "zero" tolerance for pathogens.....	6
Changes in AQSIQ import permit issuance poses barrier to traders	7
Pre-Inspection law and other measures "encourage" direct shipments to China	7
E-Certification required as of March 3, 2007	8
Paws account for over half of China's total poultry imports	8
Wholesale price of paws has increased during past two years.....	11
U.S. faces market competition from Brazil and Argentina	12
Volume of U.S. paws imported through official channels increasing	13
Marketing	15
Trade contributes decreased market share to product quality and packaging	15
Traders look for high-quality paws which meet their specific requirements.....	16
Addition of grading system would bolster U.S. brand image	16
Market Outlook	17
Outlook and Opportunities to expand U.S. paw sales to China	17

Executive Summary

Although the United States is still the largest chicken paw, wing, and wing-tip supplier to the Chinese market, many challenges, including growing competition from Brazil and Argentina, threaten this position. Strict port inspections by China's quarantine officials (CIQ), coupled with the FSIS inspection mandate and reluctance by the U.S. industry to invest in new production lines, have decreased the amount of product available for export to China. Many U.S. producers remain hesitant to invest in production line modifications as the result of slim profit margins and uncertainty surrounding Chinese import regulations. These factors have resulted in a supply deficit of inspected U.S. chicken paws and are reported to have cost the poultry industry significant revenues. Recent changes to AQSIQ's issuance of Meat Import Quarantine Permits (MIQP) present new hurdles for traders importing U.S. product.

The consensus among Chinese traders is that despite U.S. paw, wing, and wing-tip quality generally being high, issues like moisture content and packaging are affecting the competitiveness of many U.S. products with the major market competitor: Brazil. Though gradual improvement in U.S. quality has been noted over recent years, persisting problems threaten long-term U.S. market share.

Nevertheless, the fact remains that current chicken paw demand in China exceeds supply, perhaps diminishing the perceived necessity of investment. Since 400,000 chickens must be slaughtered to produce one, 25 MT container of paws, supply is not easily increased. Furthermore, many industry analysts believe that the certification of additional Brazilian plants will have little impact on U.S. exports since much of that yet-to-be-certified product already makes its way into China through grey-channels. Nevertheless, without investing in plant infrastructure to improve quality, U.S. industry remains vulnerable to losing market share and fails to maximize profits on high-value export items.

China's Domestic Paw Production

Limited domestic supplies force China to import over 300,000 MT of paws

The majority of domestically produced paws are exported to Japan or Korea, where processors are able to find more competitive pricing. Due to insufficient domestic supply, China must import approximately 300,000 to 350,000 MT of chicken feet and paws annually. Chinese consumers also prefer the size and meatiness of U.S. and Brazilian jumbo paws to domestic product. Currently, domestic paw supply is less than 40 percent of the U.S. supply in the Chinese market. Trade reports wholesale prices are \$60 to \$100/MT higher than U.S. products of the same grade. The wholesale price for imported chicken paws is \$1,500 to \$1,600/MT.

Most domestic broiler production is situated in the northern provinces of China (e.g., Shandong and Henan). Domestic processors cite that production costs, demand, and lack of profitability force them to produce chicken feet rather than chicken paws. Northern provinces, with a concentrated broiler production, tend to produce chicken feet, while the southern provinces (e.g., Fujian, Guangdong, Zhejiang and Shanghai), with less concentrated broiler production, tend to produce chicken paws.

The picture below illustrates the difference between a chicken paw (left) and a chicken foot (right).



Consumption Trends

Consumer preferences depend upon geographic location

The peak chicken paw consumption season is typically during the warmer months of April through October. During the fall and winter, the paw market generally weakens and prices drop until warm weather reappears.

Imported chicken products primarily enter China through Shanghai and the southeastern ports of Shenzhen and Guangzhou. While products entering these ports are destined for all parts of China, approximately 50% has an end destination in South China. Most premium jumbo paws are sold in wholesale markets and eventually make their way into high-end restaurants. Smaller paws, chicken wings, and wing tips, in addition to being sold at wholesale markets, end up at wet markets and processing plants, which use them in finished food products. Few importers are willing to deal directly with supermarkets because of payment delays.

Each market accepts its own size of chicken paws, depending on the consumption habits and living standards of its consumers. Suzhou, Kunming and Guangzhou markets prefer larger-sized chicken paws while Chongqing, Chengdu and Anhui markets only accept small to medium-sized chicken paws.

The market for chicken feet is more varied than that of premium chicken paws; larger chicken feet are sold to both wholesale and retail markets and are more commonly used for family consumption (and in barbecue stores), small feet are typically further cooked in processing plants. Chinese consumers in the Northwest and Northeast tend to favor chicken feet over chicken paws.

Chicken Paw Imports, by province 2005-2006			
	January - December		January - December
	Quantity, MT		Percent Change
	2005	2006	2005/06
All Provinces	189,178.05	289,171.22	52.86
Guangzhou	45,650.28	118,945.4	160.56
Shenzhen	39,224.51	89,325.03	127.73
Shanghai	65,138.02	42,089.35	-35.38
Huangpu	6,480.81	14,760.5	127.76
Nanjing	8,823.28	10,863.22	23.12
Qingdao	6,977.01	4,888.88	-29.93
Dalian	5,442.5	3,892.57	-28.48
Fuzhou	2,312.1	2,879.02	24.52
Shantou	6,774.97	1,168.97	-82.75
Gongbei	2,084.51	184.54	-91.15
Tianjin	147.57	173.67	17.69
Xiamen	122.5	0	-100
HS code: 020714.22			
Source: WTA China Customs			

Trade

Processors reluctant to modify production lines to meet certification requirements

Beginning Fall 2001, the People's Republic of China refused to import chicken paws not bearing the official USDA mark of inspection, "Inspected for Wholesomeness by the U.S. Department of Agriculture," to better ensure that product is free of disease and contaminants. Until recently, USDA did not inspect chicken feet and paws; instead, they were plant-graded. Switching to a USDA inspection system, however, was not without its share of problems. When inspecting feet and paws, inspectors inspect feet along with carcasses in order to make sure they are not from diseased or condemnable birds. Since feet are separated from the carcass before arriving at inspection stations, FSIS implemented a batch inspection system that associated a batch of feet or paws with a group or lot of carcasses processed within a certain period of time. However, if one carcass within the lot is condemned, then the entire batch of feet and paws also must be condemned. Further complicating matters is inconsistency between USDA inspection personnel. It is estimated that the current batch inspection system has led to yield decreases of anywhere from 20-70 percent.

As a result of these regulatory changes, many U.S. producers decreased or even shut down their paw production. Processors chose this route because of the high cost required to modify the production line in order to produce USDA FSIS inspected paws and their lack of confidence in the U.S./China trading environment. Nevertheless, it is reported that more producers are investing in plant upgrades that should increase the exportable supply of chicken paws in 2007.

U.S. producers also worry about investing millions of dollars in production line changes, only to have China restrict import flows and/or resume suspending export eligibility for U.S. poultry plants because of pathogen and residue violations, as it did to U.S. poultry plants during 2005. Though these suspensions were lifted following USDA-AQSIQ technical discussions in early 2006, producers remain nervous about the current zero tolerance salmonella policy on uncooked poultry. Nevertheless, since April 2006, trade relations

between the U.S. and China have been positive, with no U.S. poultry plant delistings and few trade disruptions. As a direct result of a USDA/AQSIQ Memorandum of Cooperation and technical meetings to help resolve pathogen/residue testing methods and standards, AQSIQ now allows up to 45-days for investigation and corrective action rather than immediately delisting plants.

Elimination of "Hong Kong Standard" limits paw supply

The elimination of the "Hong Kong Standard" for chicken paws has led to a supply shortage of U.S. paws destined to the Chinese market. Effective April 30, 2005, China unified the chicken paws standard for Hong Kong and the Mainland by declaring them an "edible product". Previously, chicken paws exported to Hong Kong could be certified as "not fit for human consumption" to circumvent testing measures. As a result of the new standard, the USDA's Food Safety and Inspection Service (FSIS) must certify shipments by performing ante mortem and postmortem inspections. Traders have indicated this new requirement has impacted both the volume and price of U.S. chicken paw exports to China. Prior to the Hong Kong Standard being removed, one U.S. producer regularly shipped more than 300 containers/month to China; today, this number has been reduced to just 50/month.

Processors risk financial losses due to China's "zero" tolerance for pathogens

On January 1, 2006, China implemented a new national standard for fresh and frozen poultry products, GB 16869-2005, replacing GB 16869-2000 (see CH6001). The standard reinforces a "0" tolerance for the pathogens *Salmonella enteritidis* and *Escherichia coli* O157:H7 on fresh and frozen poultry products. The following chart is a translation of the microbial requirements. Under *Salmonella* and O157:H7, "0/25g" means no pathogens detected in five 25-gram samples.

Microbial Test Requirements		
Item	Index	
	Fresh Poultry Products	Frozen Poultry Products
Total number of bacteria	1 X 10 ⁶	5 X 10 ⁵
Coliform (MPN/100 g)	1 X 10 ⁴	5 X 10 ³
<i>Salmonella</i>	0/25 g ^a	0/25 g ^a
<i>E. coli</i> O157:H7	0/25 g ^a	0/25 g ^a

^a 5 total samples

"Zero" tolerance (0/25g from 5 samples) on pathogens for imported uncooked frozen poultry products is difficult if not impossible for processors to meet. U.S. exporters and importers risk considerable financial losses in rejected product and port fees if products fail inspection at the China port CIQ based on this requirement. Besides China's "zero" tolerance (0/25 g from 5 samples) on pathogens for imported raw poultry products (explained in Post's 2006 semi-annual poultry report CH6004), U.S. exporters should also pay attention to the following items:

Item	Maximum Level
Clopidol	0.01 (mg/kg)
Moisture	6 (percent)
Lead	0.2 (mg/kg)
Mercury, meat	0.05 (mg/kg)

The "zero" tolerance standard for pathogens on raw poultry will impact all imported products. However, according to the trade, the lower moisture tolerance (8 percent) will impact U.S. products more than Brazilian products. Because most U.S. plants fail to air dry paws and

use ice cooling during processing and packaging, moisture content is higher than Brazilian product, which uses air chilling.

Changes in AQSIQ import permit issuance poses barrier to traders

Two permits are required to import chicken paws into the China market: AQSIQ's Meat Import Quarantine Permit (MIQP) and the Automatic Import Registration Form (ARF), issued by MOFCOM. Currently, there are around 200 MOFCOM accredited importers that are eligible for an ARF allocation, which totals approximately 500,000 MT/year. This list is likely to remain static or even diminish in number, since MOFCOM refuses to certify new companies without extensive relevant experience and/or credentials. MOFCOM has also indicated that the importer list is limited to processors and traders, thus eliminating possible participation by large retailers and other end-users. Any volume increases will therefore come through established companies increasing import volumes. According to MOFCOM, there is no predetermined trade volume limiting the issuance of ARFs; virtually all traders who applied for an ARF in 2006 received one. ARFs may be used once only.

After the trader gets these two permits, they have the right to take an order with foreign suppliers. When the products arrive at port, China Customs imposes taxes, and CIQ checks documents and carries out quarantine inspections. Recently, AQSIQ reportedly implemented new "administrative" policies on issuing import permits, which poses new impediments to trade (see below).

According to the trade, AQSIQ will tighten-up its administration of issuing MIQPs, which dictate the quantity an individual importer may import. Under this new regulation, importers may not apply for a new MIQP unless they have imported 75% or more of the quantity allotted on the original permit. Furthermore, importers not fully exhausting their previous year's MIQP cannot receive a new MIQP with an approved import quantity exceeding the actual volume imported from the previous year. New MIQPs are typically issued within one-month of application and are valid for 6 months. However, even after approval, AQSIQ will not issue new MIQPs until the entirety of the original permit has been used. The volume for each import permit is set at 400 MT and importers are allowed to make an application for a single item from one country only.

Traders complain that these new policies hurt them in two ways: by limiting import volumes when the market is favorable; and, by forcing them to use at least 75% of their MIQP when the market is unfavorable. Most believe these policies are not in line with World Trade Organization (WTO) regulations. AQSIQ has been re-evaluating and accrediting additional eligible meat importers and began listing the names of importers on its website September 1, 2006 (www.aqsiq.gov.cn). Because of the new policy, traders may only do business with one supplier at a time and cannot buy different items simultaneously.

FAS Beijing believes this measure will negatively impact poultry imports by forcing traders to import when prices are not favorable in order to meet the import requirement, raising costs. Furthermore, many eligible importers do not actively trade. Traders holding unused MIQP's enter into arbitrage by auctioning the MIQP to active importers unable to secure additional MIQPs at that moment. In fact, many MIQP holders do not actively import meat products and procure MIQPs primarily to sell off as a business in itself. Currently, the cost of second-hand MIQPs ranges from RMB 150-450/MT. In addition to creating higher consumer costs, this additional cost may diminish the competitiveness of direct-import poultry products vs. grey-channel products.

Pre-Inspection law and other measures "encourage" direct shipments to China

Direct shipments to China's ports have been increasing since 2000 and are forecast to increase again in 2007 due to stricter requirements imposed by China to eliminate smuggling

from Hong Kong. As of November 1, 2004, all meat re-exported to China through Hong Kong must be pre-inspected by the China Hong Kong Inspection Company (CIC). Following pre-inspection, containers are required to be moved from the entry port to the CIC inspection place within 2 hours to prevent repacking or re-labeling for smuggling. The inspection cost for one container is approximately \$600. This extra cost and burden has shifted direct trade up the coast to mainland ports, a trend that will likely continue in the future.

Imported paws are subject to a fee of \$60/MT plus a 13 percent VAT (value added tax). China's tariff reductions on poultry products have increased trader profit margins on direct shipments, which will result in less volume being transshipped from Hong Kong. According to the trade, China's inspection officials are clearing more U.S. poultry products in Shanghai ports than those held in Hong Kong ports. Additionally, the trade believes increased transportation costs in Shenzhen, new import regulations, and chicken feet certification requirements have made costs of re-exporting to Hong Kong comparable to direct shipments to China. China's pre-inspection fee alone is an important cost factor that will continue to encourage direct shipments to mainland China.

Effective May 2005, Hong Kong traders were made eligible consignees on bills of lading and health certificates for China-bound shipments transshipped through Hong Kong. Traders could import and stock paws in Hong Kong and later look for mainland importers. Though this change made Hong Kong re-exports more convenient, the general trend favors trade shifting to direct shipments as it becomes less and less profitable to ship through Hong Kong.

E-Certification required as of March 3, 2007

Beginning March 3, 2007, China will require e-certification from U.S. meat exporters in hopes of further limiting grey-channel importing. To comply, U.S. plants must send an e-mail to AOSIQ (h_cert@ciq.org.cn) with the date and certificate number for the purpose of verification of shipments upon arrival for inspection in China.

The Chinese traders' responses to the effectiveness of this measure ranges from skeptical to supportive. However, all importers stressed the importance that plants ensure the information sent via e-mail is identical in every way with that of the certificate itself to prevent time-consuming and potentially expensive delays during CIQ inspection. Importers unanimously expressed some degree of frustration with plants making data-entry errors that cause confusion and hassles during inspection.

Paws account for over half of China's total poultry imports

Despite domestic production increases, China's chicken paw supply lags so far behind consumer demand that chicken paw imports account for 40 percent or more of China's total poultry imports. In the 2006, chicken paw and wing tip/edible offal imports accounted for 40 percent of total poultry imports to Mainland China and 44 percent of total poultry imports to Hong Kong. As more processing plants are approved to export frozen poultry to China and additional measures are taken to eliminate gray channels, a greater percentage will be shipped directly to Mainland Chinese ports.

During 2006, chicken paw export volume to China and Hong Kong was 156,974.37 MT, or 40 percent of the total China-bound U.S. frozen chicken cuts and edible offal (HS code 020714). This is an increase of 52.09 percent over 2005. The total value of 2006 chicken paw imports was \$141,095,000, up 57.3 percent from 2005 and constituting nearly 48 percent of the total value of U.S. frozen chicken cuts and edible offal.

U.S. chicken wing imports in 2006, though less than chicken paws, were still significant at 29,710 MT, a 51.9% increase over 2005. Total value was \$20,620,000. In contrast to paws

and wing tips, the U.S. market absorbs significant quantities of wings, constricting supply. U.S. wings also face tough competition from Brazil, whose producers "soldier" pack chicken wings. Soldier packing, where wings are uniformly and tightly placed in straight rows, creates a more aesthetically pleasing product for consumers. Due to significantly higher U.S. labor costs, the trade reports that adopting soldier-packing techniques will be economically unfeasible.

U.S. exports of frozen chicken offal, not including feet, were 76,662.92 MT in 2006, up 44.18 percent from 2005. Total value was \$53,720,000. Though the precise amount of individual meat products making up this category is difficult to surmise, the bulk consisted of wing tips. Like paws, U.S. wing tips will continue to be an important export to China. Minimal U.S. domestic demand minimizes supply constraints and demand remains strong.

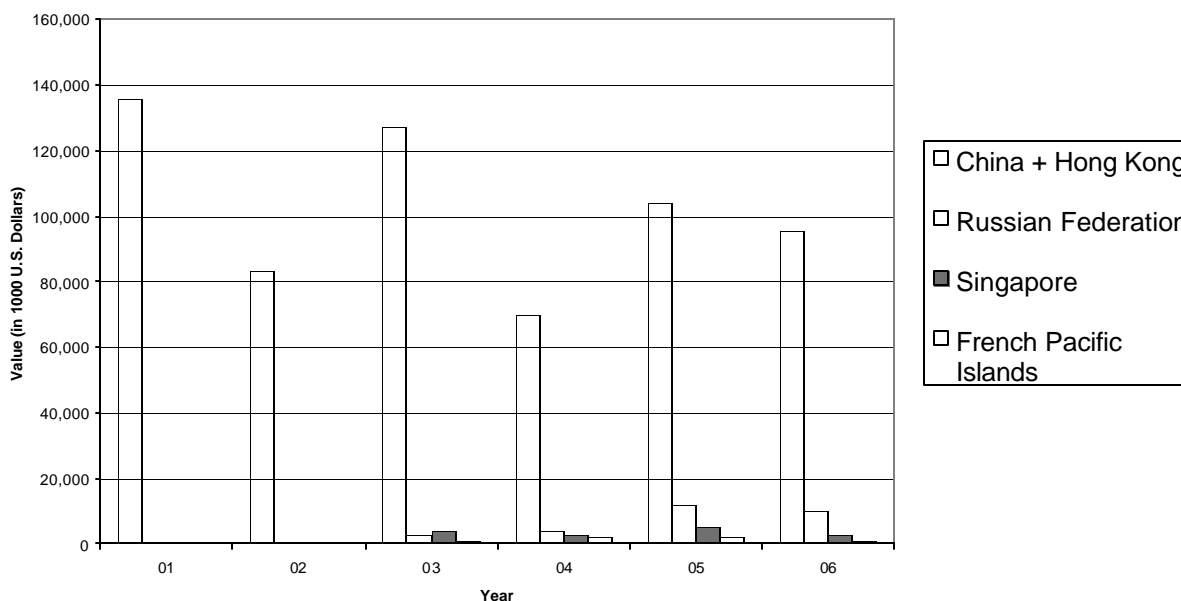
Though U.S. export growth has been strong in recent years, this mostly reflects the U.S. regaining market share lost on account of China's U.S. poultry import ban following reports of avian influenza in 2003. During this time, Brazilian and Argentine poultry exports to China increased between 600 and 900 percent. As the result of a surge in Chinese domestic production, U.S. market share fell precipitously from 96 percent in 2003 to just 46 percent in 2005. Nevertheless, the U.S. still retains a commanding lead in poultry imports to China.

China Chicken Paw Imports, by country 2005-2006			
	January - December		January - December
	Quantity, MT		Percent Change
	2005	2006	2006/05
World	189,178.05	289,171.12	52.86
United States	103,211.22	156,974.37	52.09
Brazil	60,724.12	98,851.45	62.79
Argentina	23,138.27	26,906.77	16.29
Chile	2,034.21	6,438.53	216.51
Thailand	22.98	0	-100
Canada	47.32	0	-100
	January - December		January - December
	Value, U.S. Dollars		Percent Change
	2005	2006	2006/05
World	160,712,168	252,655,028	57.21
United States	89,691,253	141,094,678	57.31
Brazil	51,170,275	81,858,776	59.97
Argentina	18,200,714	24,565,942	34.97
Chile	1,600,948	5,135,632	220.79
Thailand	11,822	0	-100
Canada	37,156	0	-100
HS Code: 020714.22			
Source: WTA China Customs			

China Chicken Wing Imports, by country 2005-2006			
	January - December		January - December
	Quantity, MT		Percent Change
	2005	2006	2006/05
World	61,014.69	57,878.27	-5.14
Brazil	41,228.48	29,710.98	-27.94
United States	15,634.06	23,754.24	51.94
Chile	382.03	2,470.92	546.79
France	1,654.29	1,259.91	-23.84
Argentina	967.69	682.23	-29.5
	January - December		January - December
	Value, U.S. Dollars		Percent Change
	2005	2006	2006/05
World	68,719,130	52,540,041	-23.54
Brazil	47,946,076	27,947,384	-41.71
United States	15,833,449	20,620,381	30.23
Chile	307,443	1,946,366	533.08
France	2,194,147	1,337,726	-39.03
Argentina	1,003,967	688,184	-31.45
HS Code: 020714.22			
Source: WTA China Customs			

China Frozen Edible Offal Imports, Excluding Paws, by country 2005-2006			
	January - December		January - December
	Quantity, MT		Percent Change
	2005	2006	2006/05
World	94,359.23	91,160.65	-3.39
United States	53,169.86	76,662.92	44.18
Brazil	40,919.4	14,250.06	-65.18
Chile	85.76	134.85	57.24
Argentina	82	112.82	37.58
	January - December		January - December
	Value, U.S. Dollars		Percent Change
	2005	2006	2006/05
World	71,344,763	62,694,967	-12.12
United States	41,389,707	53,269,665	28.7
Brazil	29,754,985	9,256,413	-68.89
Chile	6,258	84,954	35.75
Argentina	57,321	83,935	46.43
HS Code: 020714.22			
Source: WTA China Customs			

Top U.S. Chicken Paw Export Markets



Wholesale price of paws has increased during past two years

The wholesale price of chicken paws has increased considerably over the past two years, especially in recent months. Jumbo-sized chicken paws reached between \$2,000 and \$2,400/MT in main markets with an average price of \$1,600 to \$1,900/MT. Due to their better quality consistency and lower moisture content, Brazilian products typically sold for between RMB 1000-2000/MT higher than U.S. product. The trade believes the wholesale price increase is primarily due to the short supply from the United States and the increasingly stringent regulations regarding the issuing of AQSIQ Meat Import Quarantine Permits, which limit trade flows and force traders to buy product even when prices are high.

Chicken Paw Prices in China, by country 2005-2006 (U.S. Dollars)			
	January - December	January - December	January - December
	\$/KG	\$/KG	Percent Change
	2005	2006	2006/05
World	0.85	0.87	2.35
United States	0.87	0.9	3.45
Brazil	0.84	0.83	-1.19
Argentina	0.79	0.91	15.19
Chile	0.79	0.8	1.27
Thailand	0.51	0	
Canada	0.79	0	
HS Code: 020714.22			
Source: WTA China Customs			

China Chicken Wing Prices, by country 2005-2006 (U.S. Dollars)			
	January-December	January-December	January-December
	\$/KG	\$/KG	Percent Change
	2005	2006	2006/05
World	1.13	0.91	-19.47
Brazil	1.16	0.94	-18.97
United States	1.01	0.87	-13.86
Chile	0.8	0.79	-1.25
France	1.33	1.06	-20.3
Argentina	1.04	1.01	-2.88
HS Code: 020714.22			
Source: WTA China Customs			

China Frozen Edible Offal Prices, Excluding Paws, by country 2005-2006 (U.S. Dollars)			
	January-December	January-December	January-December
	\$/KG	\$/KG	Percent Change
	2005	2006	2006/05
World	0.76	0.69	-9.21
United States	0.78	0.69	-11.54
Brazil	0.73	0.65	-10.96
Chile	0.73	0.63	-13.7
Argentina	0.7	0.74	5.71
HS Code: 020714.22			
Source: WTA China Customs			

U.S. faces market competition from Brazil and Argentina

Despite increased wholesale and retail prices, paw demand has remained nearly level. Many U.S. plants have yet to meet FSIS inspection requirements, creating a paw supply shortage. Limited U.S. volume, combined with the fact that Brazilian paws command higher wholesale prices, have traders interested in purchasing paws from countries other than the United States.

The United States' two primary chicken paw competitors in the Chinese market are Brazil and Argentina. Though Brazil is the primary competitor for big and medium-sized paws, Argentina is the primary competitor for small-sized paws. Following the 2004 avian influenza outbreaks in the United States, both Brazil and Argentina captured significant market share. Despite only one Brazilian processing plant having officially been certified to export to China, Brazilian paws make up about 70 percent of the paws available at the Suzhou market, one of the most important paw markets in China. Most notable are the quality and packaging differences between U.S. and Brazilian paws. Contrary to U.S. producers, Brazil's tend to be more flexible in modifying production lines to meet Chinese demands. Though much smaller than Brazil's production base, Argentina's paw market is currently experiencing rapid growth thanks to its price advantage over U.S. paws; on average, Argentine paws are \$0.04/lb cheaper than U.S. paws. Nevertheless, Argentina's chicken paw expansion rate is still considerable smaller than that of the United States and Brazil.

According to traders--and plainly visible at wholesale markets in China--other countries shipping paws to China include Chile, EU, Iran and Turkey. Chile currently ships about 40

loads a month and is a market the trade believes will continue to grow. The EU is a small producer and ships very little product to China. The EU also exports more feet than paws because the market offers processors more chance for profitability. Compared with previous years, Iran has more chicken paws in the market, shipping around 50 to 80 containers per month. Turkey has been shipping around 100 containers per month.

Volume of U.S. paws imported through official channels increasing

The trade believes that the majority of U.S. paws are inspected and imported through the official channels. However, the trade also believes that smaller U.S. plants may be shipping paws to the Philippines, Korea, or Vietnam, with the paws eventually ending-up in the China market. Only one Brazilian plant is currently approved to export to China, so the trade believes that a majority of the Brazilian paws find their way into the China market through the unofficial channels. Traders tell FAS Beijing that as many as 24 Brazilian plants could be approved for poultry export trade in 2007.

Hong Kong Chicken Paw Imports				
	January - December			
	Quantity, MT			Percent Change
	2004	2005	2006	2006/05
World	217169.53	184272.89	177294.97	-3.79
Brazil	53632.2	46129.44	111771.09	142.3
United States	120847.86	83729.24	28003.39	-66.55
Argentina	2685.13	8340.92	16465.36	97.4
Chile	6673.96	8355.93	7144.15	-14.5
Iran	9953.58	13653.08	3252.77	-76.18
United Kingdom	1648.21	2905.74	2717.01	-6.5
Australia	1510.02	1393.35	1919.52	37.76
Japan	32.48	898.3	1096.16	22.03
France	356.63	1146.94	1072.98	-6.45
Poland	97.2	141.51	901.25	536.85

Source: Hong Kong Census and Statistics Department
HS code: 02021410

Hong Kong Chicken Paw Re-Exports				
	January - December			
	Quantity, MT			Percent Change
	2004	2005	2006	2006/05
World	66574.72	97307.98	152799.97	57.03
China	54514.84	68406.73	117086.95	71.16
Taiwan	2349.99	27089.22	35288.47	30.27
Macau	696.91	615.75	346.31	-43.76
Vietnam	8642.15	1193.13	72.01	-93.96
Malaysia	0	0	5.2	0
Indonesia	3.79	3.14	1.04	-66.88
United States	0	0	0	0.00

Source: Hong Kong Census and Statistics Department
HS code: 02071410

Hong Kong Chicken Wing, Frozen, Imports				
	January - December			
	Quantity, MT			Percent Change
	2004	2005	2006	2006/05
World	178286.7	155916.62	193884.37	24.35
Brazil	90284.08	87742.56	134437.24	53.22
United States	49095.42	29882.76	19167.46	-35.86
Netherlands	3122.15	3796.15	8665.18	128.26
United Kingdom	6351.17	7585.26	7671.49	1.14
Canada	3802.95	3731.62	4891.31	31.08
France	11729.02	8022.47	4824.28	-39.87
Chile	3750.9	2958.01	3684.15	24.55
Source: Hong Kong Census and Statistics Department				
HS code: 02071410				

Hong Kong Chicken Wings, Frozen, Re-Exports				
	January - December			
	Quantity, MT			Percent Change
	2004	2005	2006	2006/05
World	45206.9	62348.77	95821.6	53.69
China	33398.39	30073.95	48353.99	60.78
Taiwan	1205.22	29497.04	45419.82	53.98
Macau	2123.55	2394.47	1986.86	-17.02
Vietnam	7779.69	372.47	53.05	-85.76
Indonesia	7.43	10.84	7.88	-27.33
United States	99171	0	0	0
Source: Hong Kong Census and Statistics Department				
HS code: 02071410				

Hong Kong Frozen Edible Chicken Offal, Except Feet Imports				
	January - December			
	Quantity, MT			Percent Change
	2004	2005	2006	2006/05
World	13716.55	17411.44	30246.27	73.71
Brazil	8773.67	12085.24	22405.39	85.39
United States	4298.24	4024.69	5718.8	42.09
Chile	250.27	347.64	1089.9	213.51
China	134.61	218.83	560.38	156.08
Argentina	0	213.38	107.79	-49.48
Netherlands	0	132.5	101.41	-23.46
Belgium	0	77.87	78	0.17
Source: Hong Kong Census and Statistics Department				
HS code: 02071410				

Hong Kong Frozen Edible Chicken Offal, Except Feet, Re-Exports				
	January - December			
	Quantity, MT			Percent Change
	2004	2005	2006	2006/05
World	3554.39	9227.75	14996.48	62.52
Taiwan	121.31	6414.78	9242.42	44.08
China	2643.35	2732.06	5705.76	108.84
Macau	2.91	67.94	48.31	-28.89
United States	47.88	0	0	0
Korea, South	0	0	0	0
Myanmar	52.01	0	0	0
Vietnam	686.93	129.8	0	-100

Source: Hong Kong Census and Statistics Department
HS code: 02071410

Marketing

Trade contributes decreased market share to product quality and packaging

Characteristics such as "yellow paws" (occurring when the outer layer of skin is not properly removed), undesirable package sizes, inflexibility and carelessness with shipping methods, and excess package moisture may drive buyers to look at purchasing from countries other than the United States. According to traders, U.S. products carry significantly more weight in the form of excess moisture or ice than Brazilian products; U.S. paws generally have 5-6% moisture content, whereas Brazilian paws have 1-2%. This is largely due to that fact that Brazilian paws are air chilled. Most U.S. poultry is water chilled and machine packed. Apart from quality concerns, the buyer is paying for the weight of the excess moisture--a costly and unwanted expense.

The following pictures demonstrate quality disparities in imported chicken feet and paws.



The chicken paws on the right illustrate some of the problems poor processing and packaging can create in product quality. Apart from yellow skin and mangled paws, the package contains considerably more ice than the package of chicken feet on the left.

Traders look for high-quality paws which meet their specific requirements

Domestic traders prefer the following characteristics when purchasing paws.

Moisture: Moisture no greater than 8 percent, a maximum based on China's national standard. The trade reports that U.S. paws often have higher moisture percentage compared with Brazilian products. U.S. plants utilize ice cooling after harvest, while Brazilian plants utilize air-cooling.

Size of paws: Large cities and wealthier consumers prefer U.S. jumbo-sized chicken paws because they contain more meat. Medium-sized Brazilian paws, typically 25 grams each, are well accepted by lower-income consumers.

Packaging: Domestic traders prefer Brazil's hand "soldier" packing of wings. The availability of paws and feet in smaller bags compared with U.S. packing in large bags is another advantage. Smaller bags are easier and more convenient for supermarkets to use.

Prices: The paw market is an extremely price-driven market; both traders and consumers are price sensitive. Brazil and Argentine paws have cut into the U.S. market share because of their very competitive, lower pricing coupled with their higher prices thanks to lower moisture content and high quality, particularly in the case of Brazil.

Color: Lighter color paws are preferred.

Addition of grading system would bolster U.S. brand image

Traders tell Post that U.S. paws are often packaged without being properly graded, leading to paws of all different sizes and qualities packaged together. In contrast, both Brazil and Thailand have taken the lead to combat this by implementing a certified system for grading feet and paws. For example, grade "A" Brazilian feet are select product that are uniform in size, have heavy meat content and specialized packaging. Grade "B" paws have lower quality and are inferior in size. By not grading U.S. chicken paws, U.S. producers are missing out on an opportunity to brand U.S. chicken paws, allowing additional marketing and pricing opportunities. Furthermore, the longer U.S. inconsistencies are allowed to continue, the stronger the brand image of Brazilian grade A products will grow.

The following picture depicts the type of size disparities that result from a lack of grading system



Market Outlook

Outlook and Opportunities to expand U.S. paw sales to China

China's chicken paw supplies lag consumer demand, despite increases in domestic paw production. At this time, China imports over 300,000 MT of chicken paws annually, accounting for over half of China's total poultry imports. This pattern will likely continue into the future as long as the supply and demand gap exists.

Although the United States is still the largest chicken paw supplier to the China market, many challenges, including increasingly strong competition from Brazil and Argentina, threaten this position. Although the U.S. industry would like to increase paw trade in China and capitalize on increased wholesale prices, there are numerous challenges that prevent them from doing so. Stricter port inspections by China's quarantine officials, coupled with the FSIS inspection mandate and the delay in the U.S. industry investing in new production lines, have decreased the amount of product available for export to China. New import regulations such the unified chicken paw health standard for China and Hong Kong will continue to encourage trade shifting away from Hong Kong with more direct shipments to Mainland China ports.

FAS Beijing believes that U.S. chicken paws will continue to lose market share unless quality is improved so that it meets or exceeds that of our major market competitors, Brazil and Argentina. While recognizing that some adjustments, like hand packing are wholly unfeasible, industry should especially consider finding a way to reduce package moisture (especially ice), reduce product defects, and ship more consistent product by implementing a paw grading system. Although the paw market is price driven, China's booming economy and rapidly increasing rural and urban incomes mean chicken paw demand, and prices, are likely to keep growing. Industry should carefully consider investing in plant improvements in order to: meet FSIS inspection mandates and increase export volume; reduce moisture content to levels comparable or superior to Brazilian product; and introduce a grading system to ensure uniform quality of chicken paws. While supply limitations will likely ensure a place for U.S. paws regardless, failure to both make improvements and increase supply threatens the U.S.' current dominant market position. Furthermore, with the increasing prices of chicken paws, U.S. industry may be missing out on a prime opportunity to profit in this key sector of China's rapidly growing high-value meat products market.