*Proceedings of the 10th Australian Barley Technical Symposium, 2001*

## Australian Malting Barley in China Market

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Mr. Chairperson, Honoured Guests, Ladies and Gentlemen:

It is a great pleasure for me to participate in this Symposium. My speech will include updates of China information and also some personal points of view on malting barley business.

Top Glory Australia Pty Ltd is COFCO's subsidiary in Australia. We have been here in Australia for more than 10 years and have done more than 5 million tonnes of Australian malting barley. We are the major link of grain business between Australia and China.

Statistically barley has been considered as food grain in China. Like wheat, barley was government controlled and monopolized by COFCO. We were the first who introduced Australian barley into China. Together with our Australian partners, we also made the names of Schooner and Stirling well known through out China. Although COFCO lost its monopoly of barley import in 1995, it is still the biggest malting barley buyer in China with its market share of 20-25%.

# The booming beer industry in China

Beer was first introduced to China early last century, but the beer industry only began to expand about 15 years ago. In 1978, China only produced 40 thousand tonnes of beer. The beer production increased from 8 million tonnes in 1991, to more than 23 million tonnes in2000. China's annual beer consumption per capita is about 18 litres, which is well below the world average. Today in China, there are 474 terrific and terrible breweries; there are only 44 breweries out of these have production capacity over 100 thousand tonnes of beer, occupying 52.3% of the total production.

China beer industry requires 2.5 million tonnes of malt every year. We have 243 malting houses, 20 of them have the annual capacity of more than 40 thousand tonnes respectively, 47 with capacity of 10 to 40 thousand tonnes and 176 less than 10 thousand tonnes. There are 101 breweries malting for their own malt. About one million tonnes of domestic produced malting barley was easily consumed and demand for the foreign barley increased dramatically. Due to high import tax there is no substantial processed malt import.

Annual increase of beer production has slowed down from 20 % to the most recent 7.6%. This is a very obvious indication that the industry has entered a period of restructure. There are too many brands of beer with very different tastes. Yanjing Beer in Beijing, Qingdao Beer in Shangdong and Zhujiang Beer in Guangdong are taking over many small breweries. In the past 2 years, more than a hundred small breweries have been taken over. Similar things happened in the malting industry; the malting houses without cooling systems have to close down. COFCO and Guangdong Enterprises are the biggest malt suppliers. Local government trade barriers are still very strong; for the beer industry, there is still a long, long way to go.

# Australian malting barley in China

China beer industry is built on imported malting barley. China malting barley market is free and open; it is young, dynamic and attractive. In 1994, a US congressman from the state of Idaho also found this market very exciting, he criticised China for not buying US malting barley. Australia, Canada and France are China's main suppliers. Thanks to the very active traders, China has also imported malting barley from USA, New Zealand, Spain, Britain, Denmark and South Africa. Australian malting barley has been a regular in the China market for more than 10 years. In 1989, China imported 160,000mt of Australian Malting barley; in 1994, more than one million tonnes; in 1997, one and a half million tonnes and since then, more than one million tonnes annually, on condition of a good harvest in Australia. China needs to import around 2 million tonnes of malting barley every year, which covers two thirds of its total usage.

On average, Australian malting barley occupies 60 percent of the China import market.

Australian malting barley is popular in China, Schooner and Stirling are the major Australian varieties there. Schooner is easy for Chinese malting houses to handle because of its low water sensitivity; maybe this is why many Chinese malthouses refuse to improve the very poor facilities. Schooner malt has comparatively low diastatic power; which unfortunately is 10% lower than the China Industry Standard. Stirling is a good variety with different characteristics. It has been a very good variety to China's barley market and has a very stable quality control. Being a responsible seller, Grains Pool of W.A. ceased exporting when there was no more good quality malting barley available to export in this season.

Australian malting barley, that Chinese end users prefer, has to have the following quality:

- Sound appearance with intact and tight husk

- Foreign material & broken kernels < 1.5%
- Protein 10.50%-11.5%
- Malt extract>= 82%
- β-glucans<=100mg/100g
- Water sensitivity<10%
- Germination rate>97%

Australian malting barley has gained a good name in China, but in the years of bad weather or high market price, it needs more efforts to keep its good name.

15 years ago, exporting malting barley was not a big business in Australia. There are some concerns about this young business:

In the first place, Australia needs to have basic government or `standard body' official barley classification. In the last 2 years, Chinese buyers have become confused by the difference in specifications. Sellers classified their own barley. We had Australian no.1 and no.2 malting barley before, and now both no. 1 and no.2 have disappeared and there is ABB Schooner. In 1998 confused end users confronted me. They said the name of the barley depends on how you use it; if you use it for feeding, it is feed barley; if you use it for malting it becomes malting barley. Looking at the malting barley, we paid 25 to 35 US Dollars premium over feed barley, it was suspected that there had been a sellers' game of profiteering. After the harvest we know how much malting barley is available to export, but in the end, Australia seemed to export much more than it actually had. It is a common phenomenon now.

Also, Buyers have limited resources to ensure a fair play. Sellers control exporting quality and sampling. Australia does not have FGIS (Federal Grain Inspection Service) as in the USA to inspect weight and quality at export terminals. Certificate as to Condition only shows average quality. For a cargo of 50 thousand tonnes of malting barley, this is not enough. Buyers have no information or control of how much the quality swings within the 50 thousand tonnes. Certifier usually does not draw samples themselves and can only be responsible for the quality of samples received. At one stage we had a Seller come up to us that their own laboratory is government accredited and shall provide the quality certificate documents for the malting barley sold to us. That is not right. It is unfair. Australia grows the cleanest grains in the world and has a good logistic system, but we still need the spirit of profession. Recently, people in China are talking about the unstable quality of newly arrived Schooner. They think the variety is fast deteriorating. Small kernels, excessive foreign materials, too many broken kernels, too much unripened kernels, etc; these problems are not very much related to the variety deteriorating. I think it important to make sure the down-to-earth honest quality that is engraved in every barley kernel by Australian farmers is not to be distorted, and to arrive at the destination safely.

Third, Australian malting barley needs constant promotion in China and the market needs a good customer service too. We have imported 5 million tonnes of Australian barley in last 13 years, however in the last few years, I cannot remember if there has ever been a single claim for quality discrepancies to Australian Sellers being honoured. I know the world is changing all the time, everybody has to follow the natural course, but it is not good that while everybody is profiting from one good name and brand, nobody would do anything extra to protect it. Why isn't there much promotion of Australian malting barley in recent years in China? Because nobody is going to advertise the product that someone else is also selling. Are you going to have new varieties to replace Schooner in China market? Who is going to promote it? At the end of the day, I am sure you will choose to sell it quietly.

Last, Australian sellers also need flexibility to cope with different specification requirements from Chinese buyers and offer different trading terms to different buyers. The prevailing contract specifications are mainly inherited from COFCO terms in the old days. Firstly, they are not complete in covering important quality characteristics. Secondly, they are physical specifications that do not reflect the inner biological malting quality of the barley. In recent years we required minimum protein level, variety purity, peeled and broken kernel etc. It will not be difficult for the sellers to have some biological specifications. They may require longer time in the laboratory and the shipping documents will be delayed.

# Competition

The competition in the China market is fierce. The major competitor is Canadian malting barley. In 1991, 1992 and 1995, when Australia suffered from drought, Canadian barley is the main player in the China market and enjoyed some good promotion opportunity. Harrington has higher enzyme activity and protein and thus higher soluble nitrogen. Chinese breweries can add up to 30% adjunct like broken rice. It is cost effective. More than 95% of Chinese beer is low cost cheap beer. This is why Fosters could not hold market share any longer there. Canadians also are very quick in breeding new, better varieties. They are trying Stein, Kendall, Metcalfe and Stratus in the Chinese market. I heard of Australian Sloop many years ago but still have not got the chance to see it. Barley from Europe also plays an important role, especially when there is a problem in Australia malting barley.

Feed barley is also a big competitor. A very big price margin between feed and malting barley has encouraged many other sources of barley to China. Malting barley dealing is a business; it is not about a belief or philosophy. People do not feel hard to change their minds. In 1998, more than 300 thousand tonnes of Australian feed barley entered China. Last year, two big cargoes of US feed barley were put on the Chinese market. People are still crazy about feed barley today. It is interesting that those who stick to premium Australian malting barley are under cut by feed barley and lose money. So, everybody shall be careful when the feed and malting barley margin is big. You cannot keep the big margin very long by not selling feed barley into China, because someone else will. It is good that people become very sceptical about malting barley quality now.

The competition from domestic Chinese barley is getting stronger. China used to be a big barley producer. I was told that China produced 8 million tonnes of barley in the 1930's. Northern west and mid-south China are the main producing areas. Some big breweries are interested in contracting farmers to grow barley. Maybe one day domestic barley will catch up with the explosion of the China beer industry.

We also have to choose right Chinese buyers. Many Chinese trading companies are jack-of-all-trades, they are not mature and can be easily lured away from their own core business; Chemical companies will buy and sell malting barley and also many other once- for- all dealers. International barley sellers are usually confused by Chinese inquiries. Today, our business partners will still be ready to show me many inquiries bidding higher than we do.

# The future

Australia needs a good co-ordination in barley promotion and service in China. If you have a lot of players, you have to learn the USA system. A good classification and inspection system is a long-term guarantee.

When China becomes a WTO member, there will be a massive reduction in import tariffs. But this may be good news for processed barley malt business. We do not know exactly what will happen but there is a talk that processed malt import tax will be reduced from 35% to 10%, while malting barley will be raised from 3% to 9%. Some big breweries will turn to import malt. International malts will be more expensive. China domestic barley will have a better position to compete with the imports. This is only a change of trading pattern. Since the Chinese market is still growing fast, there will still be strong, if not stronger, demand for Australian malting barley.

Cofco has good business relations with Australian Barley Board, Grain Pool of W.A. We will also be pleased to establish good co-operations with Grainco Australia.

COFCO will continue to be a good and reliable Australian barley buyer.

Thank you

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