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## China, Peoples Republic of

### Market Development Reports

### South China Pet Food Market Brief

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**Report Highlights:**

Who Let the Dogs Out? With canine ownership in Guangdong Province on the rise, there are increased opportunities for pet food and pet products. The import market for pet food products is steadily increasing, but not keeping pace with the rapid development of Chinese pet food exports. US pet food exporters also faced many challenges during the past couple of years due to the BSE ban on products containing beef. The following report was co-authored by staff from the Economic and Political Section of the US Consulate in Guangzhou.

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## Summary

In a part of China better known for viewing dogs as cuisine rather than as pets, we have noticed an increase in dog ownership. Sales of dogs -- and correspondingly, dog food and related canine care products -- are up and represent a growing niche in the economy. The reasons for the increase are varied, however, with one-child households, "empty nesters," rising disposable incomes, the desire to own a middle class status symbol, and changing social dynamics probably all playing a part. All dogs are required to have a license, but most do not, leading some to call for a cut in associated fees to encourage owners to "come clean." Guangzhou, however, has yet to lower its fees, although a motion to abolish some fees and reduce others has been tabled -- for the fifth time. Despite a crackdown on unregistered dogs initiated in Guangzhou in the fall of 2005 to counter rabies and dog attacks, local dog owners continue to publicly display their dogs in parks and at public "dog club" meetings. It appears that the increased spending on pets is an indicator of the increasing discretionary income some Chinese enjoy.

Blame it on it being the Year of the Dog, but it appears an increasing number of Cantonese now own dogs. Dog owners can be seen walking their animals in local parks; several pet markets operate around Guangzhou, with puppies being a favorite item; and we have even spotted what appear to be dog social clubs in Guangzhou and Shenzhen. Spurred by these trends, we decided to take a closer look at this emerging phenomenon and what it may reveal about South China. Although domestic demand is growing for pet food, Chinese pet food exporters are aggressively shipping product abroad.

### **From Delicacy to Best Friend: They've Come a Long Way**

The transformation of animals from pests or food source to pets in China cannot be understated. For decades the Chinese have been unreceptive, to say the least, towards the concept of animals as pets. Considering that just a few decades ago Mao encouraged peasants to kill sparrows and pets were seen as a bourgeois decadence, the change is remarkable. While many Chinese came around over time to the idea of keeping fish or pet birds at home, other, more high-maintenance animals -- particularly dogs -- were not as accepted. From the 1950s to the late 1970s, regular dog extermination programs were carried out; dogs were seen as a threat to public hygiene and were routinely executed by mobs. These scenes were recreated during the SARS epidemic of mid-2003, when unsubstantiated fears that dogs and cats may carry the virus led to the extermination of hundreds of animals. Added to these perceptions is South China's long culinary fascination with dogs, which are said to be a "warming" food and good for the body's circulation.

### **Unleashing a Trend: The Numbers Tell the Story**

China's National Kennel Club found that in 2005 there were roughly 150 million pet dogs in China. Research by a global consumer market analysis group found that the percentage of Chinese owning dogs increased from 5% in 1999 to 7% in 2004. These market analysts estimate that sales of dog and cat food in China reached nearly RMB 1.6 billion in 2004 (approximately USD 199 million), up 13% over the previous year. Predictably, pet food sales are mostly generated in large cities such as Beijing, Shanghai and Guangzhou, according to industry analysts. In 2004, pet-related businesses in China -- including sales of animals, provision of services, and sales of accessories -- were worth a combined 15 billion RMB (roughly USD 1.88 billion) annually, according to the People's Daily. Experts predict annual sales of pet food and necessities might top RMB 6 billion (roughly USD 750 million) in 2008, according to China's central news agency, Xinhua.

### **Why So Many Doggone Pets All of a Sudden?**

There are several possible reasons for the increase in dog ownership. First, one-child households are contributing to the demand for pets, which might be regarded as additional members of the family and can become companions to an only child. The one-child policy itself helps by reducing financial obligations on the part of parents at a time when incomes are rising across the nation. Additionally, when the only child eventually leaves home, the pet can continue to provide comfort to the "empty nesters" left behind. Second, many young people, who are also enjoying increasing levels of disposable incomes, view pets as a fashion and identity statement -- a middle class status symbol. The mere fact that they are not saving the money or spending it in more traditional ways may in itself be considered an avant-garde move. Finally, as Chinese society undergoes unparalleled changes, many people rely on pets to relieve the stress, uncertainty, and loneliness associated with these radical changes. For many young people a dog offers the companionship they crave without the heightened responsibilities a child (or a spouse) brings.

### **Beijing Loosens the Collar by Lowering Fees...**

Regardless of the reason for the increase, the Chinese are raising more pets -- some legally and others not. All dogs in China must have a license, but because fees tend to be prohibitive, many people do not license their pets. Statistics from the Beijing Public Security Bureau (PSB) reveal that at the end of 2002, there were roughly 1.4 million dogs in Beijing, and only one-tenth of them had been registered. In response to this reality, in late 2003 the capital cut the first-year registration fee for a pet dog from roughly USD 600 to USD 120; the fees for subsequent years dropped from USD 240 a year to USD 60, according to Chinese press reports. More than 40 categories of dogs deemed "dangerous" by city authorities because of their size remain illegal to own, however, and Beijing also imposes a "one-dog policy" that restricts each family to owning only one dog, according to Hong Kong press reports.

### **...But Guangzhou Fees Remain Doggedly High, So Dogs Remain Unregistered**

Guangzhou's "Dog Raising Management Regulations" first came into effect in 1997. Article 10 of these regulations stipulates a fee of RMB 10,000 (approximately USD 1,250) to register a dog, followed by a further annual fee of RMB 6,000 (about USD 750). Probably as a result of these high fees, Guangzhou has only approximately 800 registered dogs, according to a local newspaper. The number of unregistered dogs in Guangzhou, however, is conservatively estimated by the same paper to be between 50,000 to 60,000. There are currently political efforts underway to lower the fees, and by extension, to encourage owners to register their dogs. In March 2006 during the annual Guangzhou CPC and CPPCC meetings, CPPCC delegate and South China Agriculture University professor Zhu Xingquan submitted a motion for pet management that included abolishing registration fees and cutting the annual fee for the first year to RMB 1,000 (about USD 125), and further reducing the fee to RMB 500 (roughly USD 63) in the second year, according to local press reports. He also suggested that annual fees for a dog consecutively registered by the same family for more than three years be progressively reduced. The local press also reported that Shenzhen City's CPC recently passed a "Draft Regulation of Dog Raising Management," which abolished the original registration fee of RMB 5,000 (approximately USD 625) and cut the annual fee from RMB 2,000 (roughly USD 250) to RMB 300 (about USD 38).

### **But Does the Proposal Stand Only A Dog's Chance of Passing?**

While the motion has been submitted and the proposed changes are making their way through the political process, Zhu himself noted, however, that this is the fifth time a

proposal of this kind has been raised in recent years -- the previous four efforts were never successful in seeing the motion included in the legislative plan. The draft regulation in Shenzhen, likewise, is also still subject to the Guangdong CPC's final approval.

### **"Cry Havoc and Let Slip the War on Dogs"**

The proliferation of unregistered dogs in Guangzhou led to a crackdown in the fall of 2005. Local press reports from that time noted that the Guangzhou Public Security Bureau (PSB) along with the Guangzhou Administration of Industry and Commerce, Agriculture Bureau, Environment and Sanitation Bureau, and Public Health Bureau, carried out a campaign aimed against: (1) illegal sales and diagnostic treatment of dogs; (2) the raising of large dog breeds; (3) irregularities in dog-walking; and (4) the failure to comply with dog vaccination regulations. According to Guangzhou's "Dog Raising Management Regulations", pet dogs must measure less than 60 cm in length (roughly 24 inches) and less than 40 cm in height (about 16 inches). A Western press report on the crackdown commented that the Guangzhou police conducted house-to-house searches and confiscated unregistered dogs from parks and veterinary clinics. The report also noted that officials said the cull was necessary to counter the spread of rabies given that 244 people died of rabies in Guangdong in 2004, a 41% rise over 2003. Local press reports on the incident included a police explanation that more than 36,000 people in Guangzhou were attacked by dogs in 2004, and between January-July 2005 another 25,000 were attacked. Police officials also said that in recent years Guangzhou authorities have seized and disposed of 14,000 unregistered dogs, according to local press reports.

### **Despite the Crackdown, It's Still the Year of the Dog**

So where does this leave Guangzhou's dog owners? The culling incident of last fall appears to have faded from the memories of many dog owners -- if not from various pet-related internet forums where the shock and outrage remains posted for all to see. Around Guangzhou owners can be seen in various parts of town publicly displaying their dogs. Apparently the desire to spend time in the open with their pets or the yearning to show them off overrides the fear of having them confiscated.

To illustrate the atmosphere of openness, on a recent Sunday morning, we witnessed a gathering of a local dog club in the relatively affluent neighborhood of Er Sha Island. In an open field, dogs and their owners were gathered into a group, happily mingling with each other. While the dogs were of all types -- golden retrievers, English sheepdogs, King Charles spaniels, and Pekinese -- the owners were mostly all of the "yuppie" type. Many of the dogs sported doggie outfits, and one of them was even dressed to match its owner. An organizer soon arrived, checked off names from a list, and handed out matching yellow hats. Soon after, the dogs and owners departed together on two buses and drove off for an apparent outing. Before the group departed, we had a chance to ask one of the owners why he was speaking English to his dog? He replied that (naturally!) dogs understand English.

We also witnessed a similar scene in an affluent part of Shenzhen. There, the gathered owners were not of the "yuppie" ilk, and were decidedly less enthusiastic about the actual pooches than the Guangzhou crowd. In fact, they seemed mostly interested in interacting with the other owners. Still, it was the dogs that provided the common ground between them. After the meeting dispersed, the owners all went their separate ways, suggesting that their original bond came through their shared dog-ownership.

**Comment: The End of a Dog Eat Dog World? Not Quite Yet.**

To say that dog ownership is a mark of a growing middle-class would be somewhat of a stretch. Some of the most notable pet owners we have noticed in Guangzhou are in fact homeless. However, the increased spending on pets is a clear indicator of the growing purchasing power of city residents in China. Where in the recent past every 'fen' had to be used to ensure a family's basic needs, now some people have the luxury of spending some of their hard-earned RMB on, well, an animal. Clearly, things are changing for the better for many Chinese in affluent South China and this trend represents a good opportunity for U.S. businesses in the pet food and pet-related products business.

**A Quick Look at the Trade Numbers:**

Although Chinese import figures show steady growth in the import of pet food products from around the world: about 1000 tons in CY2000 to nearly 3000 tons in CY2005. Chinese pet food manufacturers are exporting at a rapid pace: about 1000 tons in CY2000 to more than 20,000 tons in CY2005. So while there is a growing domestic market in China for US exporters, Chinese pet food exporters are going to provide great competition for US pet food producers around the world. US exports have also fallen off recently due to the BSE ban on products containing beef. This ban should be lifted in the near future.

**Figure 1. China Imports: Dog and Cat Food**

China Import Statistics							
Commodity: 230910, Dog And Cat Food, Put Up For Retail Sale							
Annual Series: 2000 – 2005							
Partner Country	Unit	Quantity					
		2000	2001	2002	2003	2004	2005
World	T	1190	2201	2169	2789	2777	2970
New Zealand	T	18	315	928	793	870	933
Australia	T	784	1132	808	766	819	703
Thailand	T	226	210	213	433	717	955
United States	T	124	353	188	758	57	60
Korea South	T	0	8	31	1	8	0
France	T	5	143	0	0	1	11
Germany	T	0	0	0	0	0	0
United Kingdom	T	0	0	0	0	0	0
Hong Kong	T	3	2	0	0	2	3
Japan	T	0	0	0	0	2	4
Belgium	T	0	0	0	0	8	0
Brazil	T	0	0	0	0	283	280
Canada	T	27	39	0	0	0	0
China	T	0	0	0	0	8	0
Denmark	T	0	0	0	39	0	0
Netherlands	T	1	0	0	0	0	0
Singapore	T	0	0	0	0	0	0
Taiwan	T	0	0	0	0	2	22

Source of Data: China Customs – World Trade Atlas

Figure 2. China Exports: Dog and Cat Food

China Export Statistics							
Commodity: 230910, Dog And Cat Food, Put Up For Retail Sale							
Annual Series: 2000 - 2005							
Partner Country	Unit	Quantity					
		2000	2001	2002	2003	2004	2005
World	T	1176	1073	9351	14091	15648	20459
Japan	T	311	207	8269	12367	13406	15831
Hong Kong	T	211	56	804	1362	1436	1404
Czech Republic	T	118	86	69	83	15	0
Thailand	T	40	0	50	0	0	0
United Kingdom	T	48	42	42	30	24	4
Switzerland	T	37	47	26	26	0	0
United States	T	313	416	25	154	401	2636
Korea South	T	0	11	20	14	272	445
Poland	T	0	0	16	0	0	15
Germany	T	7	0	12	28	0	1
Korea North	T	1	3	9	4	8	0
Singapore	T	5	2	5	2	5	0
France	T	0	0	2	0	0	0
Australia	T	34	0	1	0	0	24
Malaysia	T	0	0	1	0	0	0
Canada	T	13	5	0	0	0	6
Indonesia	T	0	0	0	0	0	26
Israel	T	2	0	0	0	0	0
Italy	T	18	0	0	13	0	0
South Africa	T	3	4	0	6	19	35
Spain	T	13	174	0	0	0	0
Lebanon	T	0	0	0	0	30	0
Morocco	T	0	0	0	0	0	4
New Zealand	T	0	0	0	0	0	2
Syria	T	0	0	0	0	30	0
Taiwan	T	0	2	0	2	3	27
Vietnam	T	0	20	0	0	0	0

Source of Data: China Customs – World Trade Atlas