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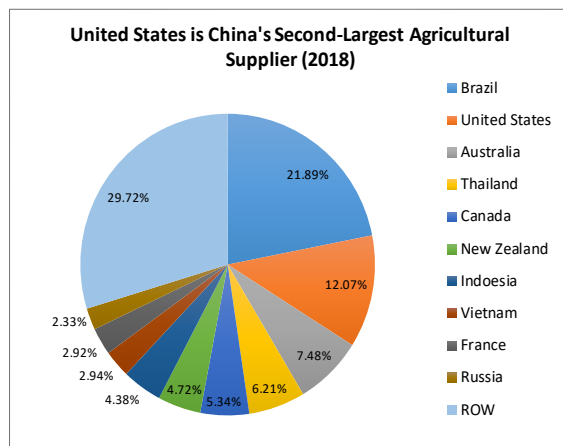
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Report Highlights:

Report Highlights: China's Hotel, Restaurant, and Institutional (HRI) sectors recorded USD \$646 billion in sales revenue in 2018, a 9.5 percent increase from the previous year. Regional diversity greatly influences the consumption trends, yet food safety is of the greatest concern. Selection and purchase of U.S. food products as a preferred source of food can continue to increase with consistent education and communication about U.S. food products and how they effortlessly fit in and enhance traditional Chinese cuisines.

Executive Summary

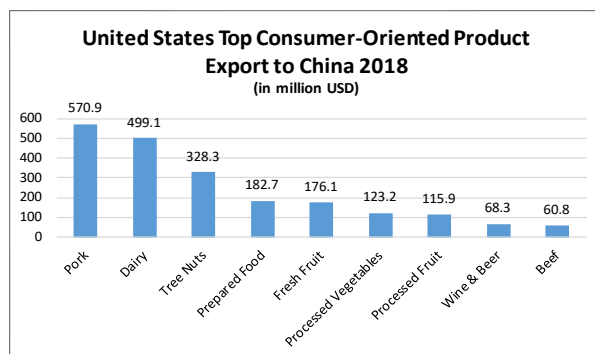
In 2018, China imported approximately US \$18.2 billion of U.S. agricultural products, a more than six-fold increase since China's accession to the World Trade Organization (WTO) in 2001. China is a net importer of U.S. agricultural products.



Source: Global Trade Information System (GTIS)

China's Imports of Consumer-Oriented Products

Due to trade friction, the United States dropped to China's fourth largest consumer-oriented product exporting country in 2018. According to the USDA's Global Agricultural Trade System (GATS), the United States exported US \$2.36 billion in consumer-oriented products to in 2018.



Source: Global Agricultural Trade System (GATS)

Food Service Industry – China Overview

China Macroeconomics

Population: 1.38 billion and growing; largest in the world (Source: World Factbook)

GDP (in PPP terms): \$23.21 trillion (in 2017); largest in the world; largest in Asia (Source: World Factbook)

Per capita income: \$8,827 (in 2017), with a growing middle class (Source: World Bank)

Agriculture:

- Accounts for 7.9 percent of China's GDP
- Accounts for 27.7 percent of workforce
- World leader (by gross value) of agricultural output for rice, wheat, potatoes, corn, tobacco, peanuts, tea, apples, cotton, pork, mutton, eggs, fish and shrimp

(Source: World Factbook)

China's Hotel, Restaurant, and Institutional (HRI) food sales reached US \$646 billion in 2018. The Chinese food service industry is comprised of 25,884 registered companies (*companies with annual revenue over \$296,200) and many small family-owned foodservice restaurants. The foodservice industry maintained solid dynamic growth, driven by growing household incomes and the increasing popularity of dining out. Chinese consumers are becoming more and more health-conscious, leading to growing demand and higher quality food products.

Foodservice Industry – Quick Takeaways

Adapt to the market: The Chinese food-service sector is highly fragmented with a dominant presence of local cuisines. To improve the applicability of your product, consider adapting to local cuisines.

Stay engaged: Once you establish a relationship with partner you should be in constant contact to understand trends. Post-sale follow-up is important to foster personal and professional business relationships with partners in China. Regular engagement with importers and distributors/restaurants will help alleviate any concerns about inconsistent supplies.

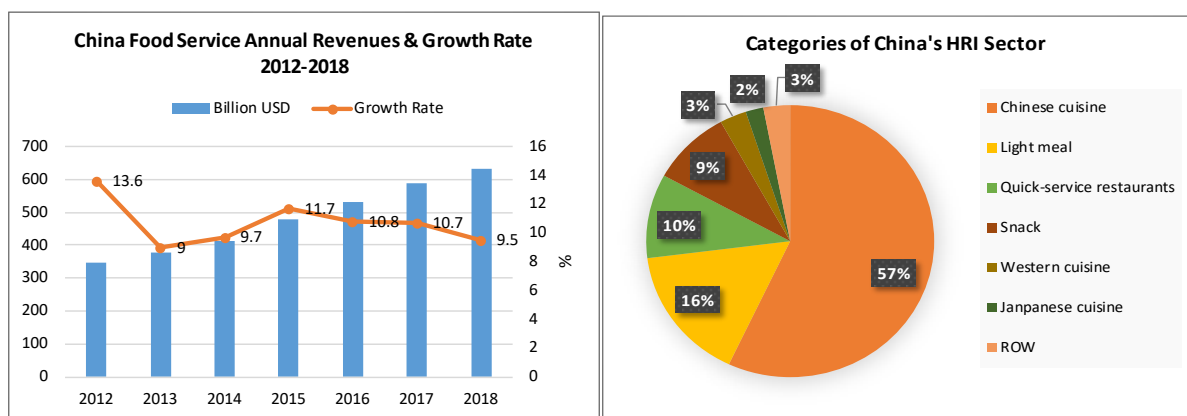
Consistent product education is critical:

Be prepared to work with your partner to make sure your product is being served properly and presented in the most effective manner. Informing both the chef and serving staff about your product will enable them to sell it more effectively to the end-consumer.

Strengths/Weaknesses Opportunities/Challenges SWOT Analysis	
Strengths	Weaknesses
<ul style="list-style-type: none"> - U.S. food products are perceived as high quality, safe, and consistent 	<ul style="list-style-type: none"> - China's food product supply chain continues to be fragmented and underdeveloped - International cuisines are not as widely accepted as local cuisines
Opportunities	Threats
<ul style="list-style-type: none"> - Rising disposable incomes - Growing familiarity and demand for imported food products 	<ul style="list-style-type: none"> - Over 12 countries have free trade agreements with China - Domestic food supply is strong and developing

SECTION I. MARKET SUMMARY

China's Hotel, Restaurant, and Institutional¹ (HRI) sector is the second largest in the world, with \$646 billion USD in sales revenue in 2018, a 9.5 percent increase from the previous year². Among all categories included, Chinese cuisine is dominant in the sector with 57 percent. Light meal and quick-service restaurants are close behind at 16 and 10 percent respectively³.



¹ Institutional is defined as hospitals, schools, government agencies, railways, airlines, state-owned enterprises, etc.

² 2019 Annual Report on Catering Industry Development of China, General Report (中国餐饮产业发展报告2019). In comparison, the United States foodservice sector supplied is expected to reach \$863 billion in 2019 according to the National Restaurant Association (NRA). <https://restaurant.org/research/restaurant-statistics/restaurant-industry-facts-at-a-glance>

³ Source: China Catering Association

China's HRI sector is driven by many economic and cultural factors, but the highlights below are especially important to note for this 2019 report:

- **Solid growth continues for China's HRI sector.** Driven by growing household incomes and the increasing popularity of dining out, China's HRI sector maintained solid dynamic growth in terms of value sales. The iiMedia Research's latest report found that 51.8% of interviewees have been eating out more frequently in 2018⁴. Moreover, the emerging middle-class born in the 1980's and 1990's have gradually become the main force of foodservice consumption.
- **Emerging "healthy eating".** Consumers are becoming more conscious about their overall health and are paying more attention to the nutritional value of dishes and food.
- **Going digital.** The use of new technology is thriving in the Chinese food industry with food-service operators using online reservations, mobile ordering and payment apps. Online food delivery maintained a strong momentum with nearly \$37 billion USD worth of meals being ordered through ordering apps, an 18.4 percent increase from the previous year, and 0.4 billion active online users⁵.
- **Foodservice plus retailing fuels sales.** Faced with the threat of supermarkets and convenience stores eroding the foodservice market, chain foodservice brands launched grocery products. Most of these chain brands are equipped with their own central kitchens and a great number of them are developing standardized, semi-finished products that only need heating. As a result, the boundaries between foodservice and retail is becoming increasingly blurred.
- **Selection on imported food products.** On average, imported food products are considered safer, of higher quality, and more consistent than domestic food products.

The HRI sector is intensively competitive in China's Tier 1 cities (i.e., Shanghai, Beijing, Guangzhou and Shenzhen) and is rapidly developing in Tier 2 and Tier 3 cities. Four/five-star hotels and restaurants in China that serve international cuisines, tend to be more expensive and offer an upscale ambiance. These establishments are more likely to use imported food products. Selection and purchase of U.S. food products as a preferred source of food can continue to increase with consistent education and communication about U.S. food products and how they effortlessly fit in and enhance traditional Chinese cuisines.

In 2019 and beyond, Chinese consumer demand for safe, high quality imported products will continue to be driven by China's rising disposable incomes and increasing urbanization. To learn more about other trends and changing consumer preferences in China, please see the [2019 Exporter Guide to China](#).

⁴ Source: China Catering Association

⁵ 2019 Annual Report on Catering Industry Development of China, General Report (中国餐饮产业发展报告2019).

U.S. Supplier ADVANTAGES	U.S. Supplier CHALLENGES
Products from the United States are perceived to be high quality, safe, and consistent.	There continue to be many market access issues, including restrictions on poultry, some fresh fruits and vegetables, and other products.
American culture (e.g., holidays, dining experience, etc.) is well known in China and perceived positively.	Tariffs and uncertainty currently dominate the narrative about the trade relationship between United States and China and have residual impacts on food service operators.
U.S. exporters and suppliers have access to a network of assistance provided by the USDA's Foreign Agricultural Service and USDA trade associations (please see section 5 below for key contacts and further information).	There are many alternative suppliers to China including those who have signed FTAs (ASEAN, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Georgia, Hong Kong, Macao, and Taiwan)

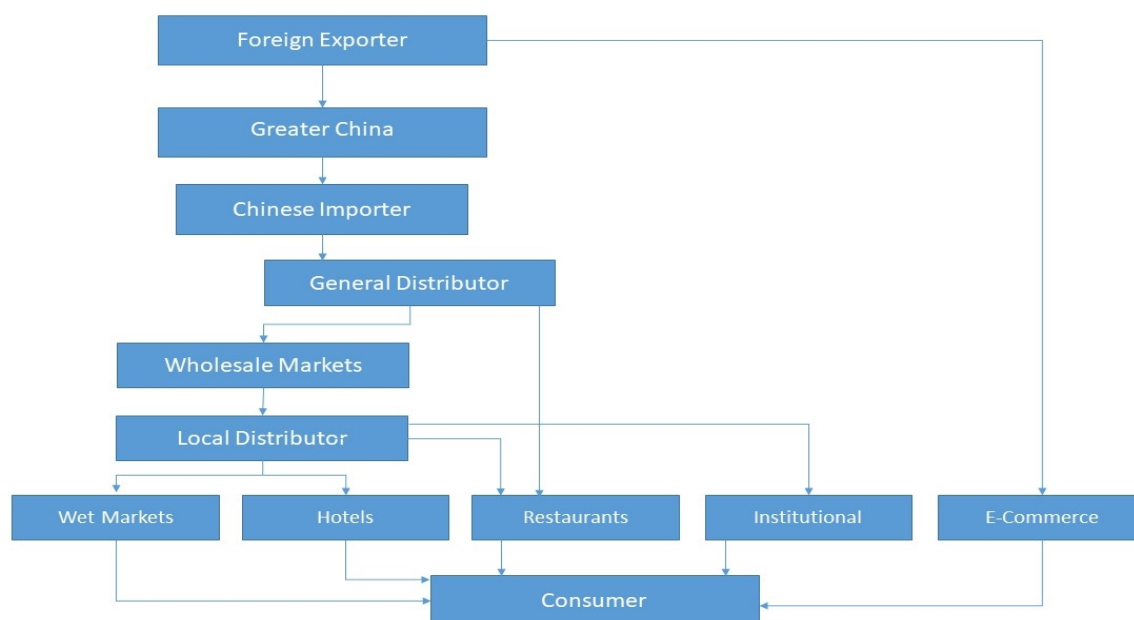
SECTION II. ROAD MAP FOR MARKET ENTRY

Entering China's HRI market can be rewarding but it requires a large investment in resources (e.g., time, financing). Selling and distributing your product in China often requires face-to-face contact, a special effort to educate key stakeholders about the product, and a sound and efficient distribution system. Entry strategy should focus on the elements below:

1. Selecting a distribution channel:

There are multiple channels through which U.S. products can enter into the Chinese market. The appropriate channel depends on the type of product, level of desired control, and targeted consumer. Generally, most companies will import through one of the following:

Exhibit 1: Distribution Channels



USDA China strongly advises U.S. exporters to work with an importer, local import agent, distributor, and/or the end-user to make sure the products are in compliance with Chinese regulations and all proper documentation has been completed. For more on these regulations, please visit: [USDA's Food and Agricultural Import Regulations \(FAIRS\) Report](#).

2. Tailoring to the market:

Educating Chinese consumers about your food product(s) is important. Education can include everything from showing distributors how to handle the product, to demonstrating how to prepare the food product(s), to showing how the product(s) should be served. Catalogues, recipes, and handling instructions should be provided in Chinese. HRI promotions (e.g., chef demonstrations, menu promotions, kitchen takeovers) are an effective tool to inform end-users about the product(s). General advice for food product exporters on the HRI market is:

- **Conduct market research.** It is critical to understand the targeted consumer and prospective clients before you enter the market. Discuss the strategy with a local representative who understands the local market and economic conditions. Take advantage of free market research reports and periodic FAS China reports to stay current on the latest commodity and regional HRI trends.
- **Adapt your products.** Incorporating western food ingredients into local Chinese cuisines will significantly increase sales potential. Be prepared to adapt your product(s) to the demands of Chinese end-user.
- **Find a local partner or distributor.** For smaller companies without the resources to directly market their products in China, a good distributor is critical to success.
- **Tell the story of your product(s).** Consumers in China value information about what they are consuming. Traceability and healthy/organic products are recent trends, especially among the younger generations.

3. HRI Sub-Sector Profiles:

Hotels and Resorts

Partially spurred by major international events, conferences and trade shows, China's hotel and resort industry is immense in size and continually growing. Many internationally owned or managed hotel groups are rapidly expanding operations in second, third-tier cities and top tourism destinations.

On average, food service operations in hotels and resorts account for approximately 35 percent of the total hotel's revenue. Unlike in many Western countries, restaurants in hotels are not necessarily visited by only lodging guests, but instead are frequently visited by outside guests. Generally speaking, restaurants in the hotels are considered to have superior quality and service. Hotels often purchase ingredients and food products through a centrally managed system. Imported food products are often preferred by international hotels because the hotels cater to a diverse clientele.

For a list of international chain hotels and resorts in China please see appendix 1.

Restaurants

Geographically large and regionally diverse, China has very distinct local and regional food and flavor preferences. While restaurants serving local cuisines continue to dominate the market, western cuisines are becoming popular in Tier 1 cities. Restaurants serving western cuisines account for approximately 3 percent of the total HRI sector revenue⁶. In general, ingredients for non-chain establishments are sourced from local distributors and markets.

Demand for higher quality food products has risen in step with disposable incomes. Per capita disposable income has increased 30 percent since 2013, with a 9.0 percent increase from 2016 to 2017, reaching \$3,847⁷. However, this amount in more developed coastal areas is usually two times higher than the national figure. Upscale restaurants are beginning to take advantage of a high-end food market in which affluent consumers are willing to pay a premium for quality and international dining experiences.

4. Institutional Food Service:

Traditionally, institutional food service in China was primarily for hospitals, government offices, army, schools, and transportation (i.e., trains, flights). According to the China Catering Association, the institutional food service sector reached \$176 billion USD in revenue in 2017 or 28 percent of revenue of the entire HRI industry. However, the institutional food service sector is facing many challenges, such as lack of known brands and unstandardized operational procedures, food safety control and management measures, and supply chain.

Due to extreme price sensitivity within much of the sector, the catering market has yet to use a meaningful level of imported food and beverage products. However, with increasing wealth, high-end office complexes and private companies, institutional food service could be a future market for imported food ingredients.

SECTION III. COMPETITION

Food products for the HRI sector from the United States compete both with domestic and imported foods. Since China joined the World Trade Organization in 2001, imported food products have become more accessible and with that, competition has increased. China currently has FTAs in development and existing FTAs with ASEAN, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, and Georgia⁸.

Most imported products face at least some locally manufactured, lower-priced competition, with only a few exceptions (e.g., olive oil). Significant competition also comes from large international corporations with local production. In general, locally produced products are also improving in quality, so chefs and purchasing managers are increasingly faced with balancing quality and cost when choosing imported or domestic supplies.

⁶ Source: China Catering Association

⁷ China Bureau of Statistics – 2018 edition

⁸ China's Administration for Quality Supervision Inspection and Quarantine (AQSIQ) <https://www.aqsiq.net/fta>

Moreover, the United States is losing ground in the HRI market due to the high tariffs imposed on imported food items and an uncertain trade relationship with China. The tariffs announced by China on May 17th, 2019 are expected to exacerbate this further. (See the report on the May 17, 2019 round of tariffs: [China Raises Tariffs on U.S. Agricultural Products](#))

Exhibit 2: Competition Chart

Major Products, Market Shares by value, and Competitor Situations			
Product	Foreign Suppliers	Foreign Supplier Situation	Local Supplier Situation
Beef Imports \$4.9 billion USD	1. Brazil: 31% 2. Australia: 21% 3. Uruguay: 16% 4. Argentina: 16% 7. USA: 1%	Beef imports grew 56 percent from 2017 to 2018, reaching \$4.9 billion. The United States saw dramatic increase after gaining market access, but still represents just 1.3 percent of the total imports by value, and 0.65 percent by volume. GAIN Report: Livestock and Products Annual	FAS Post forecasts China's 2020 beef production will see a 1-percent year-on-year increase, but that demand will continue to outstrip available supplies, necessitating increasing imports. African Swine Fever (ASF) will also contribute to increase beef demand (along with other animal proteins).
Pork Imports \$3.6 billion USD	1. Germany: 17% 2. Spain: 16% 3. USA: 13% 4. Canada: 12% 5. Denmark: 10%	Since the ASF outbreaks, expectations were that 2019 pork imports would dramatically increase due to the shortage of domestic supplies and higher prices. GAIN Report: Livestock and Products Annual	ASF is endemic across China. While pork consumption is estimated to fall at least 9 percent in 2019, continuing demand for pork will drive a sharp increase in imports, up 60 percent year-on-year.
Poultry Imports \$1.1 billion USD	1. Brazil: 82% 2. Argentina: 9% 3. Thailand: 5% 4. Chile: 4% 7. USA: 0.04%	China's strong chicken demand will continue to drive imports, led by Brazil among others, albeit at a slower rate. In addition, China lifted its import ban on chicken and chicken products from France, however this will have more significance on imports of genetic material and less on chicken meat. U.S. poultry and poultry products have not had market access since 2014, due to China's continuing avian influenza restrictions. GAIN Report: Poultry and Products Annual	FAS Post forecasts China's production of chicken meat will continue to increase. Higher prices for pork products have driven consumers to seek alternative proteins, mainly chicken meat. This has led to expanded chicken production in both white-feather and yellow-feather chicken sectors.
Fish and Seafood Imports \$11.8 billion USD	1. Russia: 18% 2. USA: 11% 3. Canada: 8% 4. Australia: 5% 5. Norway: 5%	Seafood imports as raw materials for re-export remain the leading driver behind China's global sourcing. China's seafood imports as raw materials fell gradually as global demand for processed	China has transformed from being primarily a seafood processing hub to a seafood consuming country with its own strong domestic demand. China's seafood consumption trends changed in conjunction with food service

		seafood lowered. Higher domestic production costs also affected processing for re-export and thus discouraged the need for raw seafood imports. GAIN Report: Fishery Annual	sectors.
Dairy Products Imports \$10.8 billion USD	1. New Zealand: 38% 2. Netherlands: 17% 3. Germany: 8% 4. France: 8% 7. USA: 5%	Imports of fluid milk will continue to rise in 2019. The primary fluid milk imported to China is UHT milk via the e-commerce channel. To meet increasing domestic demand, more countries are expected to gain market access to China. GAIN Report: Dairy and Products Semi-annual	In 2019, China's fluid milk production will increase due to higher profits earned by the dairy farmers. However, consumption growth will continue to outstrip domestic supply, driving increased imports of fluid milk, whole milk powder (WMP) and skim milk powder (SMP). High input and production costs limit domestic production of both cheese and butter.
Wine & Beer Imports \$3.8 billion USD	1. France: 29% 2. Australia: 21% 3. Chile: 10% 4. Mexico: 7% 9. USA: 2%	Wine from the European Union enjoys a higher awareness among Chinese consumers. Wine exporters from Chile and Australia have a competitive advantage over most key competitors with zero percent import tariff.	China's wine industry is evolving however, it may take decades to catch up with international market leaders. The craft beer industry is nascent with many local breweries starting new operations, some using U.S. hops and other ingredients.
Fresh Fruit Imports \$6.9 billion USD	1. Chile: 24% 2. Thailand: 24% 3. Philippines: 11% 4. Vietnam: 10% 7. USA: 4%	Since 2013, China's fresh fruit consumption rose 21 percent to an estimated total fresh fruit consumption exceeding 64 million tons per year. Imported fresh fruits, however, currently make up less than eight percent of China's total consumption. GAIN Report: Fresh Deciduous Fruit Annual	Local products cannot compare with the quality, variety and taste of U.S. fruit. However, the quality of local fruits is improving. Some of the local substitutes such as apples and citrus are very competitive in pricing.

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Interviews with HRI food service professionals repeatedly confirm that U.S. food exporters should select top quality products for export to China. U.S. foods benefit from expectations of high and consistent quality, attractive appearance, convenient packaging and food safety. USDA China has consistently found that it is difficult for most U.S. food products to compete with Chinese domestic products on price in the HRI market. Instead, suppliers should target niche as well as regional markets. As of the date of publication, many of these products are facing additional tariffs from the Chinese Government. For more information on these, please visit the [FAS GAIN system](#) for reporting from the Office of Agricultural Affairs in Beijing.

Exhibit 3: Best Prospective Products

Products in Market with Continued Good Potential	Products in Market with Unrealized Potential	Products with Market Access Barriers but with Good Potential
<ul style="list-style-type: none">• Beef• Pork• Fishery products (Salmon, Geoduck, lobster, Dungeness crab, cod fish)• Tree Nuts (almonds, pistachios, pecans)• Dried fruit (cranberry, blueberry)• Fresh fruit (cherry, apple, citrus)• Chocolate• Dairy products (butter, UHT milk)• Sauces, spices, condiments• Potato• Wine	<ul style="list-style-type: none">• Dairy products (cheese, fresh milk)• Wheat flour and pasta• Dehydrated potatoes• Sugar confectionary• Mixes and doughs• Breads, pastries, and cakes• Cookies, waffles, and wafers• Breakfast cereals• Craft beer• Rice	<ul style="list-style-type: none">• Fresh fruits and vegetables (Berries, avocados)• Poultry products• Organic foods <p>(Note: Since the announcement of tariffs, almost all U.S. food items face significant barriers.)</p>

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

USDA's Foreign Agricultural Service (FAS) has an unrivaled global network of more than 90 Offices of Agricultural Affairs (OAA) and Agricultural Trade Offices (ATO) that connects exporters to foreign customers and provides crucial information on international agricultural markets. FAS operates six offices in China. These include: one OAA located in Beijing; and five ATOs located in Beijing, Chengdu, Guangzhou, Shanghai, and Shenyang. Beijing OAA is responsible for trade policy and commodity analysis and assists with market access and sanitary and phytosanitary issues for all of China. Agricultural Trade Offices were created with the sole purpose of focusing on agricultural marketing efforts. All five ATOs in China provide support, assistance, and oversight to USDA cooperators, work directly with U.S. companies to help them gain the knowledge and contacts needed to begin exporting to China, and prepare and disseminate reports about China's agricultural market. The offices coordinate U.S. participation in various trade shows, and sponsor marketing activities to introduce companies handling U.S. products to key retailers, foodservice and food processing companies throughout China, and provide guidance in the resolution of customs clearance issues.

1. Trade Shows in China

USDA has three endorsed trade shows in China for exporters to participate in. Many suppliers get excellent market information by scheduling their visit to coincide with one of the trade shows. The ATOs in Beijing, Chengdu, Guangzhou, Shanghai, and Shenyang can all provide contact details for show organizers upon request as well as recruiting distributors or traders to the show for matchmaking meetings. For additional information on USDA endorsed trade shows, please visit: [USDA Endorsed Trade Shows](#).

2. Stay in touch with USDA China

To see latest reports, please visit our USDA China website [here](#). For contact information on USDA China OAA and ATOs see appendix 2.

3. Chinese Resources on Import Regulations

China has strict documentation requirements for most of the imported food and agricultural products regarding quality, quarantine, origin, and import control. Products may also need to meet other criteria such as packaging requirements, pre-clearance (if applicable), treatment options, labeling requirements, and container conditions. In most cases, Chinese importers can provide enough information for U.S exporters to assess trade feasibility. It is also important and helpful for U.S. exporters to know some general information about the most relevant government bodies, such as China's Ministry of Agriculture and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China. For specific Chinese Ministry websites and additional contacts, please review the [most recent China Exporter Guide](#).

Attachments:

[Food Service - Hotel Restaurant Institutional_Chengdu ATO_China - Appendix.doc](#)