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Report Category: Food Processing Ingredients

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Report Highlights:

China's formidable food processing sector remains vibrant despite the challenges posed by the COVID-19 pandemic. However, COVID-19 import control measures hamper trade. Despite this, China can be an attractive destination for U.S. ingredients. Products with significant sales potential include cheese, tree nuts, dried and frozen fruit, and pulses.

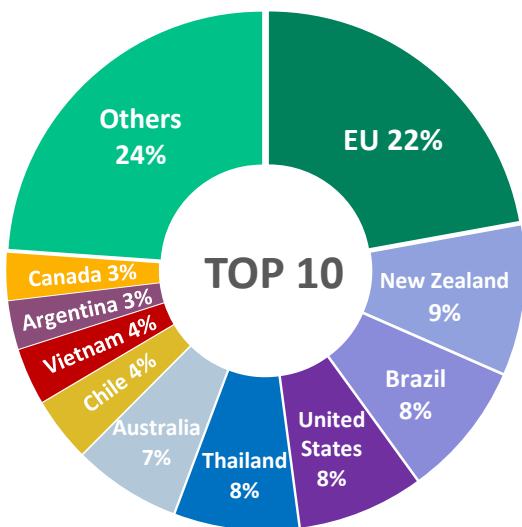
China Market Fact Sheet

Executive Summary

China is the world's second-largest economy, and growth is driven by consumption and investment, but the government has expressed interest in shifting to a consumption-led economy. China revised down its 2020 gross domestic product (GDP) growth rate to 2.2 percent and stated its 2021 GDP should exceed the target of six percent. In 2020, U.S. agricultural exports to China totaled \$26.4 billion, up from \$12.6 billion in 2019. China was the largest market for U.S. agricultural exports, a position it last held in 2016.

Imports of Consumer-Oriented Products

In 2020, China imported consumer-oriented agricultural products from the United States worth nearly \$7.1 billion.



Food Processing Industry

In 2020, China's overall food and beverage production volume grew 6.3 percent. Despite the downward economic pressure and the impact of COVID-19, the food manufacturing and food processing sectors remained stable. Most of China's food processing ingredients come from domestic producers, increasing demand for imported ingredients in the higher-end market.

Food Retail Industry

In 2020, overall retail sales of consumer goods declined for the first time in the past ten years as the pandemic took a toll on disposable incomes and in-store shopping. In 2020, online retail sales increased by 11 percent compared to 2019. Online grocery and food sales increased by 31 percent year-over-year, as consumers increasingly used mobile delivery applications to have fresh produce and other grocery items delivered to their door. Traditional offline-only retail chain market share continued to erode due to pandemic-related movement restrictions and consumer preferences for online grocery and food delivery.

Quick Facts

2020 Imports of Consumer-Oriented Products

\$89.3 billion *

Products with Potential Growth in Host Market

- | | |
|-------------------------|---------------------------|
| 1) Pork & pork products | 2) Dairy products |
| 3) Fish products | 4) Beef and beef products |
| 5) Fresh fruit | 6) Food preps |
| 7) Poultry & products | 8) Meat products NESOI |
| 9) Wine & beer | 10) Tree nuts |

Retail Industry Gross Sales (USD \$ trillion)

Total retail sales: \$6.04

Online sales: \$1.81

Top 10 Supermarket Chains

CR-Vanguard, RT-Mart, Yonghui, Wal-Mart, Lianhua, Fresh Hippo, Wu-Mart, Carrefour, Jiajiayue, Hyper-Mart

GDP/Population (2020)

Population: 1.4 billion

GDP (current US\$): \$15.9 trillion

GDP per capita (current US\$): \$11,360

Per capita food expenditure: \$1004

Sources: Trade Data Monitor (TDM) and the 2021 China Statistic Book

*Includes seafood

SWOT

| Strength | Weakness |
|--|--|
| U.S. food products are perceived as high quality and safe, offer a wide selection. | Increased tariffs and bilateral political uncertainty. COVID testing on outer packaging adds costs and risk. |
| Opportunity | Threat |
| <ul style="list-style-type: none"> Increasing health awareness Online and fresh grocery delivery. The U.S. – China Phase One Trade Agreement expanded market access and improved competitiveness. | <ul style="list-style-type: none"> Consumers increasingly trust domestic food production, processing, and safety. Reduced disposable income caused by macroeconomic headwinds. |

SECTION I: MARKET SUMMARY

China's food processing industry has seen sustained growth in recent years. Sales, production, and income in the sector increased in 2020, according to the Chinese Ministry of Industry and Information Technology (MIIT). China's major food processing companies recorded combined profits of 620.66 billion yuan (about \$97 billion) in 2020, up 6.8% from the same period last year. Profit growth at these enterprises was 3.1 percent points, higher than the average of all industrial sectors, according to MIIT.

In recent years, China introduced stricter controls on food safety to help elevate the quality and safety of domestically produced food products. While this helped increase the overall quality of local food products, it also increased consumers' awareness of the importance of food safety. This new consumer emphasis on quality and safety helped create awareness of safe and high-quality imported food ingredients. The United States is among the top origins for premium ingredients.

COVID-19 Import Requirements

Fresh produce is subject to disinfection procedures for COVID-19, and testing of fresh produce for COVID-19 may vary by port. Testing and disinfection requirements on imported products, initially started in January 2021, have generated added risk to the trade as requirements, their interpretation, and unpredictable policy changes can cause requirements to vary widely between ports. While some importers operating at certain ports report manageable trade disruptions, others have indicated they are shifting away from the importing business because of the strict enforcement of the COVID-related import requirements at their location. Exporters are advised to be vigilant on constantly changing COVID-related import measures.

Table 1. Advantages and Challenges for U.S. Food Processing Ingredients

| Advantages | Challenges |
|---|--|
| Fast-paced and increasingly urbanized lifestyles are driving consumers to eat more processed foods. | A slowing economy and increased tariffs on U.S. imports make U.S. food ingredients comparatively expensive. |
| Younger generations are more accustomed to eating western-style cuisine that is likely to contain imported ingredients. | Antiquated state-owned enterprises with centralized procurement dominate the food processing sector, making it difficult for imports to penetrate. |
| U.S. food ingredients are commonly regarded as high quality, consistent, and safe. | U.S. products must increasingly abide by complex certification, testing, and facility/production registration requirements. |
| New technologies, such as automation and packaging, are rapidly improving. | Consumers appear to be becoming more price-sensitive, and ingredient suppliers are hesitant to pass price increases on to consumers. |

SECTION II: ROAD MAP FOR MARKET ENTRY

Entry strategy

To enter the market, U.S. exporters have several options:

- Attend trade shows in China to gain market information, gauge interest in your product(s), observe competitors, and meet potential Chinese partners. Depending on the product, we recommend several high-quality exhibitions. Examples include Food Ingredients China (FIC), Food & Hotel China (FHC), Bakery China (Shanghai), China Bakery Exhibition (Guangzhou), and China Food & Drinks Expo (also known as Tang Jiu Hui). Exporters should also consider attending major Hong Kong-based trade shows, all of which attract Chinese importers and distributors, such as Asia Fruit Logistica and HOFEX.
- Participate in [State Regional Trade Group \(SRTG\)](#) activities, such as trade missions to China. Trade missions typically include site tours of processing facilities, one-on-one meetings with importers, exhibiting under a unified USA pavilion at trade shows, and attending exporter training and education events.
- Work with [state departments of agriculture](#) and state trade promotion offices and participate in trade missions and activities similar to those organized by SRTGs.
- Connect with [non-profit food and agricultural trade associations](#) (i.e., FAS Cooperators), who receive USDA funds each year to provide exporter assistance, sponsor trade missions, and help producers identify new market opportunities. Many Cooperators have representatives in China who can provide introductions to importers, food processors, and distributors.
- Contact USDA FAS Agricultural Trade Offices (ATO) in China (Beijing, Shanghai, Guangzhou, and Shenyang) for information and trade facilitation assistance. These ATOs are strategically located in commercial regions, and they can provide tailored information about their respective areas. See Section IV for contact information.

Note: COVID-related travel restrictions to China are expected to remain in place for the foreseeable future.

Import Procedures

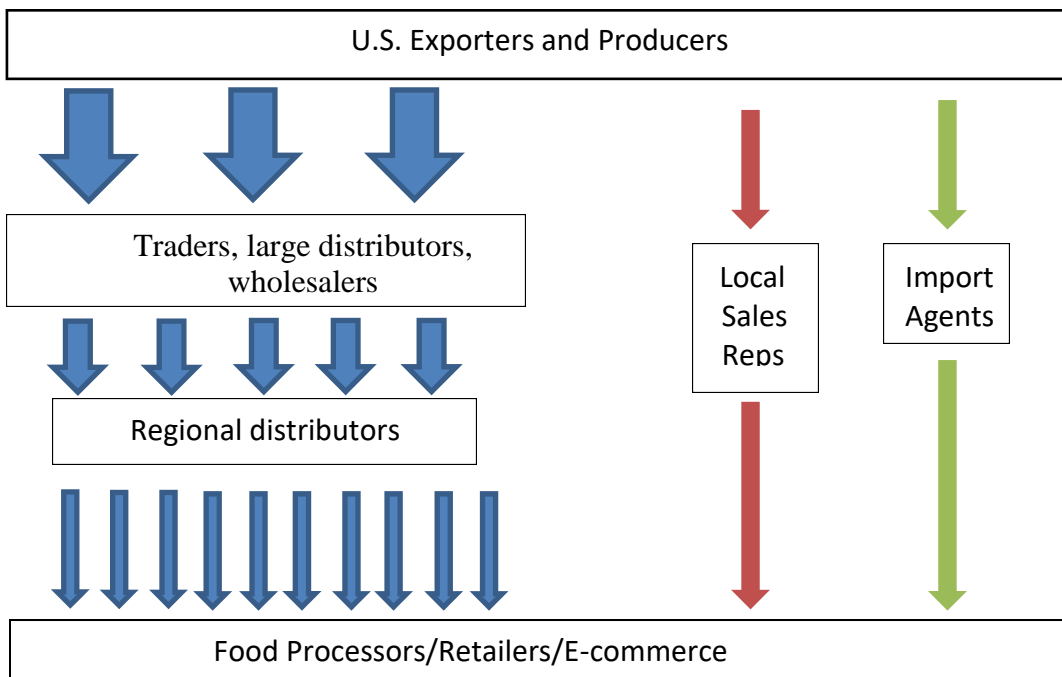
Exporters may find the following reports particularly useful. The [China Exporter Guide](#) provides readers with market access information, entry strategies, import procedures, and demand trends. The [Food and Agricultural Import Regulations and Standards \(FAIRS\) Narrative report for China](#) provides comprehensive information on product-specific regulations and standards and includes product testing, labeling, packaging, and production facility registration requirements. The [FAIRS Certificate report](#) offers a brief outline of the import certificates and other documents needed to import U.S. products into China.

U.S. exporters should visit the [GAIN system](#) for the most current information.

Decrees 248 and 249

Effective January 1, 2022, Decrees 248 and 249 require foreign suppliers of specific food products to China to be registered with the General Administration of Customs of the People's Republic of China (GACC) before having products presented for customs clearance. FAS China offices have issued several GAIN reports on GACC Decrees 248 and 249. U.S. exporters should consult the most current information in the [GAIN system](#), which provides points of contact at the GACC, to ascertain whether their enterprise needs to register and whether the company can self-register or needs to be recommended for registration by a U.S. competent authority. At the time of publication of this report, the most current information FAS China can provide on Decrees 248 and 249 is in the following GAIN report: [Decree 248 Single Window Operation Manuals and Tutorial](#).

Figure 1. Imported Food Ingredient Distribution Channels



Note: Width of arrows denotes relative volume of trade.

Sector Trends

China continues to transition from a society that values "eating full" to one that emphasizes "eating well," especially among the growing urban middle class. This trend includes eating Natural or less processed, less sugary foods with a shorter shelf-life.

Replacement and light meals are increasingly popular among young consumers in first-tier cities. Replacement meals are diverse and include sandwiches, salads, energy bars, or biscuits but generally use less salt and reduced fat. Plants-based products used for meal replacement are typically beans, wheat, fresh fruits, nuts, dried fruits.

More traditional industry segments, especially those within the food processing and manufacturing sectors, are expected to consolidate, and growth may also slow relative to fresh and minimally processed foods. The retail (to include e-commerce) and HRI sectors are expanding their ready-to-eat options to have "fresh and healthy" and diet-minded foods for affluent urban consumers. Ready-to-eat products and convenient drinks continue to see the most potential in the food processing sector to meet the demand of the increasingly time-starved consumers.

Quick and ready-to-eat frozen food, another ingredient channel, has also grown because of better consumer education and cold chain logistics development. Besides the traditional quick-frozen dumplings, more varieties have shown up in the market, reflecting Chinese and western cuisine styles and gaining favor with younger consumers. The COVID-19 pandemic, unfriendly to many other sectors, did spur an upward market trend in quick-frozen food products.

International brands are gaining more Chinese consumers, but domestic brands still reign supreme. Live streaming has become integrated with e-commerce and plays a vital role in food and beverage marketing.

China's bakery sector has expanded rapidly in recent years, underpinned by the country's rising middle class, ongoing Westernization of lifestyles and diets, and increasing demand for convenient food options. Please read the [International Agricultural Trade Report "China's Rising Bakery Sector"](#) for more in-depth information.



The 2021 Guangzhou Bakery show drew crowds of industry professionals and consumer visitors. Because of COVID-related travel restrictions, many bakery ingredients shows offer virtual activities to coincide with in-person events.



Bakery Trends

- The bakery sector is constantly evolving.
- Trendy products/formats attract consumers and are quickly copied.
- Multi-formats: sit-down, grab-and-go, in-store kitchens.
- The baking industry is more established in 1st and 2nd tier cities - Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, and Xiamen.
- Bakeries diversify menus to include coffee, milk, and bubble teas. Coffee shops are doing the reverse to add baked goods.
- Prolific digitalization.
- Quick-service and long-distance delivery options are increasing.

SECTION III. COMPETITION

Since 2018, trade friction between the United States and China has affected the competitiveness of many U.S. products. However, in 2020, China established a process for importers to seek [exclusions](#) for retaliatory Section 301 tariffs on U.S. products, including agricultural products. Nonetheless, several key food ingredients exporting countries (e.g., Australia and New Zealand) have signed free trade agreements with China, reducing U.S. competitiveness. For further information, please read [China Hastens Ag Import Diversification](#). Despite increased competition and higher tariffs, many U.S. food processing ingredients remain in demand.

SECTION IV. BEST PRODUCT PROSPECTS

Cheese: Cheese imports benefit from the growing popularity of western-style food and consuming foods high in calcium and protein. Therefore, cheese benefits from the rise of health-conscious consumers seeking healthy snacking, and single-serve cheese formats can fill the need of this consumer segment.

Tree Nuts: Consumers understand that tree nuts are healthy and nutritious, and many snack and cereal manufacturers have stepped up the use of tree nuts in their products. These efforts are likely to drive tree nut consumption, while tree nuts have shown to be a popular product sold on e-commerce platforms.

Imported tree nuts have also found a home in China's growing baking sector, where U.S. almonds, pecans, and pistachios as ingredients in bread, cakes, cookies, and other pastries.

Dried fruits: Blueberries, cranberries, and tart cherries have great potential due to the specific attributes of U.S. varieties. Raisins and dried cranberries are also used as an ingredient in food processing, and the rapid development of the bakery sector has helped drive raisin consumption.

Dairy Ingredients: Whey, skim milk powder, and butter are in high demand since China cannot produce them in sufficient quantities and quality. U.S. high-protein whey concentrate, which is used to fortify beverages and yogurts, is especially in demand due to lower assessed tariffs. High tariffs restrict the competitiveness of most other U.S. dairy ingredients.

Pulses: Chinese food processors have shown interest in U.S. pulses for making noodles, meat replacement products, and high-end pet food.

Plant-based protein: Demand for high-protein plant-based beverage products are growing in the China market, including coconut milk, oat milk, and nut milk. Demand for higher protein beverages contributes to dairy and plant-based milk growth.

Category A. Products Present in the Market which have Good Sales Potential (Unit: US\$ million)

| Product Category | 2020 Imports from the United States | 2020 Total Imports | Key Constraints for Market Development | Market Attractiveness for U.S. Exporters |
|------------------------|-------------------------------------|--------------------|--|---|
| Cheese | \$37 | \$590 | Price competition from New Zealand and Australia | Expanding consumption driven by ready-to-eat sector of convenience store chains |
| Tree Nuts | \$545 | \$2,065 | Price competition from Australia and Iran | Versatile applications in either a snack, beverage, or baking industry |
| Whey and modified whey | \$810 | \$4,807 | Price competition from Australia and New Zealand | Increasing nutritional needs of health products |
| Dried Fruit | \$22 | \$887 | Price competition from Chile and Turkey | Growing demand from the baking industry |
| Pulses | | | | |
| - Dried Peas | \$39 | \$821 | Price competition from Canada | Higher quality over competitors |
| - Lentils | \$6.6 | \$11.2 | | |
| - Chickpeas | \$0.01 | \$4.8 | | |

Category B. Products Not Present in Significant Quantities but Possess Good Sales Potential (Unit: US\$ million)

Barley Malt: Chinese brewing industry has shown interest in U.S. malt, and U.S. industry representatives have carried out activities to educate local Chinese brewers and maltsters on the merits of U.S. malts.

Frozen Fruit: Frozen fruits, such as blueberries, cranberries, and tart cherries, have great potential due to the specific attributes of U.S. varieties. Augmenting growing domestic production, China can source fresh blueberries from Chile and Peru; U.S. blueberries have a higher sugar content and softer skin which are sought after by food processors, especially in beverages and yogurts.

| Product Category | 2020 Imports from the United States | 2020 Total Imports | Key Constraints for Market | Market Attractiveness for U.S. |
|------------------|-------------------------------------|--------------------|---|---|
| Barley Malt | \$0.35 | \$67 | Price competition and lack of awareness of U.S. sources | Price competition and lack of awareness of U.S. specialty grains and U.S. sources of these products |
| Frozen fruit | \$0.6 | \$386 | Lack of awareness of U.S. suppliers | Industry pursuing lower ingredient cost |

Non-GMO Food-Grade Soybeans. Although non-GMO food-grade soybeans can be imported, they are traded in limited amounts due to China's zero-tolerance policy for the presence of biotech in a food-grade soybean shipment. If a trace amount of biotech soybeans is detected, the entire load will be denied entry. Expanding U.S. non-GMO food-grade soybeans is contingent upon China approving a low-level presence policy to address incidental contamination.

SECTION VI. KEY CONTACTS AND FURTHER INFORMATION

For more information about food and agricultural import regulations and standards, please contact:

USDA FAS Office of Agricultural Affairs

U.S. Embassy in Beijing

Tel: (86-10) 8531-3600 Fax: (86-10) 8531-3636

AgBeijing@fas.usda.gov

For more information about this report and food ingredient marketing opportunities in China, please contact:

USDA FAS Agricultural Trade Office in China

Agricultural Trade Office, Beijing

U.S. Embassy in Beijing

Tel: (86-10) 8531-3950

Fax: (86-10) 8531-3050

atobeijing@fas.usda.gov

This office covers Beijing, Tianjin, and Chongqing; Hebei, Henan, Shanxi, Shaanxi, Qinghai, and Gansu Provinces; Xinjiang, Ningxia, and Inner Mongolia Autonomous Regions, Sichuan, Yunnan, Guizhou, Hubei, Hunan, Jiangxi, and Tibet.

Agricultural Trade Office, Shanghai

Tel: (86-21) 6279-8622

Fax: (86-21) 6279-8336

Email: ATOShanghai@fas.usda.gov

This office covers Shanghai, Jiangsu, Anhui, and Zhejiang Provinces.

Agricultural Trade Office, Guangzhou

Tel: (86-20) 3814-5000

Fax: (86-20) 3814-5310

Email: ATOGuangzhou@fas.usda.gov

This office covers Guangdong, Guangxi, Fujian, and Hainan Provinces.

Agricultural Trade Office, Shenyang

Tel: (86-24) 2318-1380

Fax: (86-24) 2318-1332

Email: ATOShenyang@fas.usda.gov

This office covers Liaoning, Jilin, and Heilongjiang Provinces.

Attachments:

No Attachments