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## China, Peoples Republic of

### Food Processing Ingredients Sector

### North China Overview

### 2008

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**Report Highlights:** North China is home to more than 13,117 food processors primarily located in the Special Municipalities of Beijing, Tianjin and Henan, Liaoning and Shandong Provinces. Food and agricultural product processing is primarily in the areas of seafood, meat, poultry, dairy and grain as well as the production and bottling of beer. Rising consumer incomes along with demand for health and wellness food products continue to influence the food processing industry to produce higher quality and healthier food and beverage products.

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## Summary

North China is home to a significant portion of China's food processing industry with more than 13,117 food processors located in the Special Municipalities of Beijing, Tianjin, and Henan, Liaoning and Shandong Provinces. More than 65 % of these are classified as agricultural product processors with the remainder food and beverage manufacturers. Henan, Liaoning and Shandong Provinces have the highest concentration of processors, primarily seafood, meat, poultry, dairy and grain as well as the production and bottling of beer.



### North China Food Processing Industry at a Glance:

Categories	Number of Enterprise	Percentages	Total Revenue Million \$
Food Processors	8,642	65.88%	4,300
Food	2,820		1,860
Manufactures		21.50%	
Beverage	1,655		1,333
Manufactures		12.62%	
Total	13,117	100.00%	7,493

Data Source: China Statistical Year Book 2007

Exchange rate: \$1= RMB7.4

While China's logistical and cold chain systems continue to improve, underdevelopment of these basic systems continue to impede the region's food industries. Distribution channels and cold chain facilities are somewhat less efficient in North China compared to East and South China. For many food products requiring cold chain facilities, the cost of food and agricultural inputs can increase as much as 2-3 times from the port of entry to final inland destination. This is due to long transportation distances, poor handling and inadequate refrigeration systems. However, expanded warehouse capacity, and improving importer and local agent networks in North China should eventually enable distributors to keep key items in stock despite current long transoceanic lead times, and other inefficiencies.

Rapidly changing and increasingly modern, fast paced lifestyles, especially for affluent urban residents, means consumers often prefer to purchase value-added products in supermarket or hypermarket formats. And, many consumers are migrating from price to quality, meaning value-added products are very much on the rise. Portion control, ready-to-cook, ready-to-eat and drink, ready-to-go meals including meat, seafood, dairy and starch based foods such as noodles, instant rice, and pizza that require minimal preparation effort and time are increasingly being positioned to meet changing consumer needs. Easy to prepare, high quality, nutritious and products generally perceived as safe continue to grow in popularity.

### Food and Beverage Processors

Consumers in the North China region often prefer food products that are starch based. Local trade resources estimate that 1 out of every 3.5 packages of instant noodles, and 5 out of 10

of packages of ham sausages produced in China are made in Henan Province. The largest meat and poultry processor, Henan Shineway Group (Shuanghui), and Sanquan the leading producer of frozen dumplings are both located in Henan Province. Also, there are a variety of other food processors and ingredient suppliers located in this important province known for its flour based foods including organic and soybean flour, etc.

### Seafood

Seafood processing is one of North China's major food processing industries which is mostly concentrated along the coastal cities of the Bohai and Yellow Seas, especially in Shandong and Liaoning provinces. Based on post participation in past China Fisheries Expos held in Qingdao and Dalian, a growing seafood processing industry in North China continues to evolve with Qingdao the major destination for such processing. However, only 4-5 years ago Dalian held the top ranking and still ranks number two in China. In 2007, China imported \$2.4 billion in fishery products from the U. S., 13% of the total seafood imports market share, with estimates as high as 85 % of these products used for processing and re-export.

### Beer

With China's top four beer brands' headquartered in North China, beer production is among the most significant processing industries in the region. According to the Euromonitor, China Resources Breweries Ltd. (CR Breweries) which owns the Snow Beer brand, occupies the number one position in terms of national market share at 15.8%, followed by Tsingtao with 13.9%, and Yanjing at 10.5% as well as Harbin Beer with a 4.4% national market share. Based in Beijing, CR Breweries is a joint venture between the China Resources Enterprise and the SABMiller Group (world's second largest brewer). Snow Beer is one of the 30 leading beer brands under CR Breweries. US global beer giant Anheuser-Busch, owns a significant share of Tsingtao Beer (27%) and Harbin Beer outright. These new investments in beer have benefited China's beer producers as growing affluence in China drives expanding beer consumption. Based in Beijing, Yanjing Beer remains one of the only brewers in China not teamed up with an international partner or arrangement. Yanjing Beer occupies a whopping 50% market share in North China, and something on the order of greater than 90% of the Beijing market, as well as operating the single largest beer manufacturing facility in Asia.

### Dairy



Local manufacturers lead the dairy sector in China with Inner Mongolia Mengniu Milk Industry (Group) Co. Ltd (Mengniu) topping the list. The company has a wide dairy product portfolio including ice cream and yogurt. In 2007, Mengniu invested \$162million (RMB 1.2 billion) in the new high-tech production base, the largest in the world, in Hohhot. With 22 production lines and a daily production capacity of 2,000 tons Mengniu is by far the largest. The Yili Industrial Group owns more than 130 subsidiary companies and branches

including ice-cream, and other dairy products. The Yili Company is the official dairy sponsor for the 2008 Beijing Olympic Games.



Functional milk products are on the rise with rising demand for health and wellness products. Some of these new products include high calcium, collagen, fiber and vitamin E enhanced milk as well as low fat, and cereal fortified milk positioned as beauty products catering to an emerging niche market targeted at women and children. In

cooperation with its strategic partner Danone, Mengniu introduced pro-biotic ingredients in its mulberry and pomelo flavored milk products in 2007.

Another strong market player is the Shijiazhuang Sanlu Group which specializes in infant formula and baby milk products. In cooperation with Fonterra, Sanlu developed a first-class dairy operation in Tangshan in Hebei Province. The company imported 5,000 top quality dairy cows from New Zealand as well as used Fonterra's research and development expertise to produce high quality raw milk to produce milk powder and baby milk formula in China.

Top 10 Dairy Companies in 2006			
Rank	Company	Location	Retail Value (\$ Million)
1	Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd	Inner Mongolia	2,614
2	Inner Mongolia Yili Industrial Group Co., Ltd	Inner Mongolia	2,298
3	Shijiazhuang Sanlu Group	Hebei	1,279
4	Bright Dairy & Food Co. Ltd		976
5	Danone Group		923
6	Nestle SA		342
7	Hunan Taizina Group	Hunan	271
8	Sichuan New Hope Agribusiness Co., Ltd	Sichuan	264
9	Xuzhou VV Food & Beverage Co., Ltd	Jiangsu	193
10	Beijing San Yuan Foods Co., Ltd	Beijing	174

Source: Euromonitor International 2008

International dairy product players are increasingly taking a larger role in the market. The Danone Group is currently ranked at number five in fluid milk beverage products with a market share by value of nearly 5% followed by Nestle with over 2%. Nestle has also been active in powdered milk product development with its Nestle Hi-Fiber and Hi-Calcium Milk.

## Meat

China's meat processing industry which includes fresh, frozen, canned, preserved and chilled meat products is highly fragmented. Henan Shineway, located in Henan Province, enjoys a nearly 20% market share for canned, preserved meat, and meat products as well as an 8% chilled processed meat market share, making it the largest meat company in China. Other major players include Yurun, located in Jiangsu Province and the People's Food Holding Ltd, headquartered in Shandong Province. Competition among these three rivals is intense in most first-tier cities, whereas regional players dominate regional markets. Given recent meat supply shortfalls, and rising domestic meat prices combined with an appreciating Yuan versus the US Dollar, domestic meat processors seeking meat and meat product imports. Traditional low value pork product imports are no longer able to satisfy the domestic needs of China's expanding meat processing industry.

## Quick Freeze Products

Quick frozen products such as dumplings, buns, pancakes, glutinous rice dumplings and other frozen desserts are mainly produced in North China, especially in Henan Province. With rapid development over the last decade, the Henan Synear Food Joint Stock Co. Ltd. has become



the top brand in both frozen desserts and other frozen foods. As the quick frozen product market leader, the company captured a 19% and 20% market share for frozen dessert and other frozen foods respectively. The company produces more than 300,000 tons annually.

### **Market Opportunities and Challenges**

The 2008 Olympic Games in Beijing represent a significant opportunity for the food service and food processing industries given strict food safety standards being implemented, and more importantly enforced. This development will no doubt have both short and long term ramifications for these industries. Domestic processors are in a strong position with other county suppliers for a variety of products including frozen French fries, dairy, meat and seafood products as well as food ingredients. With a number of food product scares related to China over the past several years, consumers continue to seek food and beverage products perceived as safe and of high quality. Often imports or products containing imported food products or ingredients are perceived by consumers as being of higher or superior quality to local ones. In the value-added food processing sector, Japanese and Korean operations are dominant in Shandong and several other Northeast China Provinces.

Challenges facing North China food processors are the relatively large number of obsolete manufacturing facilities, obsolete technologies employed, lack of investment and lack of experienced technical management. Cold chain and logistical systems evolved in North China for different purposes in the past which often only required frozen cold storage. However, current market demands for chilled as well as other environmentally controlled capacities make these outdated. Optimization of capital, technology, and technical management are critical to providing reliable cold chain and cost efficient capacities beyond warehousing, and refrigerated trucks. With the above said, cold chain and distribution systems continue to evolve and improve with good opportunities in this sector. This is particularly true in China's Emerging City Markets, many in North China, characterized by double-digit GDP growth rates, emerging middle classes, and rising disposable incomes.

### **China Sets New Targets in 11<sup>th</sup> Five Year Plan**

Since the Year 2000, China's food processing industry has grown at double digit growth rates annually. The 11th Five Year Plan covering the period, 2006-2011, has encouraged and set the stage for development in a number of China's major industries including food processing. According to the Plan, the food processing industry will focus on: food safety as a top priority; meet the growing demand for healthy and nutritionally sound food and beverage products; meat processing and cold chain logistics and facilities improvements; convenience and variety of food will increase and expand; and advanced technologies in the food processing industry will be encouraged. The plan defines the primary areas of focus as follows:

- 1) Grain processing
- 2) Edible oil processing
- 3) Fruit and vegetable processing
- 4) Meat processing
- 5) Fishery and seafood processing
- 6) Dairy processing
- 7) Beverage production

**North China's Food Processing Industry at a Glance:**

Cities and Provinces	Number of Food Processors	Number of Food Manufacturers	Number of Beverage Manufacturers
Beijing	220	198	64
Tianjin	155	149	50
Henan	1,313	361	257
Inner Mongolia	392	106	86
Liaoning	1,067	307	173
Jilin	350	87	133
Xinjiang	182	68	40
Shandong	3,446	945	408
Shanxi	158	82	61
Gansu	184	49	68
Hebei	637	242	154
Shaanxi	207	110	80
Heilongjiang	398	151	119
<b>Total</b>	<b>8,642</b>	<b>2,820</b>	<b>1,655</b>

*Data Source: China and provincial Statistical Year Book 2007*

**Post Contact and Additional Resources**

For further information about the China market, as well as updates on upcoming events and activities, please visit us at [www.usdachina.org](http://www.usdachina.org) or contact one of USDA's offices in China:

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