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Profile of North China Food Manufacturing

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Raisins

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Report Highlights:

This EMP-funded study provides a survey-based profile of North China's food manufacturers, including their ingredient needs and interest in imports. Detailed data on manufacturers will be published in a separate report.

Executive Summary

North China is a major center for food manufacturing, and an excellent potential market for U.S. food ingredients. However, having grown from humble origins, most of China's food manufacturers are not well known outside of China, nor are they particularly aware of the wide range of ingredients available from the U.S. Even those currently using imported ingredients source these mainly through importer/distributors. This report provides a survey-based profile of North China's food manufacturers. Detailed importer survey data will be available in a separate report. Although ATO has reviewed and edited this report, it remains true to the contractor's original submission. Therefore, opinions expressed are those of the contractor, and should not be interpreted as official ATO positions.

China's Food Industry: General Background

Food industry is China's largest manufacturing sector, with double-digit growth rates over nearly three decades. In 2010, the industry generated gross revenue of nearly USD 1 trillion, accounting for approximately 15.85% of the nation's GDP. China has now about 41,900 sizable food manufacturers (state-owned enterprises and others with annual revenue exceeding RMB 5 million or 780 thousand dollars), employing a total work force of 6.54 million.

Growing with this industry is the issue food safety. The food scandals of recent years have aroused enormous public concern. According to a recent online survey conducted by Reuters, China fared the worst when it came to shopper's views about food safety oversight. To tackle this problem, the Chinese government approved new legislation aimed at improving and monitoring national standards in food production. New laws will standardize food production and clamp down on illegal activities in the industry.

I. Food Industry in North China

Due to budget limits, this study only covered key parts of North China, including the provinces/districts of Beijing, Tianjin, Shandong, Henan, Hebei, Shanxi, Ningxia and Inner Mongolia, as highlighted in the map of China below. These were chosen to target the major clusters of activity in the food manufacturing industry as follows:

- Shandong Province is one of the richer provinces of China, with nominal GDP ranking the third in the country, and is China's top agricultural exporter. Shandong plays a leading role in food processing industry in North China: among the 75 food production enterprises identified in this survey, 32% are in Shandong, and its food industry focuses on large enterprises with well-known brand names.
- Henan is the 5th largest provincial economy in China and the largest among the inland provinces. It is China's top producer of wheat, rice and sesame and includes China's largest meat packers. However, its per capita GDP is low compared to other eastern and central provinces. Food production and processing makes up more than 14% of the province's secondary industry. Among the 75 food manufacturers identified in the survey, 22.67% are in Henan.
- Beijing and Tianjin: Beijing is the capital of China and one of the most populous cities in the world. It is the country's political, cultural and educational center and home to the headquarters for most of the largest state-owned enterprises. Tianjin is a major metropolis only 100 kilometers from Beijing, with the largest port in North China. The Beijing-Tianjin corridor is an important food manufacturing center in part because of the location near two major consumer markets.

- Other provinces: Hebei, Shanxi, Ningxia and Inner Mongolia share some common features of being less economically developed than the coastal provinces and have agriculture as a traditionally important industry. Food industry is growing fast in these provinces due to the importance of agriculture in the region, but is more geographically scattered.

North China Survey Region



Leading Food Manufacturers

75 food manufacturers were selected for this survey, which was evenly divided among five sub-sectors: quick frozen food, non-frozen ready-to-eat food, confectionery and snack food, processed cooked meat and seafood, and bean products. The methods used were 30 field visits that involved interviewing some of the clients across the specified 5 sub-sectors and telephone interviews to all these manufacturers. All the data was collected using a standardized survey template.

Note on bean products: Most of the categories used in this report are self-explanatory, but bean food products may require some explanation. Beans in this case refers to all dry beans and peas. Peas tend to dominate the discussion due to the existence of an organized industry that processes pea flour into noodles, but the potential may actually be higher for other dry beans. Usage of these products falls into four categories: 1) bean paste, used primarily in either moon cakes or in distinctly Chinese ice cream flavors; 2) eight treasure and similar types of congee – a canned, lightly sweetened rice porridge with beans, Chinese dates and other ingredients; 3) beans for use in flavoring drinks, particularly soy milk; and 4) beans for use in traditional snack foods (fried whole for snacking or processed into lightly sweetened cakes). Potential applications for dry beans also exist in the fast-noodle sector, where ATO is actively working with the Chinese industry.

Geographical concentration

Geographically, the 75 selected food manufacturers are heavily concentrated in Shandong and Henan, with over half of the manufacturers located in the two provinces. Beijing and Tianjin also formed a significant cluster.

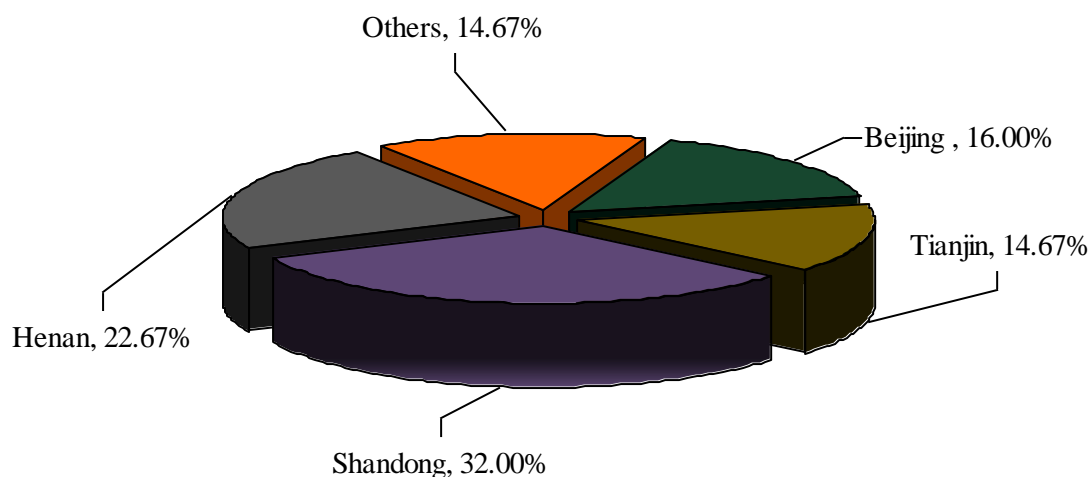


Table: Geographical spread of the 75 food manufacturers

Sub-sector	Beijing	Tianjin	Shandong	Henan	Other
Quick frozen food	1	2	2	6	4
Non-frozen ready-to-eat food	4		2	5	4
Confectionery and snack food	3	9	2	1	
Processed cooked meat and seafood	3		8	4	
Bean food	1		10	1	3
Total	12	11	24	17	11

Ownership

Corporate ownership is a complicated issue in China. 60% of the 75 manufacturers are joint stock/shareholding corporations, and 32% are privately owned. State ownership in the food sector is surprisingly low, accounting for less than 3% of the total.

Table: Ownership of the 75 food manufacturers by sub-sector

Sub-sector	Private	Joint Stock	State-owned	Other
Quick frozen food	5	9	0	1
Non-frozen ready-to-eat food	3	10	0	2
Confectionery and snack food	13	0	1	1
Processed cooked meat and seafood	3	11	1	0
Bean food	0	15	0	0
Total	24	45	2	4

Production scale

Chinese official statistics are collected from “sizable enterprises” including all state-owned enterprises and others with annual output value exceeding RMB 5 million. Among the 75 manufacturers, 60% of them are major corporations with an annual output value of over RMB 100 million (\$15.7 million).

Table: Production scale of the 75 food manufacturers by sub-sector

Sub-sector	Over 100M	50-100M	20-50M	5-20M
Quick frozen food	8	2	1	4
Non-frozen ready-to-eat food	11	1	1	2
Confectionery and snack food	6	9	0	0
Processed cooked meat and seafood	14	1	0	0
Bean food	9	0	4	2
Total	48	13	6	8

II. Imported Ingredients

1. Imported Ingredients Used by Chinese Food Manufacturers

Based on the survey, the U.S. is currently supplying food ingredients to 4 food sub-sectors: non-frozen ready-to-eat food, confectionery and snack food, processed cooked meat and seafood, and bean foods. The 15 manufacturers from the quick frozen food sub-sector did not use any food ingredients imported from USA, however further research indicates that at least one of these is already using U.S. frozen fruit. The primary ingredient in this sub-sector is flour, which is sourced primarily from Canada and Australia at present, and imports of which are subject to quotas. Note also that some companies may be unaware of (or uninterested in) the origin of ingredients sourced from local import distribution agents.

Table: Imported ingredients used by food sub-sector and source countries

Food Sub-sector	Main Ingredients Imported	Source Countries and Areas
Quick frozen food	Flour	Canada, Australia
Non-frozen ready-to-eat food	Palm oil, Spices, Flavoring essence, American durum wheat, Flour	Malaysia, Japan, Hong Kong, US
Confectionery and snack food	Cocoa, Cocoa butter, Cocoa butter substitute, Whole milk powder, Whey powder, Lecithin, Flavoring essence, Nut lets	US, Poland, Argentina, New Zealand, Malaysia, South America, East Asia, Indonesia
Processed cooked meat and seafood	Cellulose sausage casing, Pig meat, Chicken meat and offal, Fish, Pig head meat, Beef shin, Beef, Pork, Seasoning,	Southeast Asia, Paraguay, Europe, US, Vietnam, Southeast Asia, South America, Japan, Brazil, Thailand
Bean food	Peas	Canada, US

The interview data reveal that 42.7% of the 75 food manufacturers are using imported ingredients, and 16% of them are using U.S. ingredients. The U.S. has traditionally been a key exporter of milk powder, peas and whey powder to China.

Table: Use of imported ingredients by sub-sector

Sub-sector	Using Ingredients from US	Using Ingredients from Other Countries
Quick frozen food	0	1
Non-frozen ready-to-eat food	1	6

Confectionery and snack food	7	2
Processed cooked meat and seafood	2	5
Bean food	2	6
Total	12	20

2. Interest in U.S. Ingredients

- While 16% of the 75 manufacturers are currently using U.S. ingredients, a total of 41 manufacturers (55% of the total) have shown interest in importing U.S. ingredients.
- The quick frozen food and confectionery and snack food manufacturer groups showed the most interest, each having 17.3% (13 companies) level of interest out of the 41 manufacturers that were interested.
- Out of the 12 manufacturers already using U.S. ingredients, 7 (58%) were from the confectionery and snack manufacturing group.
- The processed bean food group was the next largest interest pool with 7 out of the 15 (46%) manufacturers surveyed in using U.S. ingredients followed closely by the non-frozen ready-to-eat food group with 6 out of the 15 (40%) manufacturers surveyed.
- The processed cooked meat and seafood manufacturers showed the least interested in U.S imported ingredients with 13 out of the 15 (87%) manufacturers surveyed.

Table: Interest in U.S. ingredients by sub-sector

Sub-sector	Interested	Not Interested
Quick frozen food	13	2
Non-frozen ready-to-eat food	6	9
Confectionery and snack food	13	2
Processed cooked meat and seafood	2	13
Bean food	7	8
Total	41	34

3. Disinterest in U.S. Ingredients

- 34 manufacturers taking up 45% of the total were not interested in importing U.S. ingredients. The main reasons cited for their lack of interest was that enterprises had no or too little knowledge about the U.S. ingredients, with 26 respondents stating this to be the case.

- Many manufacturers have set up long-term contracts with ingredient suppliers, most of them local. The table shows a total of 14 responses, making this the second most import limit to interest in U.S. ingredients. Many are reluctant to import ingredients because they feel it makes things more complicated, i.e., not only dealing with import duties but also dealing with quotas (esp. flour) and licenses, not to mention flexible and timely supply. In some cases, when manufacturers buy ingredients from local suppliers, the origin of these ingredients are from overseas; in these instances, enterprises rely on import agencies to deal with supply and logistics issues.

- The survey indicates the lowest level of interest comes from the processed cooked meat and seafood

manufacturers: interestingly 7 out of the 15 enterprises in this group are already importing from overseas, 2 of them from the U.S. Analysis of the survey indicates that pricing and lack of product knowledge, along with existing long-term arrangements with local suppliers are the key barriers in this sub-sector.

Table: Reasons for disinterest in U.S. ingredients by sub-sector

Sub-sector	High price	Long-term local supplier	Focus on low-end products	Low knowledge of U.S. ingredients	Complicated import procedure	Other
Quick frozen food	1	2		2	1	1
Non-frozen ready-to-eat food	5	3		7		3
Confectionery and snack food		1	1	1		
Processed cooked meat and seafood	6	6		6	3	
Bean food	2	2		10		2
Total	14	14	1	26	4	6

4. Buying Criteria

- Among the 75 enterprises surveyed, 55 manufacturers (73%) listed price as their primary buying criteria. As ingredients prices climb, food manufacturers are under increasing pressure to control costs. In addition to price, quality is also a concern, with 48 enterprises (64%) expressing concern about sourcing the proper quality of ingredients.

- Timeliness and consistency of supply was a another major factor cited by survey respondents, though it was not comparable to price and quality. Responses on this criteria were stronger in the field interviews than in the surveys. Manufacturers with limited experience in importing remain uncertain about the reliability of import supplies, and the flexibility of payment arrangements.

- Food safety is an emerging concern due to the recent legislation on food standard enforced by the Chinese government as well as increasing public concern over food safety. A substantial number of manufacturers highlighted the need to prove the safety of imported ingredients, with documentation including commodity quarantine inspection reports and technical specifications of the ingredients, and other relevant credentials including FDA reports or ISO certificates.

Table: Buying criteria for imported food ingredients by sub-sector

Sub-sector	Price	Quality	Timely Supply	Food Safety
Quick frozen food	7	7	2	2
Non-frozen ready-to-eat food	12	12	2	2
Confectionery and snack food	14	9	4	3
Processed cooked meat and seafood	14	12	4	3
Bean food	8	8	2	2
Total	55	48	14	11

5. Main Requirements of Potential Chinese Buyers

- The overwhelming majority of responses cited the need for more information on U.S. ingredients and their technical specifications. Interviews during field visits reinforced this. Simply stated, Chinese manufacturers do not have enough, if any, knowledge of American ingredients or ingredients suppliers.

- Even though survey data show a limited response for other requirements, field visits and interviews revealed some interesting insights. Survey sheets showed that Chinese manufacturers thought U.S. ingredients were fairly good in quality; however a lot of them were unsure of the other necessary requirements that are needed to be in place for future co-operation.

- A lot of the manufacturers cited the need for flexibility in payment, supply quantity and delivery times, because demand for their products varies. Most manufacturers currently source primarily from local suppliers, and lean on imports when the local suppliers are not able to meet demand or specifications. One manufacturer specifically cited his concern that switching to imports will lead to changes in the taste/quality of the final product because of potential differences.

Table: Reasons for lack of interest in imported ingredients by sub-sector

Sub-sector	Product catalogue	Ingredient specifications	Flexible payment	Timely supply	Flexible order quantity
Quick frozen food	9	7		1	
Non-frozen ready-to-eat food	9	9	1	1	2
Confectionery and snack food	8	8	3	8	4
Processed cooked meat and seafood	7	8	1	2	1
Bean food	9	10	1	1	
Total	42	42	6	13	7

III: Key Findings of the 5 Food Sub-sectors

1. Confectionery and Snack Food Sub-sector

Current Status

- China's current per capita consumption of confectionery is about 0.9 kilograms/year, amounting to about one third of the world average. This may indicate strong potential for future growth, and this industry has grown consistently.
- In North China, the confectionery industry is highly concentrated in Beijing and Tianjin, while snack food production is also common in Shandong and Henan. Tianjin has China's largest production of chocolate products with over 10 large companies, each with a total revenue exceeding RMB 50 million. However, these are low-cost producers marketing primarily to rural consumers.

Current and Future Ingredients Needs

- The large volume of imported ingredients used in this sub-sector goes primarily in chocolate manufacture, as

basic ingredients such as cocoa powders and butters must be imported. Chocolate manufacturers also import large quantities of whey powder and palm oil. Among these, cocoa powder, cocoa butter and coco butter substitutes are imported from Southeast Asian countries (some from South America), milk powder imported from New Zealand, Holland and Australia and whey powder mainly from the U.S. and Holland.

- Tough competition in the confectionery and snack food industry has led to consolidation, leaving the industry in North China increasingly centered around Beijing and Tianjin.
- In Beijing, Beijing Kangbeier Food Co., Ltd. has become the largest confectionery manufacturer in China and is considered the best in North China. One of Kangbeier's top competitors, Yili Food Co., Ltd., recently closed down confectionery production in order to concentrate on other sectors, including bakery.
- In Tianjin, the major local manufacturers have merged together and are the founders of the Tianjin Chocolate Association, currently chaired by Mr. Dou Zhengli, General Manager of Tianjin Jiuzhou Food Co., Ltd. (a leading manufacturer of chocolate products). According to the Tianjin Chocolate Association, the total volume of imported ingredients used by the industry in Tianjin is estimated at over 10,000 tons per year.

Market Development

- Whey powder is the U.S.' primary export to this sub-sector. The U.S. also exports other ingredients such as cocoa powder and lactose, which originate elsewhere but are processed in the U.S., demonstrating the strength of U.S. companies such as Cargill in global sourcing and re-export. Chinese companies are not averse to purchasing products handled in this manner.
- Following food safety scandals related to domestic production, demand for imported milk powder is extremely high in China. Although China traditionally imports milk powder from New Zealand, Holland and Australia, there is a significant market opportunity here for U.S. suppliers.
- U.S. exporters have done well trading through local Chinese import agents, but would do well to consider other models, given manufacturers' price sensitivity. For instance, the Tianjin Chocolate Association is composed of all major manufacturers of chocolate products in the Tianjin area. Potentially it could serve as a group purchaser of ingredients for its member manufacturers. With revenues ranging from RMB 50-100 million for each company, it is unlikely for each of them to place large orders separately or to maintain large inventories. However, by working with the association, U.S. companies could supply larger volumes of ingredients at a lower price.

2. Non-frozen Ready-to-Eat Food Sub-sector

Current Status

- The instant food industry is one of the fastest growing segments of the food sector in China. The past five years has witnessed average annual growth of 27.7%, with total revenue hitting RMB 92 billion in 2010. Instant noodles (fried and non-fried) are the largest product item in this sub-sector. In 2010, China produced 6.88 million tons of instant noodles growing 16% annually since 2006.
- China's non-frozen ready-to-eat food industry is mainly concentrated in North China, especially in Henan, Shandong and Inner Mongolia, where wheat output is high. Beijing is also an important manufacturer because it is a large consumer market. Excluding the large manufacturers that specialize solely in the production of instant noodles, the majority of non-frozen ready-to-eat food manufacturers also produce quick frozen food products.

- Some of the specialized instant noodle manufacturers have expressed an interest in imported ingredients as a means of upgrading their product lines to avoid competing on price alone. Interest has included bean products to improve flavor and nutrition profile, as well as flavorings. However, manufacturers have little knowledge of the products available from the U.S., or how they are used.

Current and Future Ingredients Needs

Wheat flour, palm oil and seasonings are the main volume ingredients in this food sub-sector.

- **Flour:** The need of flour in this sub-sector is substantial, although some companies import wheat instead, as they own their own flour mills. However, import of flour and wheat is controlled through import quotas and licenses. Only a few giant state-owned groups such as COFCO have the import licenses without quota limits, while some large food manufacturers have licenses, but are limited by quota allocations.
- **Seasonings:** China's import of seasonings is also significant in this sub-sector. Southeast Asia and South Asia have been the largest traditional exporters of raw materials for China, although Japan exports a considerable volume of processed seasonings to China. To be competitive in this area, U.S. seasonings manufacturers will likely need to follow Japan's example in developing products specifically for the Chinese industry. However, manufacturers have noted an interest in using imported seasonings to develop new and innovative products, offering a potential opportunity.

Market Development

- The primary challenge in this sector are quotas on imports of wheat flour. Although a breakthrough seems difficult, the survey indicates that interest in U.S. ingredients, particularly wheat flour, is quite high. Chinese importers have proven resourceful in getting the materials they require, so closer contact with individual manufacturers is likely to be the key to success. A clear sign of supporting evidence is that some Chinese food manufacturers explicitly expressed a willingness to have "direct, face-to-face talks" with American ingredient exporters.
- Business opportunities may also exist in some niche market segments. For instance, some companies are interested in American extra-strong flour and extra-soft flour, soft red winter wheat/flour, and some beans, in particular kidney beans.

3. Quick Frozen Food Sub-sector

Current Status

- China's quick frozen food sub-sector has grown slowly relative to other sectors, reaching a total production volume of 2.98 million tons in 2010. Limited freezer space and a difficult consolidation process for an industry that has traditionally been dominated by extremely small-scale, generic manufacturing have been limiting factors.
- Geographically, Henan, Shandong, Hebei, Tianjin and Beijing are the main quick frozen food manufacturers in North China. Henan is particularly strong in producing quick frozen food, and the largest producer in China.

Current and Future Ingredients Needs

- Quick frozen foods commonly seen in the Chinese market are frozen dumplings (baozi and jiaozi), sweet dumplings (tangyuan), dim sum, steamed breads (mantou), spring rolls, etc. The largest companies are now

investing in new product development to differentiate themselves from traditional, small-scale generic manufacturers. The main ingredients used are flour, different types of meats (pork, chicken, seafood, etc.), sesame, beans, vegetables and seasonings. However, the largest manufacturers have introduced some new items – one major manufacturer of sweet dumplings has introduced versions with blueberry and strawberry fillings.

- **Pork:** China's imports of pork, primarily from the U.S., Denmark and Canada, have increased enormously in the past year, due to domestic shortages and rising prices. China's imports of pork are expected to continue to grow, however, this import segment market is highly impacted by domestic pork production, which is often regulated by the Chinese government. Major items have included head meat, snouts and trotters, mainly for use in manufacturing.
- **Seafood** is widely used in quick frozen foods such as dumplings and dim sum. China's domestic production of seafood is becoming unsustainable even as demand continues to rise. Traditionally, much of China's seafood imports were processed and re-exported, but an increasing proportion is now going into manufacture of food for domestic use.
- **Animal offal:** In China, meats like chicken feet, chicken giblets and some other animal offal like pork stomachs (maws) and kidneys are considered to be delicacies. China has been a large importer of such meats, and some of the companies surveyed have expressed a strong interest in importing such meat products from the U.S.

Market Development

- In China's quick frozen food sub-sector, U.S. exporters may find some business opportunities arising from the evolution of the market, although the overall demand of food ingredients will remain stable in volume. Pork, seafood and animal offal are likely to continue in high demand. U.S. exporters may need to establish direct contacts with the Chinese food manufacturers to further understand their needs for such ingredients.
- Chinese food manufacturers usually have their own sales and marketing teams and have their own channels to distribute their products. Some large manufacturers not only have well-established sales channels but also have strong connections with their peers. These companies are usually open for new business opportunities to diversify their product lines. The combination of the ability to create traditional foods with strong distribution capabilities and contact with consumer markets make these companies a powerful agency for introducing new food ingredients to the mainstream Chinese market.

4. Bean Food Sub-sector

Current Status

- In North China, the production of bean food is not as geographically widespread as other sub-sectors, with the majority of bean food production located in Shandong Province. Note, however that the cluster in Shandong is focused on pea vermicelli. Manufacture of other bean products is also growing, and is generally dispersed throughout North China.
- Chinese restrictions on genetically modified (GM) products in human food presents a significant trade barrier for soybeans for food use, although other types of beans are not as likely to be affected.
- Current trends toward healthy eating and lifestyles are driving an increased interest in bean-based foods. This is particularly affecting interest in adapting dry beans for use in instant noodles and other convenience foods in order to make them more nutritious.

Current and Future Ingredients Needs

- In terms of volume, the largest import demand in this sub-sector comes from manufacturers of vermicelli, eight-treasure congee (babaozhou), and soybean powder (not meal) manufacturers. The base ingredients requirements of these manufacturers are various types of dry beans, peas, lentils, soy beans, and different types of starch (potato, wheat and corn).
- Vermicelli: Chinese bean vermicelli manufacturers are concentrated in the cities of Zhaoyuan and Longkou in Shandong province. In general, vermicelli produced in Shandong is mainly made of peas, however vermicelli produced in other areas (Hebei and Henan) uses sweet potatoes, corn and potato starch. The production of vermicelli produced from mung beans is declining as peas have become the main ingredient for bean based vermicelli.
- Eight-treasure congee: The production of eight-treasure congee is heavily concentrated in the south eastern coastal areas of China and Taiwan. North China manufacturers are relatively small in scale, other than Shandong Tubage Group Co., Ltd.
- Ice creams and snacking: Although not yet a major component of import demand, manufacturers of ice creams and traditional snacks are introducing more flavors and products relying on beans. Mung beans are a traditional component in frozen summer treats.
- Beverages: Similar to ice creams and snacks, demand for some dried bean ingredients for flavoring is growing in the beverage sector. This is not yet having much impact on imports, but if it continues could become a significant niche market.
- Thanks to rising demand in the domestic vermicelli processing and starch market, China's ingredients imports for this market have grown steadily. Statistics show China's dry pea imports going from 203,000 metric tons in 2008, to 553,000 metric tons in 2010.

Market Development

- Canada has long been the leading player in exports of dry peas to China at roughly 108 thousand metric tons in 2009. The interviews revealed that U.S. peas are selling at a slightly lower price than Canadian peas, but Chinese importers are reluctant to switch because of concerns about the consistency of quality and stability of supply. Because the needs of vermicelli manufacturers are different from their traditional customer base, to develop this market U.S. suppliers will need to work with Chinese companies to ensure that they produce the quality needed for this purpose.
- Zhaoyuan and Longkou are the leading Chinese production bases for pea vermicelli and the demand for peas is very high. If American exporters can somehow break into this market, e.g. selling peas to one or two leading vermicelli manufacturers, they can gradually expand their exports into this important market segment.

5. Processed Cooked Meat and Seafood Sub-sector

Current Status

- Sales of meat are increasing by about 10% each year in line with China's booming economy. This increase in affluence, coupled with a growing appetite for time-saving processed food is driving the demand for more processed meat-based meals. It is estimated that the processed meat sector will grow at an average of 16%

from 2010-2013.

- In North China, the processed meat and seafood industry are mostly concentrated Shandong, Henan and Beijing. Located among these locations are the leading players in this industry with multi-billion RMB revenues. Henan Shuanghui Group Ltd., for instance, is the world's largest meat manufacturer, with annual revenues of RMB 50 billion (over \$7.7 billion).
- In contrast with meat processors, the cooked meat and seafood sub-sector tends to be dominated by medium-sized processors with only regional distribution capabilities. Differing regional tastes and fragmented distribution systems, particularly for cold chain, reinforce this tendency.
- The bulk of demand for U.S. product is for pork. Although poultry and beef have significant potential, market access issues continue to limit the development of these items.

Current and Future Ingredients Needs

- At the moment, the majority of processed cooked meat manufacturers in North China use local pork, beef, mutton and fish to produce sausages, meat balls and other processed meat based foods. However, rapid rises in local ingredient prices have spurred an increased interest in imported products.
- In North China, the main ingredients imported from overseas are the cassava starch, pork fat and fish paste needed to manufacture their processed meat products. These ingredients are mainly supplied by neighboring countries: The supply of cassava starch is mainly imported from Southeast Asia (i.e. Vietnam and Thailand), and fish paste is mainly from Vietnam due to price advantages.
- Most manufacturers using imported meat source the product through local agencies who purchase from multiple origins. This practice is likely to continue, as import agents provide flexibility in quantity, delivery times and payment arrangements.
- Some of China's ingredients needs for processed meat and seafood production differ from other countries. Several Chinese manufacturers want certain animal parts considered byproducts in the U.S., such as chicken feet, giblets and other offal.

Market Development

- With an increase in demand for time saving foods, processed meat products will play a major influence in the food industry for convenience foods.
- The majority of processed meat and seafood manufacturers are extremely price sensitive, hence favoring imports from neighboring countries in order to get the cheapest possible ingredients. Competing with these sources on price alone would be difficult and maybe not a worthwhile venture. A better strategy would be to target premium product manufacturers who are marketing to food safety and nutritional concerns.
- China is now importing a large volume of pork from the U.S. (also Denmark and Canada), and this is likely to continue for the near future. Given that this is likely to be a long-term market, exporters would be well advised to invest in building relationships with Chinese importers and adapting products and packaging to their requirements.

Chapter 4: SWOT Analysis and Suggestions

1. SWOT Analysis

Strengths

- U.S. food ingredients currently enjoy a relatively strong standing in the local Chinese market, particularly in the high-end food segments. Chinese food manufacturers regard U.S. food ingredients to be of high quality and fairly priced. Chinese manufacturers consider quality and price as the top criteria for their purchase decision-making.
- U.S. food ingredients have a high reputation for food safety. This is particularly important for Chinese food manufactures, as they are facing greater pressure to ensure the safety and quality of their products.

Weaknesses

- While U.S. food ingredients enjoy a good reputation in the Chinese market, reservations have been voiced as to pricing and promptness of customer service. Although some Chinese manufacturers think the U.S. ingredients are fairly priced in general Chinese manufacturers are very price sensitive, and it is extremely difficult for U.S. or any overseas suppliers to stay price competitive against local suppliers, given that these overseas suppliers have to incorporate shipment and warehousing costs, export duties and other costs.
- The awareness of U.S. ingredients remains low in the Chinese market. Even a high proportion of large size food manufacturers which often use imported ingredients claim they do not have sufficient knowledge of U.S. ingredients. Amongst 34 manufactures expressing no interest in U.S. ingredients, 26 (76%) listed “no knowledge of U.S. ingredients” as the main reason for their disinterest.

Opportunities

- Having maintained relative economic growth in the face of the global economic crisis, Chinese consumer buying power and demand continues to grow. Modern-day China is moreover an extremely retail oriented, consumer culture, largely as a product of recent, high-paced social development. Statistically China has proven itself one the largest and fastest growing food markets in the world, growing at an average rate of 15% annually; this momentum is expected to continue into the future. This gives a solid foundation for U.S. food ingredient suppliers to enter and expand in a fast growing market.
- The demand for high-end products is growing fast due to rising incomes and especially fast growth in the population of white collar workers and the newly wealthy, and to the prominence of food safety and quality of life issues for this demographic.
- The Chinese food sector is gigantic and highly diversified, and the industry is experiencing critical restructuring. The rapid changes in this industry offer great opportunities to U.S. suppliers who can adapt their export strategy in accordance with this trend.

Threats

- Competition from other developed countries and fast-growing emerging economies in south-east Asia present a large “unknown” factor in this area. Exporters and re-exporters in Malaysia, Indonesia, Thailand, etc., have created a presence across a wide array of ingredients, even bridging consumer demographics from low to high end markets. Some have substantial investments in food manufacturing in China, giving them a significant advantage.
- The development of strong local production capabilities, increasing brand awareness and public relations

building, and the shift of local producers from exports to domestic sales, presents a heightened sense of competition, particularly as local producers enjoy a high degree of local brand recognition, lower costs, and well-established market communications/sales channels.

- Global market forces, intense competition and shifting demand have put pressure on pricing; despite high economic growth and retail-orientation, Chinese food manufacturers are extremely price sensitive, especially as they have a large and growing number of choices among foreign suppliers and local ingredients on the market.

2. Conclusion and Suggestions

Many Chinese food manufacturers are currently using ingredients imported from overseas including the U.S., however they mainly purchase through local import agents. These agents deal with all the import formalities and import duties, and providing even delivery service to the production sites. It is essential for U.S. exporters to look into the establishment of long-term partnerships with these import agents and/or develop their own import base within China.

Given the sheer size and geographic diversity of China's food manufacturing industry, as well as the rapid pace of development and consolidation, it is difficult to generalize about the opportunities for any given ingredient in any manufacturing sub-sector. That said, certain developments are worth noting as opportunities:

- The confectionary and snack food sub-sector has the best penetration for U.S. ingredients: nearly half (7 out of the 15) of these enterprises already import ingredients from the U.S. and a further 2 are already importing from other countries.
- The quick frozen food sub-sector appears to have greater potential for ingredients that can be imported from the U.S. From the data collected it would be of great interest to further investigate/inquire about the frozen food manufacturers because of the high interest of importing ingredients from the U.S. but none (sic) have yet done so, and only 1 out of the 15 manufacturers is currently importing ingredients of any kind. This implies low competition and high interest – an ideal combination.
- The bean sub-sector also shows a high level of interest. The data show over half (8 out of the 15) of these manufacturers already import peas, but only two import from the U.S. This may indicate good potential for imports from the U.S. In addition, both of the bean and quick frozen food sub-sector ingredient groups have the least reliance on long-term suppliers which leaves the market more open to establishing new supply relationships.
- The processed cooked meat and seafood sub-sector also has good potential for U.S. ingredients. Some low-end ingredients including chicken feet, animal fat (for improving taste of sausage), fish paste, offal and starch can are in high demand by Chinese manufacturers. Exporters will, however, be faced with the persistent market access issues that affect meat products in general.
- The non-frozen ready-to-eat food sector provides unclear market potential for American ingredient suppliers, as the main ingredient of this sub-sector is flour, whose import is highly controlled by few state-owned giants. There may be niche-market potential, however, for flavorings and other minor ingredients.

The interviews with the 75 major food manufacturers in North China have successfully collected a number of explicit requirements for American ingredients. These would require American ingredient exporters to closely study the survey sheets to pinpoint the needs of each Chinese food manufacturer. Further contact with these manufacturers is essential for better mutual understanding and discussion of detailed needs. More work is needed

to develop a comprehensive export strategy that addresses specific market barriers (particularly lack of knowledge), as well as a host of consumer and business cultural issues.

Suggestions

- The survey data imply that the U.S. work to increase awareness of its export credentials which are vital for future cooperation with the Chinese food manufacturers. From the responses many enterprises require typical materials such as samples, test reports (technical report with detailed specifications), and quarantine inspection documents. The Chinese companies in question are typically well-established enough and with narrow enough margins that they are most interested in direct discussion of supply and pricing issues. Exporters can expect to be immediately asked for product and pricing details.
- Most Chinese companies have established long-term supply relationships, typically featuring flexible payment and delivery terms as stated previously. Therefore US companies must work out an effective strategy to tackle flexible payment and delivery practices or consider accepting these features as inevitable challenges they will face in order to do business. More direct and aggressive approaches may include either establishing a long-term partnership with existing Chinese suppliers in the market, or establishing a steady and timely supply base in the country.