



## The Food & Beverage Market in China

*China became the world's largest market for food and grocery retail in 2011 and total retail sales are expected to grow 15% annually through to 2015 according to the Ministry of Commerce. Despite a fragmented distribution infrastructure and growing local competition, opportunities for European SMEs to sell their products in China are likely to grow, driven by increasing disposable income and urbanisation, an improving logistics system, growing concerns on food safety as well as a growing taste for foreign foodstuffs. Highlighted opportunities for European SMEs in this sector are: wine, cheese, dairy products and premium ice cream, pasta, sauces and tomato products, olive oil, beer, chocolate and high-end confectionery, pre-packaged biscuits and snacks, breakfast cereal, coffee, and baby food/infant formulas.*

*This report, updated in November 2013, outlines new regulations put in place since the previous edition was published in July 2011. New regulations include the Registration of Food and Drink Exporters; New Regulation on Exports of Dairy Products to China; and the new registration requirements being considered for imported infant formula milk. To tackle the incidence of food safety problems, which have brought widespread attention over the past few years, the government has restructured its mechanisms to bring the supervision of food production and distribution under one new ministry - the China Food and Drug Administration (CFDA). Furthermore, the report also highlights the latest trend in marketing and joint promotional activities organised by China and EU government organisations.*

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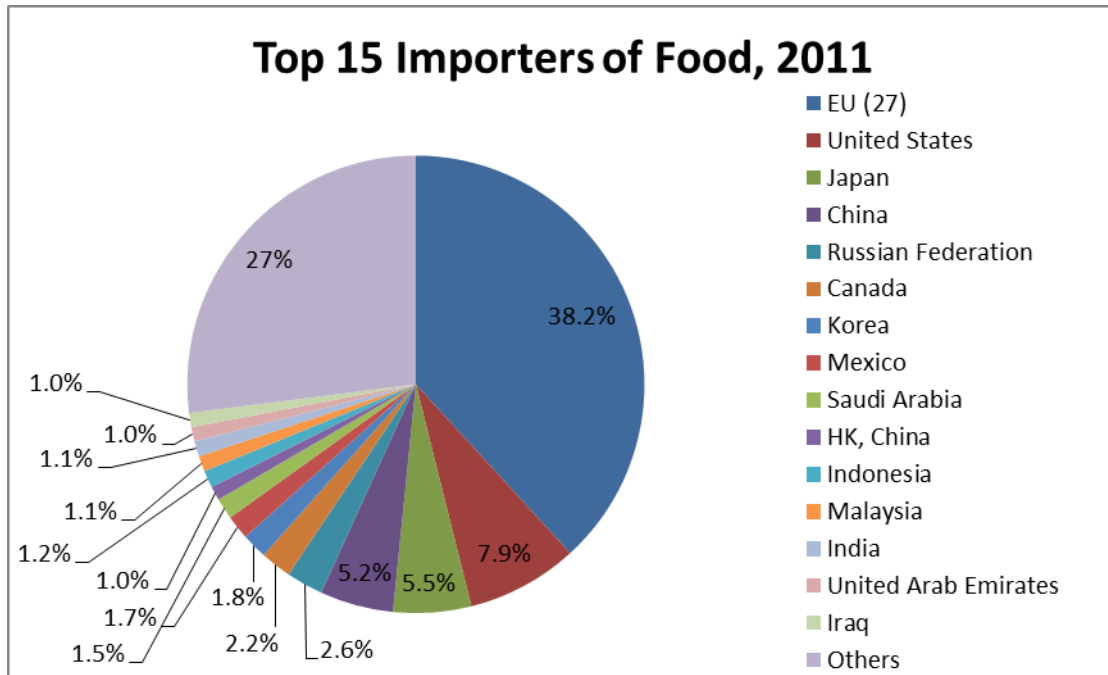
### 1. Market Size

#### 1.1 Food & Beverage International Trade

China's food and beverage imports have shown strong growth in recent years and it has been a significant factor in the overall strong growth of China's grocery retail market. This has meant that, according to IGD<sup>1</sup>, China became the world's largest market for food and grocery retail at the end of 2011, surpassing the United States. China is the world's fourth largest importer of food (after the EU, the US and Japan).

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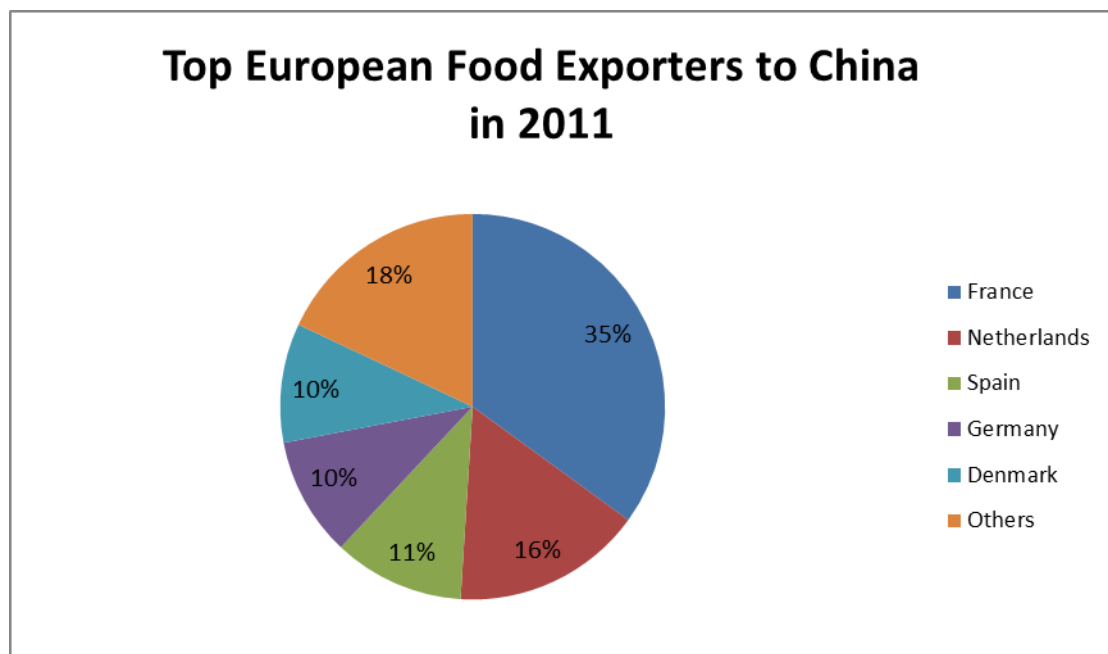
<sup>1</sup> The Institute of Grocery Distribution



Source: World Trade Organisation International Trade Statistics 2012

In terms of the origin of these food products – the United States is currently the largest food exporter to China, followed by Brazil, Canada, Argentina and Malaysia.

Among EU countries, France, the Netherlands, Spain, Germany and Denmark are the top food exporters, and the combined exports of these countries amount to 82% of the EU total. French wine exports help France to be the largest overall EU exporter of both food and beverages to China, with 35% of the EU total, more than double the exports of the Netherlands, the second biggest exporter.



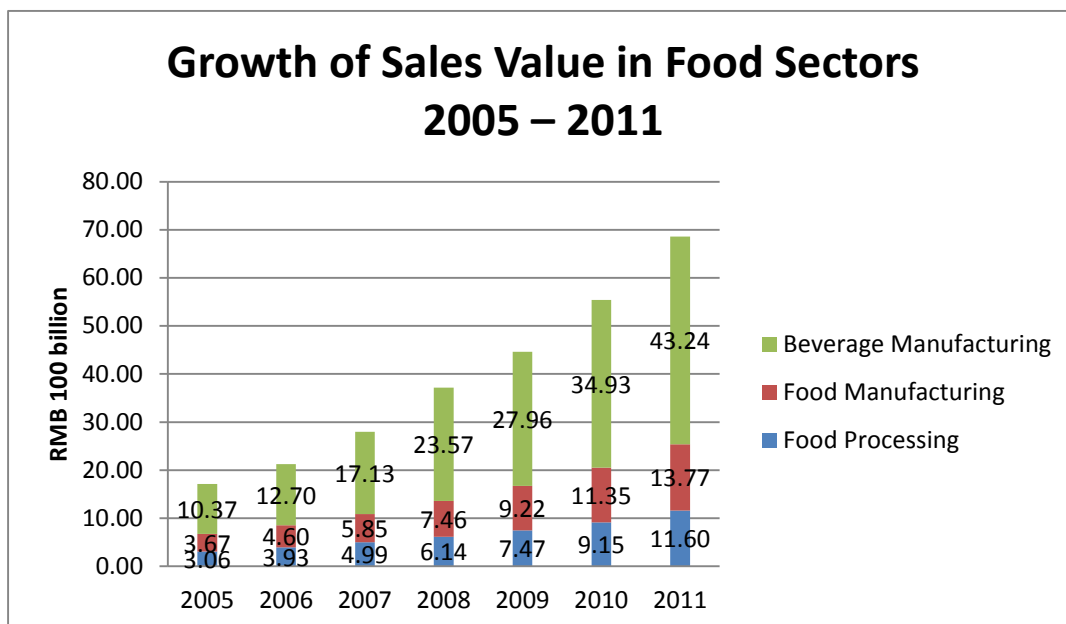
Source: Eurostat

## 1.2 Food & Beverage Sales in China

The Chinese Food & Beverage (F&B) industry grew at an average rate of 30% from 2006 to 2012, and the annual total production value of the industry is in excess of USD \$1.2 trillion (€897 billion). Once again in 2012, the production value grew by a further 30%, with the full-year production value estimated to be USD \$1.6 trillion (€1.2 trillion).

China is a net importer of F&B products, and in 2011 China imported USD \$73 billion (28% year-on-year increase) and exported USD \$53 billion (23% year-on-year increase). Soybeans accounted for around 40% of the total value of F&B imports, while dairy products, pork, and sugar are also common imported products.<sup>2</sup>

Beverage product manufacturing accounts for over 60% of the value, whilst food product manufacturing and processing accounts for around 40%.



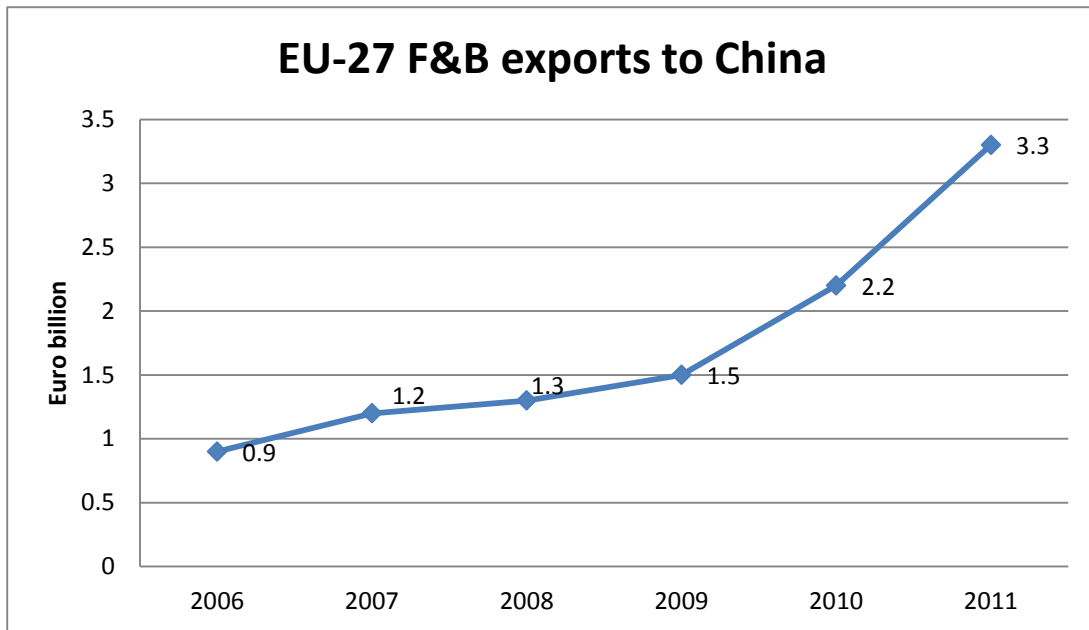
Source: China Statistical Yearbook, 2006-2012

## 1.3 Demand for EU Food and Beverages in China<sup>3</sup>

Exports of EU food and beverages to China tripled between 2006 and 2011 from €0.9 billion to €3.3 billion respectively. There was extraordinary growth between 2009 and 2011 in particular, when exports to China more than doubled; from €1.5 billion to €3.3 billion in the space of two years.

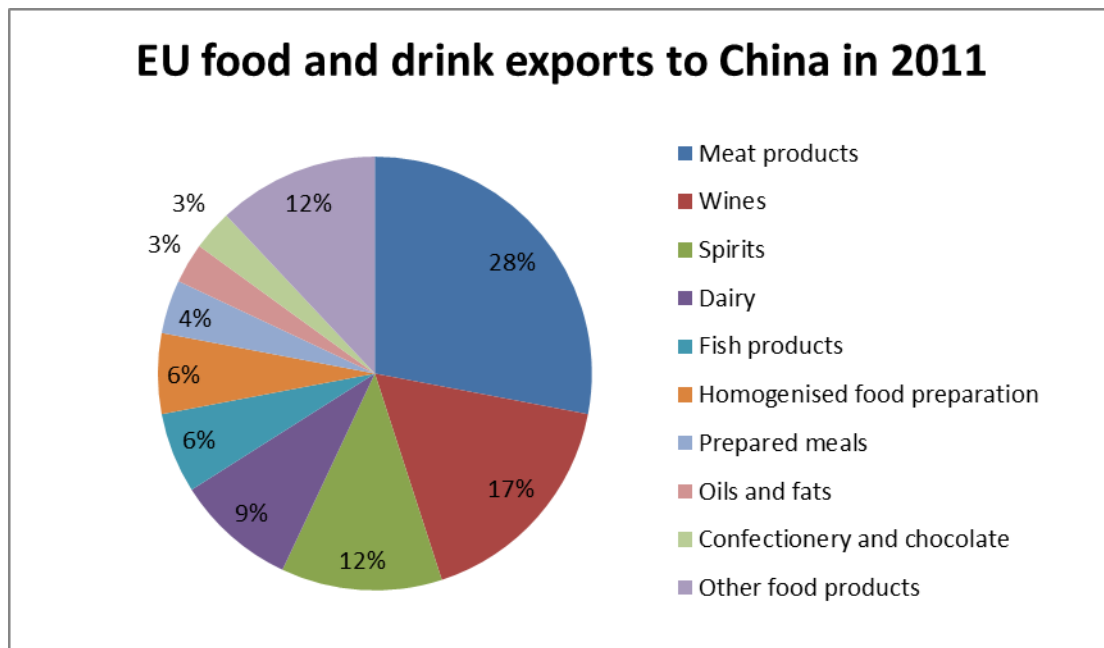
<sup>2</sup> JIJ Group: [www.jijgroup.com/page/en/18/371/china\\_updates](http://www.jijgroup.com/page/en/18/371/china_updates)

<sup>3</sup> Products not subject to SPS protocols



Source: Eurostat

Looking into specific product sectors, it is meat products, alcoholic drinks and dairy products that are the leading EU exports to the China market, with a combined total of 66% of all EU food and drink exports in 2011. In terms of Chinese exports to the EU, top of the list are fish, fruit and vegetable products.



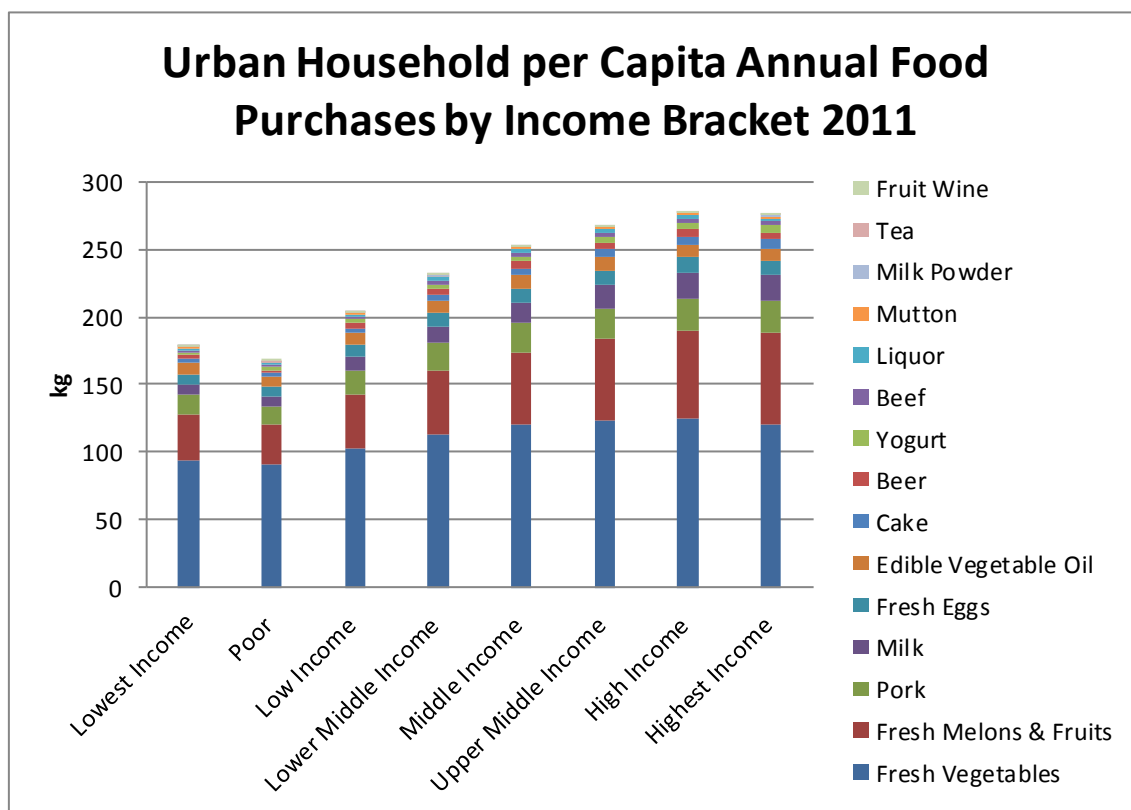
Source: Eurostat

## 2. Key Growth Drivers

### 2.1 Rising Incomes and Increased Urbanisation

A key growth driver in the economy of China is the rapid rise in average household incomes. China's urban household average annual income per capita increased from CNY 1,516 (€186) in 1990 to CNY 23,979.2 (€2,939) in 2011. High income earners spend a higher proportion of their income on higher-value food products, including dining out, pre-packaged foods, milk products and imported foods. The trend in per capita annual food purchases (see chart below) shows both a significant decline in grain consumption and an increase in dairy consumption.

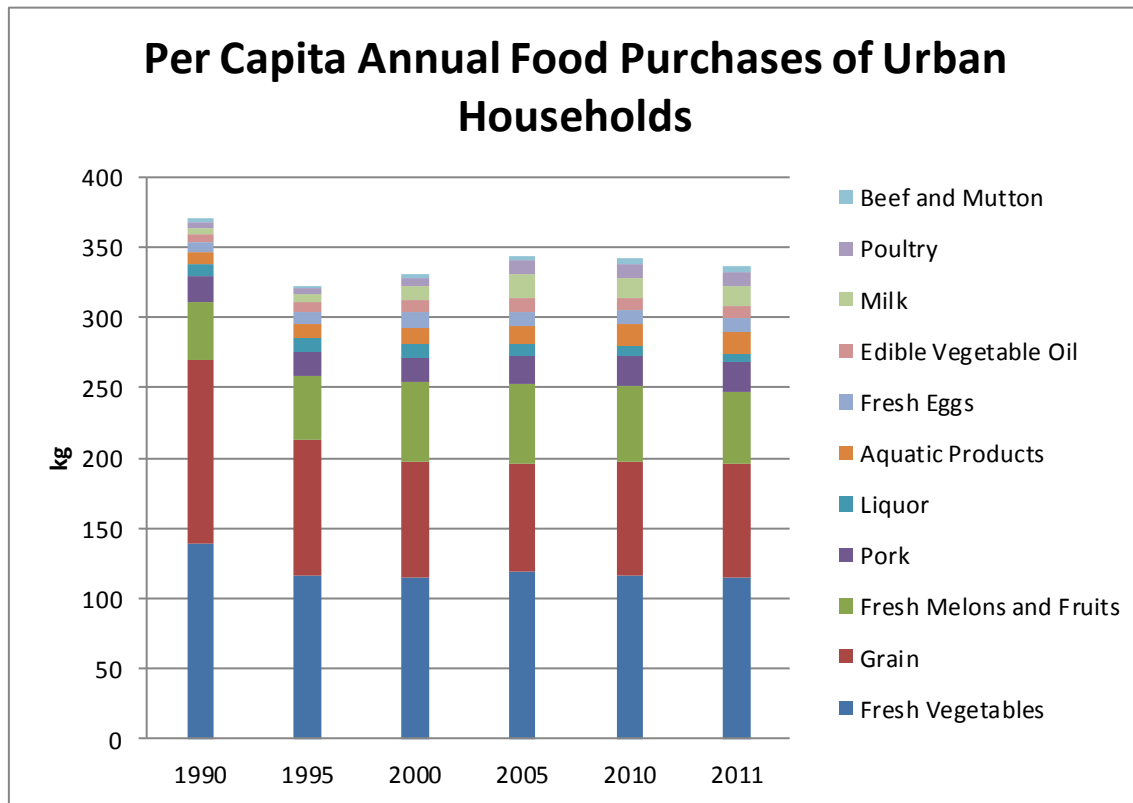
At the same time, rapid advances in transportation, including major rail improvements and road arteries, are improving the economic potential of second and third-tier cities. In terms of F&B it is improving distribution times, efficiency and costs and, more generally, helping to stimulate local economies and so increasing consumer demand for higher value products.



Source: China Statistical Yearbook 2012

As China's rapid urbanisation continues, the number of urban residents will keep on growing. One billion people will live in China's cities by 2030.<sup>4</sup> The relatively steady volume growth of basic ingredients consumption by urban residents over the last 20 years testifies to the increasing proportion of income spent on pre-packaged food and more frequent restaurant meals. This urban sector of the market is also therefore much more likely to be interested in new and imported products than those who live in rural areas.

<sup>4</sup> McKinsey, China's Urban Billion, 2008.



Source: China Statistical Yearbook 2012

## 2.2 Food Safety as an Import Growth Driver

Food safety scandals in China remain prevalent; incidents such as the dumping of contaminated pigs into the Huangpu River and the tainted milk scandal being all too fresh in people's memories. These scandals have undermined confidence and trust in food production processes and standards. In 2012 after revelations that KFC's Chinese suppliers used illegal drugs to fatten their chickens, the chain's sales tumbled in China. A 2012 Pew survey found that 41% of Chinese were deeply concerned about food safety, compared to just 12 percent four years earlier<sup>5</sup>. These food safety incidents have had a great impact on the purchase decisions of consumers; in the same Pew survey more than 70% of consumers would consider purchasing the brand less if it was involved in an incident. However, it is not just domestic companies who have come under fire from regulators over safety concerns; in August 2013 all milk powder from New Zealand was banned in China over scares of botulism.

Despite this recent scare, those who can afford to will show preference for imported brands, particularly regarding products for children. A 2012 Ipsos survey showed that more than 60% of consumers would choose foreign brands<sup>6</sup> reflecting the low confidence in domestic food companies. This complements the small but growing interest in imported organic foods as there are also concerns regarding locally certified organic products.

<sup>5</sup><http://thinkprogress.org/health/2013/07/26/2362211/how-lax-regulations-are-turning-china-into-a-food-safety-nightmare/>

<sup>6</sup> <http://www.ipsos.com/sites/ipsos.com/files/2012-09-Ipsos-Ideas-China.pdf>

### **3. Market Structure**

#### **3.1 Dining Out – Hotels, Restaurants, Cafes & Bars**

In China imported food and beverages are generally consumed in bars, cafes, restaurants and hotels in cities and Chinese consumers are increasingly choosing ‘western food’ when they dine out. Many of the western-style restaurants which were originally targeted at expatriates now have a predominantly Chinese clientele and more generic ‘western-style food’ chain restaurants are wide spread. Many social occasions and family celebrations now take place in ‘western food’ restaurants, and this has boosted the traffic to these restaurants.

#### **3.2 Gifts & Packaging**

Imported food and beverages remain a status symbol in China, being perceived as a high value good over similar Chinese goods. They are often used for display purposes as opposed to food products to consume for enjoyment. In this instance, branding and packaging are particularly important.

The gift-giving market remains an important custom in Chinese culture, despite recent spending cuts imposed for government officials. The wine industry is dominated by direct sales for gift-giving purposes. These wines are usually individually presented in elegant wooden boxes and are often accompanied by other complementary gifts such as a pair of matching wine glasses.

#### **3.3 Home Cooking & Snacks**

The most popular imported retail food products remain pre-packaged snacks, which are eaten between meals and range from western-style biscuits to Asian style fish and meat snacks. Chinese consumers have shown few signs of taking European food products home, apart from pasta and to a lesser extent cheese. This is largely due to the difference in cooking methods and the abundance of Chinese regional cuisines.

Ovens are still not common, but they are increasing in popularity, particularly small bench top ovens. Baking, particularly of cakes and biscuits, has the greatest interest amongst Western cooking styles for Chinese, which benefits imported ingredients such as butter, raising agents and colouring and flavouring products. Western-style dinner parties are unpopular in China, with entertaining and social occasions occurring outside of the home, thus there is little interest in upmarket cooking and dining paraphernalia from Europe.

As consumers experiment with unfamiliar foods outside the home, they are acquiring the taste for buying new ingredients in order that they may try out similar meals at home, however, this will only be on a small scale for simple meals.

Retailers typically carry only a small number of imported products at this time (reported at 1% of store keeping units, SKUs), even in relatively affluent cities.

## Retail Channels

### *Hotel and Restaurant Industry Wholesalers*

The high-end hotel and restaurant industry is an important channel for imported foods. Metro<sup>7</sup>, which targets small and medium-sized restaurants, has the widest selection of imported products of any of the key international retailers. Currently around 10% of their total sales revenue currently comes from imported products.<sup>8</sup>

Imported food has become one of the most important and successful business lines for Metro, especially in China, with imported food accounting for 55% of their total Asia sales and these have been increasing at 20-30% each year. It has enhanced its import department and sourcing centre, as it is determined to import directly for Asia markets and build direct links with manufacturers who are looking to export to China.<sup>9</sup> Metro has now opened for individuals, and sales to this category have been increasing year on year, now accounting for 50% of total sales according to Mr He, Metro CEO.<sup>10</sup>

### *Hypermarkets*

The majority of imported products find their greatest success in hypermarkets (which are often multi-floor stores with extensive space and which offer a large variety of goods, including non-food items) and in specialty supermarkets.

International hypermarket retailers generally have a high level of familiarity with imported brands and products and recognise the value of introducing new products to the market. Hypermarkets in China generally have favoured distributors and dislike working with unfamiliar companies unless offered strong market support, large numbers of products and other incentives.

### *Specialty Supermarket Stores and Boutiques*

Often located adjacent to high-end department stores or upscale business centres in first and second-tier cities, specialty supermarkets and boutiques often stock a high proportion of imported food products. They were originally designed for expatriates, but they are becoming more popular among upper-middle Chinese consumers.

Some of these companies have their own import and distribution teams that source products directly from foreign suppliers. High-end products first entered China's market through these types of outlets before expanding to larger retail outlets such as hypermarkets.

<sup>7</sup> [www.metro.com.cn](http://www.metro.com.cn)

<sup>8</sup> USDA China Retail report 2012

<sup>9</sup> USDA China Retail report 2012

<sup>10</sup> [www.roll.sohu.com/20130409/n372145597](http://www.roll.sohu.com/20130409/n372145597)



### *Supermarkets*

Dominated by domestic players, the supermarket sector is fragmented, and companies can be successful in one region and non-existent in another. Imported food is relatively scarce in most local Chinese supermarkets. The price-sensitive working class shoppers who form their consumer base are less inclined to try new products than customers who frequent hypermarkets and upscale speciality supermarkets and boutiques.

Imported products that do well in this sector tend to be standard products already widely available, such as pasta, pasta sauces, dairy products, edible oils, jams and spreads. Most stores are owned by local companies, and chiefly rely on wholesale markets and local manufacturers or distributors, rarely importing or buying directly from importers.

### *Convenience Stores*

Imported foods penetration among convenience store chains tends to be relatively low. Several Shanghai chains have shown interest, but management at these stores is usually less familiar with imported products than its counterparts in the hypermarket sector. Due to limited shelf and storage space, convenience stores typically require small or single-serve packaging and regular re-stocking. However, foreign players in this sector, such as 7-Eleven and Family-Mart, are introducing more and more imported food products into their retail outlets.

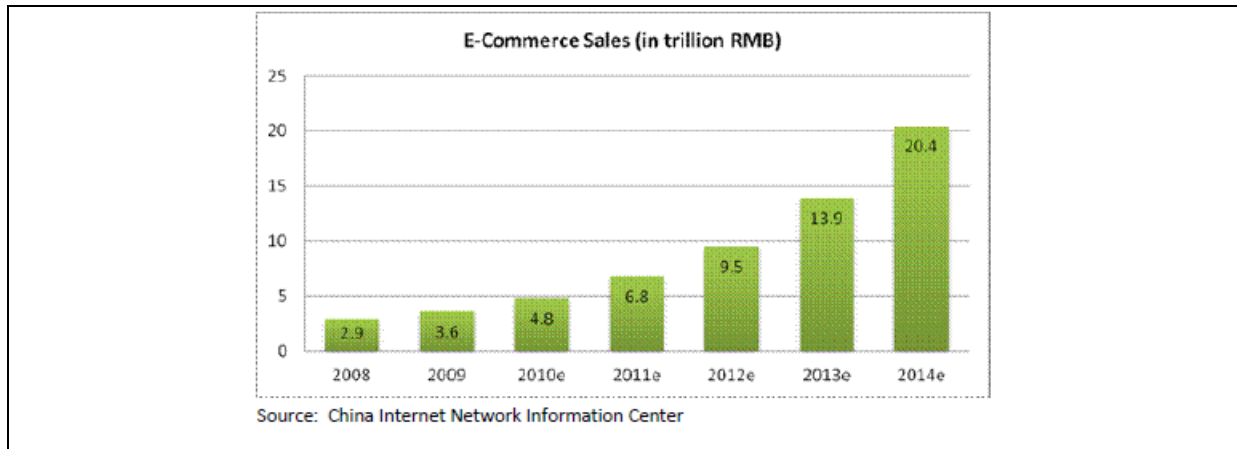
Smaller privately-owned convenience stores often carry imported wine, packaged snacks and confectionery. They are more likely to see the value of high-margin imports and tend to have better integrated distribution systems.

### *Online*

The online retail sector is growing rapidly in China, which has the largest internet population in the world and is still growing in number. Of the top 100 retail chains operating in China, 59 had established online stores by the end of 2011.

Online food and beverage delivery services supplying European goods are beginning to appear in the market. An organic food supplier began email ordering in 2005 and has been offering online orders for its home delivery service since 2008. It now regularly supplies households in Beijing, Shanghai, and hotels and restaurants in Guangzhou and Shenzhen.

There are also an increasing number of European wine suppliers successfully selling online in major urban centres. Chinese consumers have a high level of trust in recognisable European websites, whom they believe will supply genuine wine.



### 3.4 Import & Distribution Channels

Import and distribution channels are complex and change frequently. Import procedures must be handled by licensed importers who sometimes also act as distributors. However, most of the food distributors and traders are unlikely to hold import licences. Hong Kong traders offer the least risk as importers and distributors; they can arrange payments in foreign currencies and have a wide distribution network. Chinese traders can be reluctant to open lines of credit and sometimes lack a thorough understanding of international trading practices.

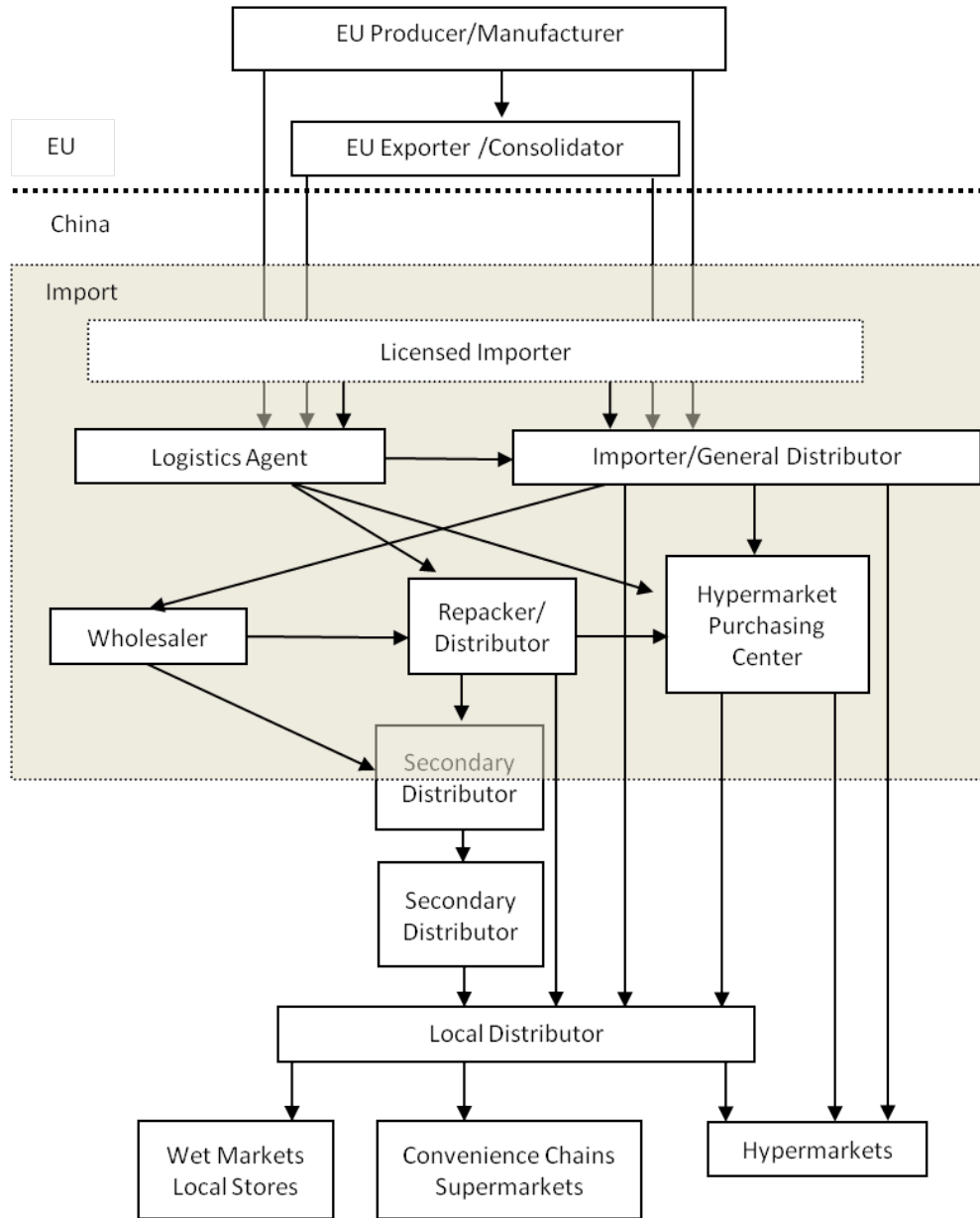
The Ministry of Commerce in China maintains a searchable platform of importers called the World Importer Net. Although it is not necessarily complete, their website places food and beverage importers into nine large categories and more specific categories by the HS code of each importer's food and beverages. Users can therefore search in a specific category for a given geographical area. For example, in the category 'beverages, spirits and vinegar, beer made from malt (HS code 220300)' there are currently 12 importers in Beijing and 19 in Shanghai. In addition, for each importer, the country of origin of their imports and their major import products are listed.

Inside China there is a contradiction between the upscale and affluent appearance of many shopping precincts and the underlying retail distribution network that remains localised and fragmented, which can impact the success of both importers and retailers. There is no nationwide network of trucks, highways and cold storage warehouses to efficiently deliver supplies from the manufacturer or importer to the store shelf.

The major retailers, including Carrefour and Tesco, are currently attempting every effort to build up a high-efficiency distribution network through a central distribution centre, but they have no large regional distribution centres and the infrastructure of these centres cannot meet the demand to efficiently deliver supplies from the manufacturer or importer to the store shelf. Distribution is generally handled on a store-by-store or city-by-city basis, with stores receiving most imports through a series of local distributors, which adds to a fragmented distribution process and increases costs.

The following chart represents the complexity of distribution channels in the food and beverage sector in China.

### Distribution Channels



Source: USDA FAS 2011.

Chart adapted from USDA FAS 2011

**3.5 Key Retailers in 2012**

<b>Companies</b>	<b>Ownership</b>	<b>Business Line</b>	<b>Stores</b>	<b>Sales (RMB Billion)</b>
<b>Chinese</b>				
<i>Lianhua</i>	<i>China SOE*</i>	<i>Super/hypermarket/convenience</i>	<i>5221</i>	<i>68.0</i>
<i>Wumart</i>	<i>China Private</i>	<i>Supermarket/convenience</i>	<i>409</i>	<i>33.0</i>
<i>Nongongshang</i>	<i>China SOE</i>	<i>Super/hypermarket/convenience</i>	<i>3374</i>	<i>30.2</i>
<i>Yonghui</i>			<i>204</i>	<i>20.4</i>
<i>China Resources Vanguard</i>	<i>China SOE*</i>	<i>Super/hypermarket/convenience</i>	<i>3977</i>	<i>82.7</i>
<b>Multinational</b>				
<i>RT Mart</i>	<i>France</i>	<i>Hypermarket</i>	<i>185</i>	<i>61.5</i>
<i>Carrefour</i>	<i>France</i>	<i>Hypermarket</i>	<i>203</i>	<i>45.1</i>
<i>Wal-Mart</i>	<i>U.S JV</i>	<i>Hypermarket</i>	<i>271</i>	<i>43.0</i>
<i>Metro</i>	<i>Germany JV</i>	<i>Hypermarket</i>	<i>54</i>	<i>13.8</i>
<i>Tesco</i>	<i>UK JV</i>	<i>Hypermarket</i>	<i>121</i>	<i>18.0</i>
<i>Auchan</i>	<i>France</i>	<i>Hypermarket</i>	<i>45</i>	<i>12.6</i>
<i>Lotus</i>	<i>Thailand</i>	<i>Hypermarket/convenience</i>	<i>52</i>	<i>10.0</i>

\*SOE=State Owned Enterprise

Source: China Chain Store &amp; Franchising Association (CCFA)

**Retail Options Available for EU Food & Beverage SMEs:**

Region	Hypermarkets		Supermarkets		Specialty Stores		Convenience Chains		E-commerce
	Domestic	International	Domestic	International	Domestic	International	Domestic	International	
<b>North</b>	CRV (China Resource Vanguard) Lianhua Wu mart	Carrefour RT-Mart Wal-Mart Tesco Ito Yokado Auchan Lohao city SMS RT-mart JUSCO Lotte mart	Wu-mart Hualian Lianhua Meet all Xinyijia (A-best) Jinkelong Meilianmei Wumei Shouhang Yonghui Suguo Tiankelong New mart Wangfujing NWDS	Price-mart Carrefour Tesco	April Gourmet Baode Home Delivery BHG Cheese and Wine City Shop Flame Tree Jenny Lou's Made in Heaven My Local Store (On-line) Olé Tang Ren Shi Yi Taste Spain Zhang Binggui's Candy Shop Ziyouzizai Parkson Sweetrip Baibike Zhenhuizi	Elite Nutrition Center World Health Store	Beijing Home Delivery Organic Farm Delivery Service De Run Wu Organic and Natural Store Green Yard Organic Milk and Yogurt, Hualian Jingkelong Lianhua Organic Farm Shop Qi Yuan Indian Kuaike CRV (China Resource Vanguard) Wumart Baibike	7-Eleven Dia Watson Lawson	T-mall Yihaodian Jingdong Zhongniangwomai Alibaba Tongyuankang Amazon Blemall Samsclub Lhmart
<b>East Coast</b>	CRV (China Recourse Vanguard) Lianhua Wu mart	Carrefour Lotte mart Wal-Mart Tesco Auchan RT-mart	NGS Wu-mart A-best Hualian Lianhua Liquan Meet all Nonggongshang Jiadeli Suguo Ginza New mart Yonghui Jiajiayue Huishang	Carrefour Pines the Market Place Tesco	Baode Home Delivery BIO Farm Chef's Pantry City Shop My Local Store(On-line) Olé San Yang Dry Grocery Store Shanghai Chateau Classic Food & Wine Co. Ltd Shanghai First Food Store Yves Thuriès Ziyouzizai Parkson Easy maimai Sweetrip	Amphora City' super Shin Sen Kan World Health Store	Bhoomi Stores CASA Food Market Elders Fine Food Kuaike Nap Café Organic Farm Delivery Service Pretzels Plus SHGROCERY Smart direct (Online) City shop (online) CRV (China Resource Vanguard) Suguo Ginza Wu mart KEDI All-days	7-Eleven Dia Watsons Family mart Lawson C-store	

Region	Hypermarkets		Supermarkets		Specialty Stores		Convenience Chains		E-commerce
	Domestic	International	Domestic	International	Domestic	International	Domestic	International	
<b>South</b>	Lianhua CRV (China Recourse Vanguard)	Carrefour RT-Mart Wal-Mart Tesco Lotus Metro Auchan RT-mart JUSCO	A-best Hualian Lianhua Renrenle Parkshop (Baijia) Yonghui Wangfujing Rainbow Youkelong	Carrefour Tesco	Aussinos Corner's Deli My Local Store (Online) Olé Ziyouzizai Sweetrip		Bhoomi Stores Organic Farm Delivery Service Meiyijia CRV (China Recourse Vanguard) Gongxiao Sunhigh C-store Polison Yuandongaimai VVO	7-Eleven Neighbourhood Market Watsons Family mart OK (US)	
<b>North-west</b>	CRV (China Recourse Vanguard) Wu mart	Carrefour RT-Mart Wal-Mart Lotus Metro	Wu-mart Hualian Renrenle Lianhua NWDS	Carrefour	Parkson Sweetrip Baibijia Ziyouzizai		Wu mart Tangjiu Jinhu Zaozao Baibijia	Watsons	
<b>West</b>	Lianhua CRV (China Recourse Vanguard)	Carrefour Ito Yokado Isetan Lotus Auchan Metro Wal-Mart	Yonghui Hualian Zhongbai Lianhua Parkshop (Baijia) Xinyijia (A-Best) Wangfujin Renrenle CBEST NCDS Wushang	Price-mart Carrefour	Sweetrip Ziyouzizai Olé Baibijia		Hualian Baibijia	7-Eleven Watsons Family mart Lawson	

#### 4. Legal & Regulatory Barriers

The Chinese Food and Beverage market is a compelling attraction due to the market's size but many opportunities remain difficult for European SMEs to exploit. There are various reasons for this, including high entry barriers related to the legal and regulatory environment, the characteristics of the market, and the operating environment for both exports and investments into China. More recently China has put in place new regulations on certain industries, such as dairy, due to recent food safety scandals in the market.

Since joining the World Trade Organisation (WTO) in 2001, China has reduced tariffs on a wide range of imported products, but sanitary and phytosanitary restrictions, and to some extent labelling, continue to limit access into the market. Enforcement of regulations is often haphazard, which creates confusion for exporters.

##### *Standards & Certifications*

There are high market entry costs – both in terms of fees involved in mandatory certification and the resources required. Product registration, labelling and product expiry dates are particularly high concerns in this area.

Inconsistencies in the interpretation of regulations between officials at different entry locations and whether they loosely or more severely apply fines and penalties is also a problem. Regulations change with some frequency and without warning. Adjusting and accommodating to these regulations can be time-consuming and expensive.

##### *Registration of Food & Drink Exporters*

From 1st October 2012, food and beverage exporters to China are required to register through the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). Registration can also be done through import companies. Both options can be accessed through <http://ire.eciq.cn>. This website includes guidance in both English and Chinese which enable foreign suppliers to register themselves, but it is useful to note that Chinese importers' information must be filled in Chinese to be able to pass the registration. Therefore, companies are advised to work closely with their agents and/or importers to complete this process.

##### *New Regulation on Exports of Dairy Products to China*

AQSIQ also introduced new administrative measures on the inspection, quarantine and supervision of imports and exports of dairy products, which have been in effect from 1st May 2013. Details of these new measures can be found at [www.defra.gov.uk/animal-trade/2013/cin-2013049/](http://www.defra.gov.uk/animal-trade/2013/cin-2013049/).

##### *New Regulations/Requirements for Importing Infant Milk Formula Products into China*

Companies exporting baby formula products into mainland China must register with the authorities before 1st May 2014, according to AQSIQ, but details of the registration are still to be confirmed.

##### *Organic Food Certification*

Chinese certification systems and foreign organic certification systems have not been mutually recognised. Hence, internationally recognised organic products that have not been certified by China or have only been certified by an overseas organic certifying body must not be labelled as “organic” or “in-conversion to organic” or any other misleading labelling terms purporting to be organic when marketed in Mainland China.

In order to ensure the quality of imported organic products and to reinforce regulations on organic produce, Chinese authorities have advised that they will verify consignments in accordance with the Regulation on Certification and Accreditation and the Administrative Measures on Organic Product Certification.

Certification costs can vary as cost is determined by the process of inspection. For example, if a variety of lab tests are required, it will increase the cost of certification. On average, inspection can

cost up to \$3,200 per product. However, there will be added costs if more tests are required. In addition to this cost, companies wishing to seek organic certification will have to pay for the travel and accommodation of Chinese inspectors to inspect their suitability.

Organic certification needs to be renewed each year. Fees however, are reduced by nearly a third during the re-certification procedure.

### *Food Labelling*

Since joining the WTO in December 2001, China has introduced or modified hundreds of food and agricultural-related regulations and standards. These have included changes in food laws, labelling requirements, packaging and container requirements, food additive regulations, multiple commodity regulations, commodity-specific regulations and specific procedures. Below are the key regulations which should be met by products which are imported into China.

To comply with China's food labelling regulations, all imported foods and beverages have to show a white label attached to individual bottles, cans or packets in simplified Chinese as used in mainland China. Labels must be approved by the Chinese Inspection and Quarantine Service (CIQS). The regulation requests that products are labelled before shipping, but as can be difficult to carry out, CIQS allows labelling to take place in bonded warehouses in China.

The following is the minimum requirement of information to be listed:

- Standard name of foodstuffs;
- List of ingredients as percentages in descending order of content, net weight and respective volume;
- Name and address of manufacturer and local agent or distributor;
- Production date, best before end date and guidance for storage;
- Country of origin;
- Quality grade;
- Code of national standard, or industrial standard, or enterprise standard for the production;
- Special contents if there are any (e.g. irradiated food).

On the label, ingredients such as herbs or sugar must state specific types. Label verification from CIQS usually takes one to two weeks. This process is generally handled in conjunction with the importer or distributor, due to language issues and the need for cooperation with CIQS.

### *IPR Protection Issues*

Counterfeiting is prevalent in many markets in China. In the food and beverage sector, well-known international brand names experience more problems than smaller importers do, although vigilance is always necessary. Recent serious cases of wine adulteration and counterfeiting have highlighted the issue across the broader wine sector<sup>11</sup>. The sheer amount of European 'liquor' in China's market alone raises concerns as to where it all might come from.

### *Bureaucracy*

In systems that have a transparent set of well-understood procedures, it is relatively easy to place a product on the market. However, in China, personal relationships with importers, distributors, agents, officials and clients are important to help overcome unexpected hurdles. This is due to the legal system, which is developing but remains inconsistently applied. Hence, enforceability of contracts varies widely, but is generally weak. Business in China instead relies heavily on personal contacts and influence (*guanxi*). Therefore, no investment will be more important to European SMEs' success than the network of relationships they establish in China.

<sup>11</sup> <http://china.globaltimes.cn/society/2010-12/604367.html>



## 5. Market Barriers

### *Distribution*

The Food and Beverage market remains somewhat decentralised in China, still lying in the condition of free growth and competition. There are few large distributors who are dedicated to imported food and beverages. The varieties of products sold are limited, as there are few distributors or importers with more than 1,000 varieties of imported food and beverage products.

Most Chinese distributors in this market tend to be primarily interested in wholesaling and do not put a lot of emphasis on brand development and tend to be conservative in introducing new products. They are chiefly interested in products that are already in the market, but are sold through grey channels or sub-distributors. Exporters with a limited product range need to simultaneously work both ends of the supply chain, identifying both retailers interested in the product and distributors who can work with the retailer.

As imported food and beverages are typically higher priced products than domestic equivalents, they are currently largely concentrated in first-tier cities in south, north and east China, which has inevitably resulted in large distributors being centred in these regions. As the economy develops, consumption in second and third-tier cities will increase fast resulting in imported food to transfer to these regions in the near future. However, at present, imported food and beverages in second and third-tier cities are mostly supplied by distributors and importers from first-tier cities. With increasing demand for imported food, the inefficient logistic channels of the present distributors may encounter greater challenges, and the development of local distributors in second-tier cities will be of great importance for importers.

### *Infrastructure and Logistics*

Beijing, Shanghai and Guangzhou are the key entry points to China from Europe. Improvements in the national highway system have greatly eased trucking directly out of Shanghai or Guangzhou compared to just a few years ago. High speed rail has reduced the travel time across the country and now, for example in the Yangtze River Delta, trains from Shanghai to Hangzhou (Zhejiang) take thirty minutes and to Nanjing (Jiangsu) take one hour. The Government is continuing to support the rail network with a further RMB 40 billion stimulus package authorised in 2013, which will increase high speed rail as an important distribution network. China's container ports are the largest in the world, with Shanghai holding the world's top spot since 2010. In the Guangzhou region, Hong Kong and Shenzhen container ports are placed at numbers three and four in the world respectively and China has three other ports within the world's top ten largest.

Ports in satellite cities offer a growing array of services, including bonded storage with temperature controlled services, online inventory tracking, and duty-free industrial zones where goods can be repackaged or further processed, with duty paid only on the original import value and only after products leave the zone.

However, further inland logistics services are local, fragmented and inefficient, making it difficult to transport products directly from the coast to cities deeper inland. Importers are not yet confident in cold chains.

### *Economies of Scale*

Organic producers, especially those with a Geographical Indication (GI) mark, face the challenge of scaling up their production capacity to meet Chinese demand, and produce at sufficient volume to make a profit. At the same time, the quality of their products, and their GI status, depends on their small production capacity, but China is a large market, and if a product is successful, demand will grow beyond capacity. Given the costs involved and difficulties of entry, it can be a challenge to make a profitable market entry.

Local production can make production and selling at quantity more affordable. Hungarian and Dutch companies have had some success by breeding geese and producing goose livers locally in partnership

with Chinese producers. A local company has established an Italian-style meat processing company which employs Italian processes and is marketed as Italian.

#### *Increasing Local Competition*

EU products are regarded as high quality and produced to high safety standards, but they are often more costly than their local equivalents. In terms of international competition, the United States remains the largest single exporter of consumer-oriented food to China, and is the only exporter with a presence in most categories.

Local manufacturers therefore tend to push imported products out of the price-driven mass market and into niche markets where quality and novelty are more important than price. In the past, restaurants and bars were often obliged to import all of their speciality European products however they are now able to turn to local producers. For example, *Le Fromager de Pékin* sells cheese directly to restaurants and hotels, and local producers are making European-style cured meats and other delicacies.

Some companies express concern that increasing local production threatens sales of their imported goods. But the two can work in tandem – Increasing consumer exposure to new products, and allowing consumers with more discerning tastes access to better quality original products.

## 6. Operational Challenges

### *Working with Chinese Partners*

One of the most common causes of business failure in China is when partnerships have gone sour. Therefore, recognising cultural differences and spending time understanding how your Chinese partner operates is important. New entrants to China's market frequently become frustrated because they perceive that their Chinese partners are neither frank nor forthcoming. They find that agreements viewed as binding by the EU partner are more flexible or negotiable from the perspective of the Chinese partner.

Formal business meetings and informal social occasions are opportunities to build understanding and trust, as well as to receive advice and secure business deals. Ensuring that a company representative is present at all transactions helps to reduce misunderstandings and errors. It also offers the opportunity to adapt suitable portion sizes, alter ingredients (for example, reduced sugar content), and design appealing packaging for Chinese consumers.

## 7. Opportunities for European SMEs

### 7.1 Niche Markets

The food and beverage market in China is growing at a fast rate, but it is chiefly driven by price, and dominated by low-cost local producers. Apart from the buoyant wine market, other imported food, especially pre-packaged products, can expect to occupy only a small segment of the market, where quality and novelty win out over price.

#### Potential Segments

**High-end gifts:** In this segment, packaging is paramount and margins are high. Gifts might be tailored to Chinese holiday celebrations or special events given by those who demonstrate their sophistication through presenting foreign gifts at traditional Chinese holidays. Gifts include wine, chocolates and high-end packaged baked goods and confectionery.

**Imported organic and natural products:** This segment tends to be for health-conscious young parents buying for their babies and for family meals.

**Baskets of specialty EU goods:** Suitable goods for this segment include cheese and wine baskets, savoury biscuits, preserved vegetables, and pre-packaged European snack foods.

**Gourmet foods:** This segment is a niche but quickly expanding market in China. The concept of “gourmet” sometimes corresponds to products considered standard supermarket fare in Europe. The closure of expensive specialty French and Italian food stores recently in Beijing indicates that first-tier urban consumers have not yet developed a taste (or a wallet) for high-end gourmet food. Olé and BHG, the upmarket supermarkets pitched at the white collar Chinese middle class, stock few high-end specialty goods, but have a good selection of standard European products.

Much of the western foods in China’s market are from the United States and benefit from product placement in TV and films and the ubiquity of American culture. Nevertheless, even these products still often require extensive branding and marketing. EU products are much less easily recognised and understood, and as consumers lack knowledge on how to prepare them properly, they are hesitant to buy these products. Hence, a possible niche market of well-selected and attractive 'baskets' of goods, together with preparation and cooking instructions, exists.

### Promotion Strategies

Women have become a particular target group for many retailers, particularly in first-tier cities. 55% of women in first-tier cities and 35% in second-tier cities tend to seek out and follow lifestyle and nutritional information accessed through the internet. Meanwhile, traditional media, such as television, newspapers, magazines, public transportation, advertising and direct mail, continue to play a significant role in reaching female consumers.

Recipes published in magazines and segments on cooking shows can be instrumental in expanding home-cooking styles. There are also a growing number of food enthusiasts who share information tips and recipes through micro blogs on the internet. Online retailing and search engine optimisation to reach this market segment is potentially a fruitful avenue for promoting European products.

Media advertising, particularly TV and radio, can be expensive and may not target the intended audience, but local organic growers with foreign connections and other foreign boutique producers have found it relatively easy to generate excitement about their products through features in magazines and other free advertising.

Major trade shows such as FHC and SIAL provide good opportunities for individual companies to test the interest and potential demand for their products among thousands of visitors to the show as well as meetings with their potential importers and distributors. In the SIAL show in 2013, most of the European countries organised national pavilions for exporters to display their products.

In addition to advertising, some major companies and even government organisations have promoted and increased the awareness of foreign food and beverage products through festivals and sales promotions within supermarkets, shopping malls, hotels and food festivals. For example: the Agricultural Trade Office (ATO) of the United States Consulate General in Shanghai co-organised an American Food Festival from 23 August to 27 September 2012 in Suzhou, Hangzhou and Xincheng. Promotions were held in four five-star hotels to promote US pork, snow crabs, oysters, yellow sole fins, potatoes, cheese, almonds, raisins and other food ingredients. A celebrity chef was also present in Suzhou and Hangzhou to host cooking demos and seminar events with local chefs. In September 2013 British Consulate General Chongqing organised British Food and Drink Festival with Olé high end supermarket and Intercontinental Hotel. The Trade Promotion Bureau under MOFCOM has also been working with foreign embassies and trade associations in Beijing to organise food and drink and consumer brand festivals in high-end shopping centres like Shin Kong Place and Zhuozhan. Canadian, Italian and British festivals have been organised and these events provide good opportunities for countries and companies to showcase their products to thousands of Beijing’s increasingly affluent consumers.

## 7.2 Opportunities by Sub-sector

European SMEs can expect to find opportunities in a variety of areas, including wine, cheese, dairy products and premium ice cream, pasta, spaghetti sauce and other tomato products, olive oil, beer, chocolate, high-end confectionery, pre-packaged biscuits and snacks, breakfast cereal, coffee, baby food/infant formula as well as frozen meat and seafood.

### 7.2.1 Food

#### Frozen Meat & Seafood

##### The Opportunity

China imports large quantities of meat (mainly fifth quarters/offal that Europeans do not eat) and seafood every year, which mainly goes into processing facilities and the food services sector. Salmon from Norway and Scotland dominates the market in China and there are opportunities for EU companies to supply other species and varieties.

##### The Challenge

Quarantine and protocol requirements for frozen meat and seafood exports to China act as hurdles to the market. Therefore, Hong Kong has often been the point of entry for meat and seafood products into the China market via the so-called “grey” channel. Chinese authorities have put in measures to clamp down on this illegal importation, and importers are more interested in products that can export officially into China’s main ports.

Exporters are encouraged to confirm their products’ eligibility to enter the market before engaging in commercial activities with customers or directly investing in Chinese business opportunities. Exporters can make initial enquiries to agriculture and quarantine authorities in their own country about this.

#### Chocolate, High-end Confectionery, Pre-packaged Biscuits & Snacks

##### The Opportunity

The chocolate, high-end confectionery, pre-packaged biscuits and snacks market is growing rapidly as incomes continue to increase. Pre-packaged snack foods and confectionery are popular for social occasions and occupy extensive shelf space in Chinese supermarkets.

##### The Challenge

Japanese and Korean snacks already occupy a significant sector of the packaged snack food market. However, as in most international markets, China’s market is dominated by US confectionery products at the upper end and local products at the lower end.

Imported products from both the United States and other Asian countries already have high brand recognition in the market.

#### Dairy

##### The Opportunity

According to industry statistics, total dairy sales in China reached RMB 204 billion (USD 32 billion) in 2011, a 16.4% year-on-year increase from 2010. The dairy industry has continued to enjoy strong growth in 2012.

Dairy products are amongst the most popular imported products in China. Not traditionally part of the diet in many regions in China, milk and yogurt are increasingly considered essential to the diet of growing children.

Many foreign brands are available in supermarkets in China. Currently there are over 10 US cheese

brands in China's market, including Leprino, Sargento, Borden and AmeriDairy. Other major imported cheese brands are Kraft, President, Suki, Bega, Laughing Cow, Emmi, Feta, Arla, and Kerry Gold. High income urban households choose to spend a significantly larger proportion of their income on dairy products (21.3kg per capita per annum) than low income households (6.98kg per capita per annum), placing dairy goods as high-end products for those with more disposable income.

Domestic food safety crises and continuing concern about the domestic dairy industry have created rapidly increasing demand for high-quality, reliable dairy foods, particularly from overseas markets.

#### **The Challenge**

Cold-chain distribution networks remain undeveloped across China. Distrust of local dairy products due to quality concerns has encouraged the use of non-tariff barriers, including rigorous sanitary requirements, in an attempt to protect local production.

### **Pasta, Pasta Sauces & Olive Oil**

#### **The Opportunity**

These are foods that resonate with Chinese consumers from their own cooking styles. Since the European versions have been present in fast-food chains for some decades now, they are more familiar with these foods than with other novelty 'gourmet' foods, and they are gradually entering Chinese pantry cupboards.

#### **The Challenge**

Despite of the familiarity, the market is still small for these items. This means that even small profit margins require high volume sales.

## **7.2.2 Beverages**

### **Beer**

#### **The Opportunity**

China's beer market grew by 29% in volume between 2006 and 2011 and the total consumption volume was 50 billion litres according to Mintel.

Opportunities for boutique beers from SME producers are currently available through local distribution to specialist stores and bars in large cities. For the dedicated beer enthusiast, micro-breweries are developing and opportunities may exist in second-tier cities, although it must be taken into consideration that this requires residency in China.

Light beers are preferred and some European brewers have developed beers specifically for the China market. Oktoberfest celebrations are popular and offer opportunities to promote boutique beers to Chinese consumers.

#### **The Challenge**

The Chinese beer market may be the biggest in the world; but even large international brands have found it difficult to survive, while others compete in a continuing search for economies of scale, with production based in China.

Quality control, hygiene and distribution are the major challenges in this market. Due to relative price inelasticity compared with the Chinese wine market and the low price of local beer, competition is high.

## Wine

### **The Opportunity**

China will be the largest wine importing country in Asia by 2017, and Mainland China alone will import USD 870 million in this year, according to the Hong Kong Trade Development Council (HKTDC).

Wine exporting countries such as France, Australia, Italy, Spain, the United States, Chile and South Africa have had a strong presence in China for years. New brands of differing origins are finding ways into Chinese homes each year.

Wine constitutes the largest EU export to China by a large margin. Wine is successfully marketed in China as a healthy alternative to Chinese white spirit (*baijiu*). In China, premium wine is not only a luxury; it is also a way of illustrating social status. Red wine is generally preferred, mainly due to its colour, but also due to its proclaimed health benefits. However, women tend to favour white wine. Sparkling wines are particularly popular. Local production need not be seen as a threat, since increased production increases the opportunities for consumers to try wine, and local wine is mistrusted at this time due to quality concerns. Market saturation is not yet considered a problem, as there is still significant potential in second and third-tier cities.

### **The Challenge**

Chemically altered, counterfeit and exorbitantly priced wines flush the market. Lack of consumer wine experience and few effective government supervision measures mean that genuine wine-sellers are obliged to police the market themselves. In one example, a large European wine and spirit producer employs staff exclusively to identify counterfeits and to mount legal challenges.

Very cheap wine (RMB 28-58 (EUR 3-6)) and wine for the high-end gift market (RMB 1,500 (EUR 150+)) have a reasonably ready market, but mid-range quality wines (RMB 100-300 (EUR 10-30)) are difficult to sell to the Chinese consumer market without relatively expensive wine-tastings and other marketing events.

## 8. Current Exports from Smaller EU Producers, Growth Strategies

EU member states which so far have small export volumes to China concentrate on the non-SPS protocol food and beverage products. These are sectors where they might continue to focus and expand. Chinese consumers respond to strong branding – small member states and their producers, funds withstanding, might want to develop a marketing strategy which draws on their history and heritage.

### *Branding in the Chinese Market*

For many companies intent on launching in China one of the key market entry barriers is low brand awareness in the local market. A food and beverage brand may be well-known in Europe but it is very important for the business to position itself suitably within the Chinese market. In order to become a more recognisable brand some companies completely redesigned their corporate identity for the Chinese market. For example the Spanish San Gines logo was amended with the addition of a chef and a translation of the brand name. This was done to ensure that the brand could be read, pronounced and remembered by Chinese consumers. Chinese customers place a strong emphasis on branding. They prefer brands which they have heard of, and those which are well established within the marketplace. Therefore building brand recognition is very important for food and beverage newcomers in China.

### *Social Media and Digital Marketing in China*

In assisting with building brand value in China and marketing, many companies are increasingly using digital marketing through China's social media platform. China's traditional media landscape is fragmented, with regional TV and local papers meaning that traditional advertisements often reach only a region or city. On the other hand China's social networking scene covers the whole of China. Western social media such as Twitter, Facebook and YouTube are banned in China, but the local equivalents such as RenRen (similar to Facebook), Weibo (micro-blogging site akin to Twitter), WeChat (a cross between an instant messaging service and Facebook) and Youku (similar to YouTube) are widely used both through the internet and on mobile phones/tablet devices. Chinese social media sites are used by most Chinese consumers, enabling baby food and milk powder to be marketed in addition to other food and beverage products such as potato and chocolate based snack products. Successful marketing campaigns often rely on micro-blogs to spread the word; often a Key Influence Leader will be engaged by companies to post positive reviews on their behalf. A positive word of mouth recommendation spread through these mediums can make or break the launch of a new product. If these tools are utilised correctly and effectively, they can be a low-cost alternative to traditional advertising and brand enhancement.

### **Current Export to China of Agri-food Products from Smaller EU Countries**

Exporter	2011 (million USD)	2012 (million USD)	% Increase
Bulgaria	3.37	4.01	18.8
Estonia	4.05	5.38	32.9
Greece	98.4	126.8	28.9
Latvia	7.99	10.42	30.3
Lithuania	5.24	6.78	29.4
Luxembourg	0.2	0.12	-40.5
Slovenia	2.73	4.18	53.1

Source: MOFCOM

### **Bulgaria:**

According to the Bulgarian newspaper *Trud*, in winter 2012 Bulgaria exported more than one million bottles of wine to China. These were sold at an average price of 6 euros per bottle, and were intended principally for Chinese Lunar New Year celebrations.

(<http://paper.standartnews.com/en/article.php?d=2013-02-07&article=41468>)

The EU will spend 2.1 million euros in 2013 helping Bulgaria and Greece to market their wine in China, the USA and Switzerland as part of a larger programme lasting for three years with a total budget of 4.6 million euros.

([http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Rome\\_EU-27\\_2-22-2013.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Rome_EU-27_2-22-2013.pdf); <http://eu.cmo.com/content/cmo-eu/home/articles/2012/7/3/bulgaria-and-greece-to-advertise-wines-in-usa-and-china-with-eu-money.frame.html>)

In June 2013, Bulgarian vegetable oil producer Klas Oil and China Sinopharm International Corporation signed a contract worth 1.5 million euros (USD 1.9 million) for Klas Oil to export its vegetable oil to China.

### **Estonia:**

China has become an important export destination for edible fruit and nuts from Estonia, and in 2012 exports of fruit and nuts, citrus fruit peel and melons to China reached USD 6,699,755.

*Source: Trade Nosis*

(<http://trade.nosis.com/en/Comex/Import-Export/Estonia/Edible-fruit-and-nuts-peel-of-citrus-fruit-or-melons/EE/08>)

### **Greece:**

The food industry is among the largest in Greece, and speciality Greek products including olive oil, goat's milk, fig bars and honey are finding a rapidly developing market in China's growing middle classes. Traditional Greek flavours are being modified to suit the tastes of Chinese consumers, and several recent Greek government trade missions have laid particular emphasis on food exports, with the Prime Minister and the Mayor of Athens both lending their support.

Virgin Olive Oil, one of Greece's most famous exports, has seen a rapid increase in Chinese sales. According to the Greek government data service EL.STAT., between 2010 and 2012 virgin olive oil sales rose 6 times faster than total export sales, and saw an increase of around 160%. This places China as the 4<sup>th</sup> largest export market by value for Greek virgin olive oil.

(<http://online.wsj.com/article/SB10001424127887323689204578571544152429814.html>)

### **Latvia**

According to data from the Latvian Ministry of Agriculture, export of Latvian agricultural, food and fisheries products to China totalled LVL 3.34 million in 2012. The majority of this figure comes from the sale of blueberries, which accounted for 90.5% of the total value of Latvian exports to China in 2012.

([http://www.baltic-course.com/eng/markets\\_and\\_companies/?doc=74144](http://www.baltic-course.com/eng/markets_and_companies/?doc=74144))

### **Lithuania**

On 1 June 2012, China granted Latvia an export certificate for Latvian fishery products, allowing canned fish and other heat-processed fishery products to be exported to China.

With the completion of its regulatory assessment in August 2013, China has also opened its market to Lithuanian dairy exports. Further negotiations are expected to conclude within the next few weeks, paving the way for many Lithuanian companies to begin their exports.

(<http://www.lithuaniatribune.com/48974/china-opens-its-market-for-lithuanian-dairy-products-201348974/>)



The main competition in the cheese and dairy sector is from New Zealand and Australia; in pasta sauce and tomato-based products, it is from Italy and France; in candy and chocolate, there is competition from Switzerland, Italy, France, Belgium and Japan; and the baby food and infant formula product sector have competition from New Zealand and Switzerland.

## 9. Opportunities by Chinese Regions

China is not a single market but a jigsaw puzzle of overlapping markets separated by geography, culture, cuisine, demographics and dialects. One temptation is to pursue explosive growth focusing on geographic penetration rather than sustainability. This may produce impressive short-term results, but exporters with limited means may find themselves quickly over-extended and battling untrustworthy local distributors and copycat products. It is best to choose a region which best suits your product and develop the brand slowly but sustainably.

Opportunities in the food and beverage market lie in China's urban centres rather than rural areas:

**First-tier cities:** First-tier cities such as Beijing, Shanghai, Guangzhou, Shenzhen, and increasingly Chongqing and Chengdu, have seen the greatest exposure to imported food and beverages. Multinational retail expansion has intensified competition in the richer coastal areas, but opportunities still remain.

**Second and third-tier cities:** Incomes are growing rapidly in second and third-tier cities, creating a new range of opportunities, but distribution and logistics remain under-developed outside the largest urban centres, making distribution of imported products to interior cities difficult.

The following table indicates some of the opportunities in urban centres by region:

Opportunities in the Food & Beverage Sector in Select Urban Centres			
Region	Tier	City	Comment
East	2nd	Hangzhou & Suzhou	As they are amongst the key and richest cities in China, their retail markets are well developed, with the presence of both international retailers and Boutique stores.
	2nd	Nanjing	Consumption of imported food products have increased substantially. Major retailers (such as Metro, Wal-Mart and Carrefour) indicate that the higher the percentage of imported food items in their stores, the better their sales.
	2nd	Wenzhou	One of the richest cities in China, but its foreign import market is still relatively under-developed.
	2nd	Wuhan	Mid-range prospect and a reasonably developed retail sector. Great range of imported products in high-end retail stores such as Wushang.
North	2nd	Tianjin	Increasing interest in imported food in these cities has resulted in the opening of high end supermarkets in Tianjin, including Olé and BHG.
	2nd	Qingdao	
	2nd	Yantai	
	3rd	Weihai	
	2nd	Zhengzhou	Due to its geographical location and large population, the retail sector has developed rapidly. The majority of the imported food products are from Korea and Southeast Asia.
	2nd	Shijiazhuang	Shijiazhuang is a challenging market area for international retailers, due to its mature and well-managed local retail outlets, which have prime locations and consumer loyalty. It is, however, easy to source western food products in this city.
	2nd 3rd	Tangshan, Qinhuangdao	There is a small range of foreign food imports in these cities, which are chiefly limited to sweet biscuits and snack food from Korea and Southeast Asia. International retailers like Carrefour and Tesco have been present since 2010.

<b>Northeast</b>	2nd	Shenyang	The 4 <sup>th</sup> largest city in the country, with a population of 8.1million. Its retail sales have been growing rapidly, increasing by 10% per year over the last few years. International retailers have a presence in the major residential areas and high-end supermarkets such as Olé and Yoo Hoo stock over 60% of their stores with imported products.
	2nd	Dalian	Dalian is the major city and seaport in Liaoning Province. The retail sector is well developed in Dalian: Tesco, Carrefour and Wal-Mart all have a presence there and the local retailer, Dashang group, is the largest retailer in Northeast China.
	2nd	Changchun	Changchun is the largest city in Jilin province and the centre for China's automotive industry. Competition is fierce in Changchun and Tesco and Carrefour have closed some of their stores in this area in the last few years. A small range of imported food products are available in the supermarkets within major shopping centres.
	2nd	Harbin	Leading international retailers operating retail stores in the city and supermarkets in major shopping centres carry approximately 20% imported food in their stores.
	2nd	Xi'an	As the gateway to north-west China, Xi'an's retail sector has developed rapidly in the last few years, which has attracted some high-end brand stores, such as Sam's Club and Olé.
<b>South</b>	2nd	Pearl River Delta: Dongguan	Guangdong has the highest GDP of any province in China and has ranked in first place in per capita annual food consumption expenditure for five consecutive years. South China continues to have a dynamic processed food consumption market with huge growth potential.
	2nd	Foshan	
	3rd	Zhuhai	
	3rd	Zhongshan	
	3rd	Huiyang	
	3rd	Zhanjian Shantou	
2nd	Changsha	Changsha is a dynamic consumption market with the presence of both multinational retailers and many established local players. Locals prefer hot, spicy, sour and heavy flavours to their food, but increasing consumer awareness of healthy lifestyles is fuelling a growing demand for high-quality imported food. Popular imported food in this city includes biscuits and chocolate, olive oil, wine, cheese and fresh milk.	
2nd	Fuzhou	Fuzhou is one of the key markets for imported foods, as many residents have relatives living abroad and are more open to western lifestyles. Existing key retailers include Wal-Mart, Carrefour and Metro, which all carry imported food products.	
2nd	Xiamen	Xiamen is gaining competitiveness. Select groups are willing to pay a 10-20% premium to try imported products, but those products are chiefly limited to fresh fruit, Thai rice and Italian olive oil. Imported alcoholic beverages and selected snack foods have good potential in this market.	
2nd	Nanning	High volume liquidity in Nanning has driven greater demand. The Hunan-Guangxi railway to Vietnam makes the city the regional headquarters for trade with south-east Asian countries. The packaged food market is still in its infancy, and consumers lack knowledge, but there are opportunities to reach an affluent curious urban population.	
3rd	Guilin	Tourism has accelerated opportunities in Guilin. The Japanese retailer, Niki Niko Do, is currently the market leader in this city and their stores stock a whole range of imported western food.	

<b>Southwest</b>	1st- 2nd	Chengdu Chongqing	<p>50% of urban residents are now middle income consumers. The market is less saturated, and there is less foreign competition and burgeoning demand. 'Green' (organic) food, in particular, has grown rapidly.</p> <p>A challenge is the distance from major port cities (port to retail transportation time is about 2-5 days).</p>
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Source: USDA FAS 2012

## 10. Report Summary

	Food			Beverages	
	Chocolate, high-end confectionery, pre-packaged biscuits and snacks	Dairy	Pasta, Pasta Sauces and Olive Oil	Wine	Beer
<b>Opportunities Across the Board</b>	<ul style="list-style-type: none"> <li>• Growing urban middle class.</li> <li>• Dining out at hotels, restaurants, cafes and bars is a huge growth area.</li> <li>• Propensity for using western F&amp;B products as gifts.</li> <li>• Continued market potential in first tier cities and growing markets in second and third tiers.</li> </ul>				
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Demand growing as incomes increase.</li> <li>• Pre-packaged snack foods and confectionery are popular for entertaining.</li> </ul>	<ul style="list-style-type: none"> <li>• Amongst the most popular imported products.</li> <li>• Food safety crises leading to preference for foreign products.</li> </ul>	<ul style="list-style-type: none"> <li>• Has resonance with Chinese consumers.</li> </ul>	<ul style="list-style-type: none"> <li>• The largest EU export to China.</li> <li>• Potential in second and third tier cities.</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunities for boutique beers.</li> <li>• Opportunities in second-tier cities.</li> </ul>
<b>Challenges Across the Board</b>	<ul style="list-style-type: none"> <li>• Cultural hurdles – On the whole, Chinese tastes and kitchens not yet ready for full adoption of Western foods.</li> <li>• Increasing local competition.</li> <li>• Fragmented localised distribution channels.</li> <li>• Cold-chain storage under developed.</li> </ul>				
<b>Challenges</b>	<ul style="list-style-type: none"> <li>• Strong Japanese and Korean competition in snacks industry</li> <li>• US confectionery dominant at the upper and lower ends.</li> </ul>	<ul style="list-style-type: none"> <li>• Cold-chain distribution networks.</li> <li>• Non-tariff barriers.</li> </ul>	<ul style="list-style-type: none"> <li>• Small profit margins require high volume sales.</li> </ul>	<ul style="list-style-type: none"> <li>• Counterfeit wines flush the market.</li> <li>• Lack of consumer wine experience.</li> <li>• Mid-range quality wines are difficult to sell.</li> </ul>	<ul style="list-style-type: none"> <li>• Quality control, hygiene and distribution.</li> </ul>
<b>Legal Barriers</b>	<ul style="list-style-type: none"> <li>• Distribution of food is subject to the licensing system in China. Companies engaged in food distribution have to apply for the food distribution licence.</li> <li>• Manufacturers of certain imported food (for instance meat products) have to be registered with the Certification and Accreditation Administration (CNCA).</li> </ul>			<ul style="list-style-type: none"> <li>• Distribution of beverages is subject to the licensing system in China. Companies engaging in distribution of beverage have to apply for the food distribution licence.</li> <li>• Distributors of alcohol products must be filed with the local bureau of commerce.</li> </ul>	
<b>Taxes</b>	<ul style="list-style-type: none"> <li>• Corporation tax 25%.</li> <li>• VAT 17% /13%.</li> <li>• City Maintenance and Construction Tax 1 - 7% of the VAT depending on location.</li> <li>• Education surcharge 3% of the VAT.</li> </ul>				
<b>Standards, Certification and Labelling Requirements</b>	<ul style="list-style-type: none"> <li>• Sanitary certification is issued by the local quarantine bureau (CIQ) and based on product sample inspection.</li> <li>• Chinese national (GB) standards and professional standards covering the technical quality and safety (hygiene) requirement, including food additives.</li> <li>• Labelling requirements for food, beverage and food for special dietary must be provided in Chinese; label must be verified by the local quarantine bureau.</li> </ul>				

## Resources

Further reading
<p><b>Food and Beverage, China</b></p> <p><a href="http://www.docin.com/p-99710111.html">http://www.docin.com/p-99710111.html</a></p> <p>Published by: Nomura International (HK) Limited, 2010</p> <p>Accessed on: 22 March 2011</p>
<p><b>Global Agricultural Information Network Report: China – Peoples Republic of: Food and Agricultural Import Regulations and Standards – Certification</b></p> <p><a href="http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Beijing_China%20-%20Peoples%20Republic%20of_12-21-2010.pdf">http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Beijing_China%20-%20Peoples%20Republic%20of_12-21-2010.pdf</a></p> <p>Published by: USDA Foreign Agricultural Service, 31 December 2010</p> <p>Accessed on: 22 March 2011</p>
<p><b>Global Agricultural Information Network Report: China – Peoples Republic of: China Retail Annual Report</b></p> <p><a href="http://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Retail%20Annual%20Report_Shanghai%20ATO_China%20-%20Peoples%20Republic%20of_1-26-2011.pdf">http://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Retail%20Annual%20Report_Shanghai%20ATO_China%20-%20Peoples%20Republic%20of_1-26-2011.pdf</a></p> <p>Published by: USDA Foreign Agricultural Service, 15 June, 2012</p> <p>Accessed on: July 2013</p>
<p><b>Food and Beverage to China</b></p> <p><a href="http://www.austrade.gov.au/Food-and-beverage-to-China/default.aspx">http://www.austrade.gov.au/Food-and-beverage-to-China/default.aspx</a></p> <p>Published by: Austrade Shanghai, 5 November 2010</p> <p>Accessed on: 22 March 2011</p>
<p><b>China's Food and Agriculture: Issues for the 21<sup>st</sup> Century</b></p> <p><a href="http://www.ers.usda.gov/publications/aib775/aib775.pdf">http://www.ers.usda.gov/publications/aib775/aib775.pdf</a></p> <p>Published by: Market and Trade Economics Division, Economics Research Service, US, April 2002</p> <p>Accessed on: 22 March 2011</p>
<p><b>Food and Beverage – East China Region</b></p> <p><a href="http://www.ukti.gov.uk/zh_cn/home.html">http://www.ukti.gov.uk/zh_cn/home.html</a></p> <p>Published by: UK Trade &amp; Investment, March 2009</p> <p>Accessed on: 22 March 2011</p>
<p><b>Study on the Future Opportunities and Challenges in EU-China Trade and Investment Relations 2006-2010</b></p> <p><a href="http://trade.ec.europa.eu/doclib/docs/2007/february/tradoc_133300.pdf">http://trade.ec.europa.eu/doclib/docs/2007/february/tradoc_133300.pdf</a></p> <p>Published by: Institute for Food and Resource Economics, Department of Agricultural and Food Market Research, University of Bonn, February 2007 (Emerging Markets Group &amp; Development Solutions)</p> <p>Accessed on: 22 March 2011</p>
<p><b>Food and Drinks in China</b></p> <p><a href="http://www.scribd.com/doc/24122867/China-Food-and-Drinks-Industry-Market-Report">http://www.scribd.com/doc/24122867/China-Food-and-Drinks-Industry-Market-Report</a></p> <p>Published by: Schmitzehe &amp; Partners , June 2009</p> <p>Accessed on: 22 March 2011</p>
<p><b>Réglementation des Boissons Alcoolisées en Chine (Reference No. B1101611A )</b></p> <p><a href="http://www.ubifrance.fr/conseil/001B1101611A+reglementation-des-boissons-alcoolisees-en-chine.html?SourceSiteMap=171">http://www.ubifrance.fr/conseil/001B1101611A+reglementation-des-boissons-alcoolisees-en-chine.html?SourceSiteMap=171</a></p>

Published by: Ubifrance, 2011

Accessed on: 22 March 2011

## Exhibitions

### **FHC China 2013, Shanghai New International Centre (SNIEC)**

[www.fhcchina.com/en/index.asp](http://www.fhcchina.com/en/index.asp)

This is one of China's premier business events for the global food and hospitality sector and companies from Food, Drink, Hospitality, Foodservice, Bakery and Retail Industries all participate in this event.

November 13-15, 2013

Tel: +86-21-6209-5209

Email: [fhc@chinaallworld.com](mailto:fhc@chinaallworld.com)

### **SIAL China 2014 , Shanghai New International Centre(SNIEC)**

<http://www.sialchina.com>

It is one of Asia's Leading Professional Food & Beverage Exhibition held in Shanghai in May each year.

May13-15, 2014

Tel: + 33 1 76 77 13 30

Email: <mailto:marie.lagrenée@comexposium.com>

### **Carrefour Wine Fair 2014**

[http://www.carrefour.com.cn/campaign/wine/index\\_en.html](http://www.carrefour.com.cn/campaign/wine/index_en.html)

The Carrefour Wine Fair is one of Beijing's main wine events. Visitors can sample more than 800 different wines from all around the world. Additionally, all bottles of imported wine will be on sale at a 20% discount during the Fair in Carrefour Shanghai Gubei, Shanghai Lianyang and Beijing Shuangjing.

April 2014, Beijing Shuangjing Store

Tel: +86-10-5190-9508 / 09

### **Wine China Exhibition 2014**

<http://www.winechinaexhibition.com/en/index.html>

This exhibition aims to disseminate wine culture, promote wine companies and expand China's wine market.

April, 2014

Tel: +86-10-6441-6542 / 6441-4996

Email: [info@winechinaexhibition.com](mailto:info@winechinaexhibition.com)

### **Top Wine China, Beijing 2014**

<http://www.topwinechina.com/exhibitors/exhibitorsframe.htm>

Top Wine China premiered in 2010, offering trade professionals the opportunity to engage in direct exchanges with distributors and producers and develop exclusive commercial relationships with players in the wine market. The show puts products and services in front of quality buyers at a low cost per contact.

June 4-6, 2014

Tel: +31-547-271566

Email: [gerdi@ipi-bv.nl](mailto:gerdi@ipi-bv.nl)

### **Restaurant and Bar Hong Kong 2014, Hong Kong Convention and Exhibition Centre**

<http://www.restaurantandbarhk.com/en/index.html>

This is an upmarket exhibition of major international food and beverage providers. It also features restaurant supplies and all other necessities for the industry.

September 2014

Mr Jim Sugarman

Tel: +852-3105-3993

Email: jim@restaurantandbarhk.com

### Food and Beverage Online

<http://www.21food.com/>

This is a global food e-marketplace for buyers and suppliers to find partners or products to do business with online.

Email: service19\_21food@hotmail.com; service10\_21food@hotmail.com

Skype: Foodb2b1 , service1\_21food

### Useful websites

#### AQSIQ: Administration of Quality Supervision, Inspection and Quarantine

A ministerial-level department under the State Council of the People's Republic of China that is in charge of national quality, metrology, entry-exit commodity inspection, entry-exit health quarantine, entry-exit animal and plant quarantine, import-export food safety, certification and accreditation, standardisation, and administrative law enforcement.

[www.aqsiq.gov.cn](http://www.aqsiq.gov.cn)

#### Chinese Academy of Inspection and Quarantine

A national scientific research body. Carries out research on the application of science and technology in inspection and quarantine. <http://www.cnca.gov.cn/jky/>

#### China Dairy Information

This website contains information in both Chinese and English on the dairy industry and market in China.

[www.chinadairy.net](http://www.chinadairy.net)

#### China Food and Drug Administration

China elevated the status of the existing State Food and Drug Administration to a general administration in early 2013 in order to strengthen regulations and boost consumer's confidence in the food and drug product. The new organization, China Food and Drug Administration, which combined the State Council's Food Safety Office, the food supervision duties from AQSIQ and State Administration for Industry and Commerce, will be responsible for supervising food and drug safety in the process of production, circulation and consumption.

[www.sfda.gov.cn](http://www.sfda.gov.cn)

#### CNCA: Certification and Accreditation Administration of the People's Republic Of China

An institution directly under the General Administration of Quality Supervision, Inspection and Quarantine. Coordinates certification and accreditation activities across the country.

[www.cnca.gov.cn](http://www.cnca.gov.cn)

#### EU Commission: DG Trade

A large number of guides, research reports and policy documents for all sectors and trading partners.

<http://trade.ec.europa.eu/doclib>

#### Food and Agriculture Organization of the United Nations (FAO)

A specialised agency of the United Nations that leads international efforts to defeat hunger.

[www.fao.org](http://www.fao.org)

#### General Administration of Customs

An administrative agency within the government of the People's Republic of China. Responsible for the collection of value added tax (VAT), customs duties, excise duties, and other indirect. Also responsible for managing the import and export of goods and services into China.

[www.customs.gov.cn](http://www.customs.gov.cn)

#### Ministry of Agriculture

A component of the State Council in charge of agriculture and rural economic development.

[www.agri.gov.cn](http://www.agri.gov.cn)

**Ministry of Commerce (MOFCOM)**

An executive agency of the State Council of China. Responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements.

[english.mofcom.gov.cn](http://english.mofcom.gov.cn)

**United States Department of Agriculture (USDA)**

The United States' federal executive department responsible for developing and executing US federal government policy on farming, agriculture and food.

[www.usda.gov/wps/portal/usda/usdahome](http://www.usda.gov/wps/portal/usda/usdahome)

**USDA Economics, Statistics, and Market Information System (ESMIS)**

A collaborative project with a system that contains nearly 2500 reports and datasets.

[usda.mannlib.cornell.edu](http://usda.mannlib.cornell.edu)

**WTO/TBT-SPS Notification and Enquiry of China**

An information channel set up according to transparency stipulations in the TBT and SPS Agreements.

<http://www.tbt-sps.gov.cn/Pages/home.aspx>

<http://www.tbt-sps.gov.cn/sites/english/Pages/default.aspx>





The EU SME Centre assists European SMEs to export to China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs.

The Centre's range of free services cover:

- Business Development – provision of market information, business and marketing advice
- Legal – legal information, 'ask the expert' initial consultations and practical manuals
- Standards – standards and conformity requirements when exporting to China
- HR and Training – industry and horizontal training programmes
- Access to a service providers directory and information databases
- Hot-desking – free, temporary office space in the EU SME Centre to explore local business opportunities
- Any other practical support services to European SMEs wishing to export to or invest in China.



The EU SME Centre is a project funded by the European Union.

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F: +86 10 8527 5093

[www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)  
[info@eusmecentre.org.cn](mailto:info@eusmecentre.org.cn)

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