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Food Processing Ingredients

China's Food Processing Annual Report

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Report Highlights:

This annual report reviews the development of China's food industry in 2013 and 2014 and examines the trends of the food processing industry, as well as prospects of some U.S. ingredients during this period.

Although investment, retail sales and industrial output showed signs of decelerating, China's food industry sales values continued to grow steadily, and the food industry estimates its 2014 revenues amounted to RMB 12 trillion (nearly US\$2 trillion). Given the huge demand for enough food to feed a population of 1.3 billion, coupled with increasing demand for quicker, safer and healthier food, China's food industry is likely to see continued growth in the future. Many food manufacturers have launched

new strategies, including employing high quality ingredients, introducing new technologies, and diversifying product lines. It is expected that this trend of introducing newer technologies, better food ingredients and more creative food innovations will improve the long-term prospects for China's food industry. Propelled by increasing incomes, health and nutrition awareness, Chinese consumers are paying more attention to what they eat. On the regulatory front, we have recently seen lower tariffs for some ingredients. For example, pecans and some other tree nuts will enjoy lower tariffs as of 2015, and that will help the U.S. export of these ingredients gain steadily.

Post:
Beijing ATO

Food Processing Annual Report 2014

EXECUTIVE SUMMARY

This annual report reviews the development of China's food industry in 2013 and 2014 and examines the trends of the food processing industry, as well as prospects of some U.S. ingredients during this period.

China's economic growth slowed down in the reviewed period, as the GDP grew by 7.4 percent in 2014. Although the GDP value amounted to RMB 63.64 trillion (US\$10.3 trillion), which ranked China as the second largest economy in the world—only after the USA, it grew at its weakest pace since 1990.

The Chinese government (under the leadership of President Xi Jinping and Premier Li Keqiang) persisted in refraining from large-scale stimulus and instead emphasized the importance of reforms. These reforms are interpreted as an indication that the government will tolerate the current slowdown—the economic growth target in 2015 was set at approximately 7 percent, lower than the actual growth in 2014.

Although investment, retail sales and industrial output showed signs of decelerating, China's food industry sales values continued to grow steadily, and the food industry estimates its 2014 revenues amounted to RMB 12 trillion (nearly US\$2 trillion). The continuous urbanization has resulted in increased job opportunities for a population of 13.22 million in urban areas in 2014, creating an even larger demand for packaged food. The per capita disposal income at the national level grew by 8 percent in 2014, according to Premier's government work report in March 2015. Given the huge demand for enough food to feed a population of 1.3 billion, coupled with increasing demand for quicker, safer and healthier food, China's food industry is likely to see continued growth in the future.

Many food manufacturers have launched new strategies, including employing high quality ingredients, introducing new technologies, and diversifying product lines. It is expected that this trend of introducing newer technologies, better food ingredients and more creative food innovations will improve the long-term prospects for China's food industry. Particularly, with the industry's increased scale, innovation and profitability, it is likely to also boost the use of imported food ingredients.

The overall value of U.S. agricultural product exports to China also dropped slightly. The dip came partly because of new market entry challenges and a series of registration regulations that hampered exports, particularly in the dairy sector.

However, Chinese consumers are becoming more savvy and “food educated.” Propelled by increasing incomes, health and nutrition awareness, Chinese consumers are paying more attention to what they eat. This does not simply refer to the taste of food or drink, but also to the ingredients of the product and the health benefits. The demand for high-quality foods with reliable and safe ingredients will continue to grow in the coming years, and Posts remain confident that this growth will lead to expanded trade opportunities across China. On the regulatory front, we have recently seen lower tariffs for some ingredients. For example, pecans and some other tree nuts will enjoy lower tariffs as of 2015, and that will help the U.S. export of these ingredients gain steadily.

Note: RMB is converted into U.S. dollars at a general rate of 6.15 in this report for convenience of reading.

SECTION I: MARKET SUMMARY

1.1 Market Overview

China's economic growth slowed down in the reviewed period as the GDP grew by 7.4 percent in 2014. Although the GDP value amounted to RMB 63.64 trillion (US\$10.3 trillion), which ranked China as the second largest economy after only USA in the world, it grew at its weakest pace since 1990.

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Facts about the Food Processing Industry in China 2013

Unit: RMB 100 million

Sector	Number of Enterprises (unit)	Total Assets	Revenue from Principal Business	Total Profits
Processing of Food from Ag Products	23,080	26,676.39	59,497.12	3,105.32
Manufacture of Foods	7,531	11,275.51	18,164.99	1,550.04
Manufacture of Liquor, Beverages and Refined Tea	5,529	12,779.01	15,185.20	1,653.56

Source: 2014 China Statistical Year Book

Official Chinese statistics separate its industrial food production into three categories:

- **Food processing**, including primary processing activities such as rice milling, flour milling, oil refining, sugar refining, slaughtering, salt processing, feed processing, and aquatic product processing.
- **Food manufacturing**, consisting of packaged food, pastries and confections, dairy products, canned foods, fermented products, and condiments.
- **Beverage manufacturing**, which is the production of alcoholic beverages (i.e., distilled spirits, beer and wine), soft drinks and tea.

Although investment, retail sales and industrial output showed signs of decelerating, China's food industry sales values continued to grow steadily, and the food industry estimates that its 2014 revenues amounted to RMB 12 trillion (nearly US\$ 2 trillion). The continuous urbanization has resulted in increased job opportunities for a population of 13.22 million in urban areas in 2014, creating an even larger demand for packaged food. Given the huge demand for enough food to feed a population of 1.3 billion, coupled with increasing demand for quicker, safer and healthier food, China's food industry is likely to see continued growth in the future.

Per Capita Consumption of Major Foods Nationwide (2013)

Unit: kg

Item	2013
Grain	148.7
Cereal	138.9
Tuber	2.3
Beans and Products	7.5
Oil and Fats	12.7
Edible Vegetable Oil	12.0
Vegetable and Mushrooms	97.5
Fresh Vegetables	94.9
Products of Meat and Poultry	32.7
Pork	19.8
Beef	1.5
Mutton	0.9
Poultry	6.4
Aquatic Products	10.4
Eggs	8.2
Milk and Dairy Products	11.7
Dried and Fresh Melons and Fruits	40.7
Fresh Melons and Fruits	37.8
Nuts and Processed Products	3.0
Sugar	5.5

Source: 2014 China Statistical Year Book

Remarks: The National Bureau of Statistics started an integrated household income and expenditure survey in 2013, including both urban and rural households. The data shown in this table is compiled on the basis of the survey. The coverage, methodology and definitions used in the survey are different from those used for the separate urban and rural household surveys prior to 2013, therefore Post is not comparing the 2013 statistics with those from years before.

According to the website of Chinese Food & Drug Administration (CFDA), there are 193,879 enterprises registered with food production permits, and 3,432 enterprises registered as food ingredient and additive manufacturers in China as of March 2015.

In order to improve food safety and security, the Chinese government has raised the bar higher and made it more difficult for food companies to gain entry. A good example of this regulation was in 2013 when China reviewed the numerous numbers of baby formula manufacturers and reissued production permits to those who passed the examination. The number of baby formula manufacturers shrank from over 600 to about 120 by end of 2014.

Meanwhile, raw material prices and labor costs have continued to climb. Smaller food companies have borne the brunt of these problems, causing the number of firms to decline, even as overall sales have grown. Due to this, the long-expected process of consolidation is moving forward. In the long term, these developments will help the Chinese government's efforts to improve food safety and quality by making it easier to monitor industry activity and create large companies with standardized practices and

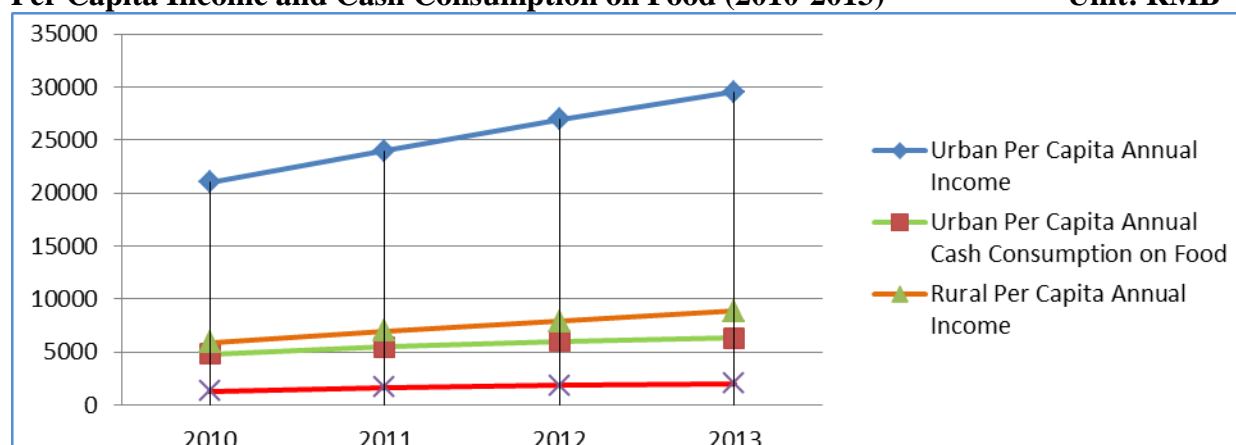
brand names to protect. This trend will also support increased imports of ingredients, as larger companies seek to distinguish themselves and are able to invest more in product development.

Many food manufacturers have launched new strategies, including employing high quality ingredients, introducing new technologies, and diversifying product lines. It is expected that these trends will improve the long-term prospects for China’s food industry. With increased scale, innovation and profitability, they are likely to also boost the use of imported food ingredients.

1.2 Key words about China’s Food Processing Industry

1.2.1 Rising Per Capita Income and Expenditure on Food

Per Capita Income and Cash Consumption on Food (2010-2013) Unit: RMB



Source: 2014 China Statistical Year Book

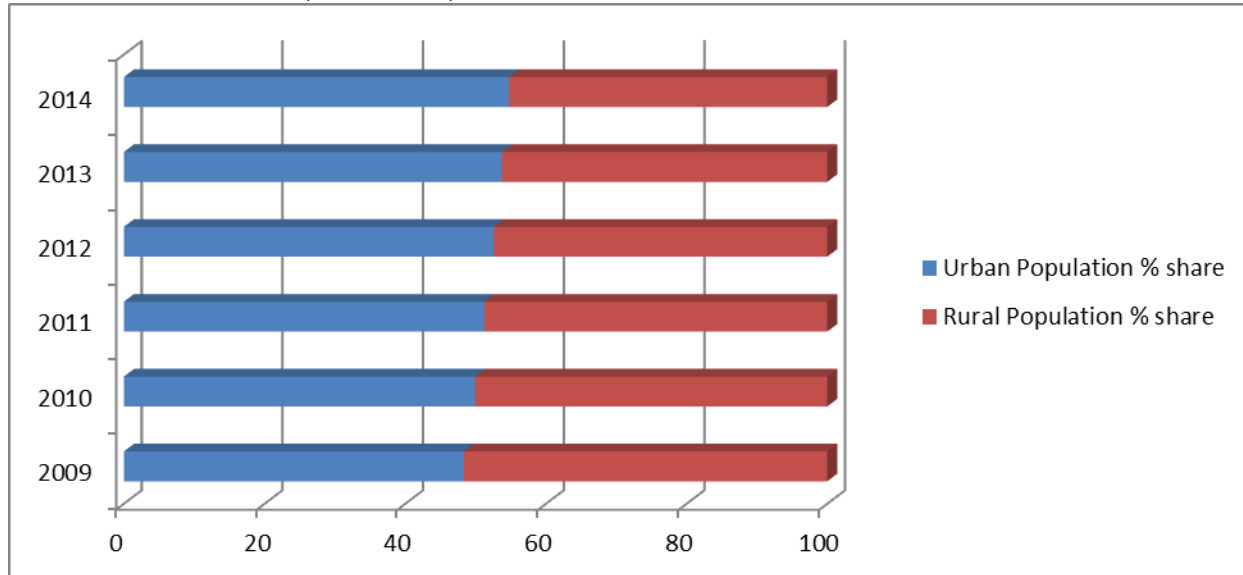
According to the 2014 China Statistical Year Book, the per capita annual cash consumption of food in urban areas grew by 4.5 percent in 2013, while in rural areas the growth rate was 10.3 percent. The urban residents’ per capita annual income increased by 9.6 percent year-on-year in 2013, and in rural areas the growth was 12 percent. Due to price factors and availability of products, rural areas consumed more fresh food than processed food compared with their urban counterparts. Due to increased urbanization, the demand of the processed food market will still reside in urban areas.

In 2013, Chinese per capita consumption expenditure nationwide was RMB 13,220.4. Among this, the expenditure on food, tobacco and liquor was RMB 4,126.7, accounting for 31.2 percent of the total consumption expenditure. The cash consumption expenditure was RMB 10,917.4; of this, 35 percent was spent on food, tobacco and liquor.

The per capita disposal income at the national level grew by 8 percent in 2014, according to Premier’s government work report in March 2015.

1.2.2 Urbanization, a key driving force

Urbanization Trends (2009-2014)



Source: 2014 China Statistical Yearbook

Remarks: The statistics for urbanization trends 2009-2013 are from the 2014 China Statistical Yearbook. The statistics for year 2014 is from the website www.qqjjsj.com.

China's rural population has been declining relative to its urban population since the 1980s. The country's urbanization has helped transform it into the world's second largest economy. 2011 is symbolic as it marked the first time that China's city dwellers outnumbered its rural residents. By the end of 2014, the urban population was 54.77 percent of the total population in China.

China has been hoping to avert economic stagnation by boosting demand at home through urbanization. The desire to tap into its domestic market has become more prominent following its decreasing exports and rising protectionism abroad. The Chinese government has been trying to improve the nature of urbanization by achieving quality growth of its economy and maintaining the country's social harmony. If migrant workers from rural areas can be effectively settled into urban settings, then those new urban dwellers will eventually start consuming more. The traditional preference for fresh food and wet markets will keep giving way to processed foods and supermarkets, and this has had profound implications for China's demand for processed foods.

1.2.3 Food Safety – Shared Concern from Government to Individual Consumers

China's rich food culture is changing. The simple joy of eating has been dampened by a string of food safety scandals that have made headlines in recent years. Chinese consumers are extremely concerned about food safety due to international criticism of the country's food standards and its supervisory agencies, which are seen frequently in Chinese media outlets.

The Chinese government is taking very stringent measures, including establishing a high-level coordination agency, enacting and strengthening relevant laws and regulations, and setting higher

standards to ensure that only qualified food operations remain in business. Despite all of these measures, both a safe food environment and consumer confidence has yet to arise.

However, while witnessing an ever-increasing appetite for global food brands, some scandals involving some of the biggest names have left many consumers concerned. With the July 2014 Shanghai Hushi Food Co scandal involving the supply of expired meat, international brands such as KFC, McDonald's, Papa John's and Burger King were forced into the spotlight over their quality control. Fonterra, the world's largest dairy exporter to China, reported finding a potentially fatal bacterium in one of its baby formula ingredients, triggering recalls of infant milk powder. Though later tests found this initial finding was incorrect, it left safety scares across the board on big international brands in the market.

1.2.4 Demand for Import Foods from Developed Countries on Rise

A growing percentage of cash for food consumption by Chinese consumers, especially those from urban areas, is spent on imported products and products with imported ingredients, such as dairy products, snack foods, tree nut products and confectionary items. There has been an explosion in high-end food retail stores across China, including City Shop, BHG, Ole, City Super and G-Super. These stores sell mostly imported products and are becoming the first options for high-income urban consumers. E-Commerce wise, the shares of imported food and beverages keep rising in companies such as T-Mall, JD, YHD, Yummy 77 and Fields. Although prices of imported products from developed countries (America, Europe, Oceania, Japan and Korea) are relatively high, they offer guarantees of food safety in the eyes of Chinese consumers. Consumers favor food products of foreign brands over those of domestic brands even though they can be produced within China.

Value of Imports of Goods by HS Section (2012-2013)

Unit: US \$100 million

HS Section	Imports 2012	Imports 2013
Meat and Edible Meat Offal	41.08	59.30
Fish and Other Aquatic Products	54.89	59.94
Dairy Produce, Bird's Eggs, Natural Honey, Edible Products of Animal Origin	32.51	52.45
Edible Vegetables and Certain Roots and Tubers	24.07	25.49
Edible Fruits and Nuts, Peel of Citrus Fruit or Melons	38.08	41.01
Cereals	47.51	50.54
Products of the Milling Industry; Malt; Starches; Inulin; Wheat Gluten	5.80	8.02
Oil Seeds and Oleaginous Fruits; Miscellaneous Grains, Seeds and Fruits; Industrial or Medicinal Plants; Straw and Fodder	385.96	426.27
Preparations of Meat, or Fish, and other Aquatic Products	1.83	1.97
Sugar and Sugar Confectionary	25.43	23.64

Cocoa and Cocoa Preparations	6.24	7.14
Preparations of Cereals, Flour, Starch or Milk, Pastry – Cooks’ Products	19.4	25.8
Preparations of Vegetables, Fruit, Nuts or Other parts of Plants	6	4
	6.24	6.62
Beverages, Spirits and Vinegar	31.0	30.5
	2	8

Source: 2014 China Statistical Year Book

1.2.5 Outward investment by Chinese food processors

Many large-scale Chinese food groups are actively looking for acquisitions overseas to boost their profile and cater to a rapidly growing domestic market. The pursuit of assets overseas also aims to benefit food product research capabilities and good raw material resources and address the popularity of imported food. In 2013, Bright Food Group acquired Synlait Milk from New Zealand, Manassen Foods from Australia, and Weetabix from UK. In 2014, Shanghai-based Bright Food Group bought a majority stake in Italian olive oil producer Salov Group and acquired a 56 percent share of Tnuva, Israel’s biggest food company and a major dairy producer. Yili, China’s largest dairy manufacturer announced a joint venture in November 2014 with Dairy Farmers of America (DFA) to build a milk powder facility in Kansas. In September 2013, Shineway acquired Smithfield, one of the largest meat processing firms in the United States, at a price of US\$7.1 billion.

Some leading Chinese dairy companies have started manufacturing their own branded products in plants overseas, aiming to cater to consumers’ strong confidence in imported dairy products and to take advantage of the lower-cost of raw milk in Europe and Oceania. For example, Wahaha has its Edison brand baby formula manufactured in the Netherlands and packaged in Switzerland. Other leading brands including Mengniu, Wondersun and Shengyuan also had their products made in overseas countries.

1.2.6 Changes in food retail and marketing

Most shelf-stable processed food products and beverages are distributed through hypermarkets/supermarkets and convenience stores. The availability of national-level retailers in a growing number of cities has increased both the channels for sale of manufactured foods and added some degree of consumer confidence. The major international retail giants (including RT-Mart, Metro, Carrefour, Wal-Mart, Lotus) are present in most of China’s first, second and even third-tier cities. Chinese retailers such as Lianhua and Nonggongshang have continued to grow and develop, and regional chains such as Suguo (Nanjing), Hongqi (Chengdu) and voluntary chains such as SPAR and IGA, have all seen substantial growth. Convenience stores such as Kedi, 7-11, and Family Mart have emerged as a strong platform targeting the younger generation with small-packaged snack foods and beverages, whether they are made locally or imported.

Food adulteration scandals have, however, battered many of these chains, as stories of retailers who hold products beyond their best-by dates or who sell counterfeits, receive broad press coverage. A lack of trust has led many Chinese food manufacturers to open their own branded stores or to reserve their own space in hypermarkets, in which products are stocked and monitored by their own employees. This is part of the broader trend in which food manufacturers seek to avoid quality issues through vertical integration.

New players claiming stringent monitoring from field to table keep entering the market. Natregro (Ming Kang Hui), invested by Hailiang Group from Zhejiang Province, developed their own farms first, and then opened chained grocery stores boasting to be the “Chinese WholeFoods,” a trustworthy American supplier of safe and health food. Natregro aims to open 20 supermarkets by March 2015 and expand its outlets to 80 by the end of 2015 in Yangtze River Delta.

E-commerce has emerged as an important channel that cannot be ignored. China has the largest internet population in the world. According to the China Internet Network Information Center (CNNIC), internet users in China exceeded 642 million at the end of 2014. E-commerce users amounted to over 361 million and mobile e-commerce users exceeded 236 million in 2014. These users are forecasted to reach 600 million by 2015, with sales value of approximately US\$350 billion. Of the top 100 retail chains operating in China, 59 had online stores at the end of 2011.

Rising prices for ingredients

Although rising prices for agricultural and food products is an issue worldwide, the problem in China appears to be worse. Starting with mung beans, followed by ginger, apple, peanut, pork, and so on, a whole list of agricultural products have experienced price fluctuations ranging from 20-30 percent to as high as doubling or even more over the past few years. This has caused serious problems for food manufacturers, particularly the smaller ones that have limited bargaining power with commodity producers or brokers. This has caused some manufacturers to begin investing in their own production facilities in order to secure supplies and reduce the impact of price fluctuations on their manufacturing businesses. The trend toward purchasing supply sources is also being reinforced by food safety concerns. Chinese markets for ingredients tend to be under regulated and it is difficult for a manufacturer to guarantee the quality of ingredients purchased on the market. A large number of the recent food quality scandals have been traced to ingredients that were adulterated by middlemen.

Soaring labor costs

With the gradual decline of China’s demographic dividend, labor costs are rising rapidly. The “labor shortage” experienced each year after the Chinese New Year years ago in Guangdong Province (a major manufacturing center) has spread now throughout China. Laborers across the country are demanding higher pay. Alternatively, many are finding employment closer to home, causing many manufacturers to locate new facilities further inland to traditionally more rural areas. A key limit cited by food manufacturers is the availability of labor.

Rising food safety costs

Over the past years, food safety scandals had made daily headlines in media across China. To reverse this situation, the relevant government agencies have introduced various measures that are driving production costs higher. For instance, the new dairy food sector policy effective from April 1, 2011 has greatly lifted the entry bar. This drove about half of dairy food makers out of the market, and left the survivors bearing an additional RMB 1 million per month for costs for quality checks and improvements to inspection equipment. For other food sectors, manufacturers have to be extremely cautious in selecting raw materials and, in most cases, purchasing more expensive ingredients than strictly necessary, to make sure their products are safety risk free.

A sharp spike in the CPI was the most noticeable feature of China’s economy in 2011, and among all sectors that contribute to the overall CPI, food took the lead. Rising food prices, propelled by

increasing food ingredient costs, labor costs and other costs, rather than by newer technology and higher standards, may slow down the robust growth of food industry that has lasted for three decades.

Looking ahead, packaged food in the Americas will continue to flourish, with new innovations driven by convenience, health and wellness, packaging, flavors and product personalization.

It offers both great opportunities and unique challenges.

The health and wellness trend has driven many North American consumers away from packaged food and processed ingredients. Flat volume growth is pepped up by value-added health-and-wellness-orientated solutions, opening up many avenues for development and product reformulation. Likewise, but still largely in its infancy, Latin America is adopting a greater push for healthier packaged food options.

Throughout the region governments continue to get more involved in driving public health initiatives. Consumers are left to navigate through improved mandatory nutritional labels, point-of-sale regulation and retail tax hikes. They are therefore increasingly more informed about the products they buy and consume, and are quick to check for recommendations or post complaints online.

Smaller packs cater for the need for convenience in the increasingly hectic urban lifestyles.

1.3 Key Trends with Chinese Consumers

1.3.1 More Consumers Read Labels before They Buy

Although most people learn about health food from media advertisements in television, radio, newspapers, magazines and the internet, food labels are still considered the most useful source of health and nutrition information for better educated consumers.

Interest in natural foods and ingredients is becoming a trend that powers innovation in BFY food and beverages. The wording “no food additives,” “no fragrance,” “no preservatives,” “organic,” “green,” “no trans-fat acid,” “0 cholesterol,” and “whole-grain” are seen more and more frequently in packages. Many consumers carefully check nutrition labels on packages to find signs to convince them to buy low-sugar or sugar-free and low-salt are favored.

1.3.2 Kid’s Food – Huge Potential

In China, approximately 16 million babies are born each year. The One-Child Policy, which allows most Chinese families only to have one child or face stiff penalties, ensures that the majority of families only have one child. Attention is lavished on those children both by their parents and grandparents. This means that spending per child is relatively very high.

According to Euromonitor, baby food witnessed 22 percent value growth in 2011, with total retail sales exceeding RMB 68 billion (US\$ 10.8 billion). Although sales of baby milk formula accounted for about 90 percent of the value of sales in the baby food sector, prepared baby food saw the most dynamic growth in value—27 percent in 2011. It is predicted that baby food will see on-going dynamic growth in the coming years. Baby foods that improves brain development and the immune systems of babies, and

those that cater well to consumers' needs for convenience and easy-to-serve features, will be especially welcomed.

In this much less price-sensitive sector, imported baby food and food made of imported ingredients that can guarantee safety sell well. This has driven some large domestic manufacturers, such as Bright Dairy and Wahaha Group, to contract manufacture their products in Australia, New Zealand and European countries and then import the products into China.

1.3.3 Sub-Health Population Eager to Eat Healthier

It is estimated that 70 percent of Chinese are suffering from some form of sub-health deficiency. They do not have organic or functional diseases and disabilities, but feel uncomfortable, fatigued, inactive, and are always in a state of anxiety and annoyance. Physicals may find higher blood pressure, blood sugar, blood viscosity, being overweight, or an under-active immune system. This creates demand for relevant health food and dietary supplements that can ease or prevent such symptoms.

This section of consumers seeks energy foods and drinks that are easy-to-serve, along with good dietary fibers to help with weight management and to improve their sleep and memory. Female consumers are normally very willing to spend money on those products that bring them "beauty inside and outside." That explains why collagen products and anti-oxidant fruit and herbal extracts are increasing on retailers' shelves.

Section II: Snapshot of Selected Food Sectors

2.1 Processed Quick Frozen Food

General situation

China's frozen food industry took off starting in 1995, and has maintained an annual growth rate of above 20 percent since then. Over the past five years alone, the growth rate increased to 35 percent, much higher than the nine percent global average.

Even though frozen food globally refers to all agricultural and food products that are processed, manufactured, stored and transported in a temperature controlled environment (no matter frozen meat, frozen agricultural products, or frozen seafood) the definition is much narrower in China. It specifically refers to food that has been pre-prepared and has only one final one step for preparation (i.e.: boiling, steaming or deep-frying).

The industry consists of three major sectors, namely:

- **Quick frozen rice and noodle products**, represented by traditional Chinese foods such as sticky rice ball, dumpling, baozi, etc.
- **Quick frozen meat and seafood products**, which has experienced robust growth fueled by the fast developing hot-pot market, with meat ball and fish ball being the main representatives.
- **Ready-to-serve-dishes**, which is an emerging sector focusing on dishes that can be quickly served by simply heating, such as beef steak and deep-fried products.

Currently, there are over 2,500 frozen food manufacturers across China, and the annual production is over 20 million metric tons. Quick frozen rice and noodle product annual value is around RMB 40 billion, followed by quick frozen meat and seafood food value of RMB20-25 billion. The third sector remains small at this stage and statistics are not yet available; however, it has become a priority for many industry players who see its huge growth potential.

Quick frozen rice and noodle food

Over the past 20 years, the quick frozen rice and noodle product sector has undergone a deep centralization process. The market, which once included hundreds of companies, is now dominated by a handful of leading enterprises.

Zhengzhou, the capital city of Henan Province, hosts two of the top producers in China: Sanquan and Syneer. Sanquan has been the market leader since it developed the first frozen sticky rice ball in the Chinese market, and has maintained its market share of around 25-30 percent for over 10 years. Since acquiring Longfeng, the number three player in the market in 2012, Sanquan significantly strengthened its market presence and expanded its share to around 40 percent. Syneer followed with a share of about 20 percent, and Wanchaiferry occupies around 10 percent.

These manufacturers are a far cry from their homespun antecedents. They are large corporations whose products are household names across China, and have brand names and reputations to protect. Sanquan currently exports to 20 countries, and could easily export more if the domestic markets did not demand its full attention. With famous names and large investments in their product lines, these companies have a powerful interest in guaranteeing the quality of their products—including the ingredients they use to manufacture them. Laboratory facilities are extensive and include the latest gas chromatography and other equipment. This need to ensure quality and safety, along with the need to innovate in order to stay ahead in the competition, is driving a keen interest in new ingredients, including imports.

China's frozen food industry revolves around several traditional foodstuffs: vegetable and meat dumplings that are boiled and sweet rice flour balls traditionally stuffed with black sesame sauce. Other products include hun dun (won ton) and noodles. The principal ingredients for these items are simple: wheat flour, pork, and fresh vegetables. However, as competition grows, manufacturers are seeking ways to distinguish themselves by offering new tastes and varieties. Both Sanquan and Syneer have introduced their lines of fruit-flavored tangyuan (which traditionally use sweet sesame fillings), including one that uses blueberry fillings imported from the United States.

ATO Beijing has been assisting US food ingredient suppliers in exploring opportunities in the sector (i.e.: China Frozen Food Workshops held in Zhengzhou). ATO has helped US blueberry and cranberry suppliers establish connections with big manufacturers like Sanquan and Syneer.

Quick frozen meat and seafood products

Hot pot has been a way of dining in China for hundreds of years, especially in Northern and Southwest China. With the high-speed economic development over the past decade, hot pot has spread across China as a result of its multiple advantages, such as being less expensive, tasty, DIY, etc. With the increased popularity of hot pot culture, semi-prepared hot pot ingredients have exploded in consumption, particularly the most consumed: fish ball and meat ball.

Anjing and Haixin are the two leading fish ball producers in China, both based in Fujian Province in Southeast China and taking advantage of abundant fish resources. Anjing is the No. 1 producer, based in Xiamen (the second largest city in Fujian). It boasts an annual sales volume of RMB 2.5 billion, equivalent to about US\$600 million. Haixin, based in Fuzhou, the capital city of Fujian, is a fish ball producer with over 100 years of history. It targets the higher end market, with an annual sales volume of around RMB 750 million.

Shandong Province is the home of meat ball production, hosting leading meat ball producers like Huifa and Jiashibo. Huifa, based in Weifang, started from scratch only 10 years ago but now produces about 150,000 tons a year, translating to a sales volume of RMB 1.5 billion per year.

Over the past two years, ATO Beijing has helped US suppliers connect with the major players in the sector with the hope of pushing high-end meat/fish balls with US ingredients to the market in the not too distant future.

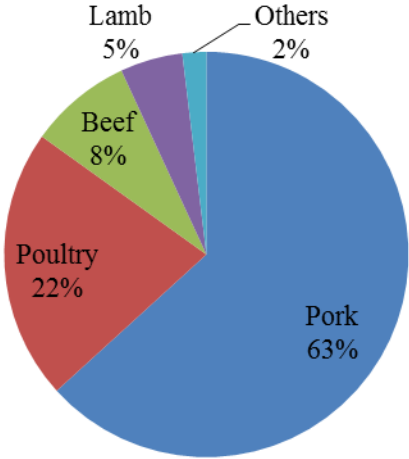
Ready-to-serve-dishes

As mentioned above, this sector is still emerging. However, seeing the great market potential, lead players of both the aforementioned two sectors are striving to strengthen their presence in China. It is still not clear which US ingredients could be used in this sector, but opportunities could appear at a later stage.

2.2 Prepared Meat and Seafood

Meat

China is a major meat producer and consumer. In 2012, it produced 54.1 million tons of pork and 5.59 million tons of beef, and consumed 52.73 million tons of pork and 5.64 million tons of beef (GAIN report 13009). Pork is China’s most consumed meat and China produces and consumes over half of the world’s pork annually, followed by poultry, beef and lamb.



Meat ratio on Chinese consumer’s dinner tables
(Source: China Meat Association)

Demand for prepared meats has been growing rapidly in the past twenty years, fueled by consumers' demands for convenience and the increasing tempo of modern urban life. According to the production and preservation processes, prepared meat foods can be categorized into three sub sectors: fresh prepared meats, prepared meats in vacuum packages and frozen prepared meats.

Fresh prepared meats are generally high in quality but short in shelf life, limiting them primarily for sale to regional markets. As Chinese people's disposable income increases, the quality of meat for sale has become a large factor influencing which and how much meat they purchase. Food security scandals, such as the recent sale of diseased dead pigs found in rivers, continue to prompt Chinese consumers to seek safer and higher-quality options. Demand for fresh chilled processed meat has risen as Chinese consumers perceive it as healthier and more nutritious option over frozen or canned processed meat. Annual chilled processed meat consumption grew by eight percent from 2009 to 2014, well above frozen processed meat, which grew at about three percent over the same period. The category's progress is also benefiting from the dramatic improvement in cold chain logistics and increasingly better equipped retailers.

Throughout China, each region (in some cases each city) has its signature brands. Most meat companies that have successfully expanded beyond one region have done so by establishing new manufacturing facilities in different regions, and adapting their products to local tastes rather than attempting to ship from the original plant to the target market.

Henan Shineway (the largest processed meat producer in the world) merged with Smithfield Foods (once the largest hog farmer and pork processor in the world) in 2013 and started importing fresh chilled pork from the United States to sell in the Henan market in March 2014.

Prepared meats in vacuum packages have been on the market for over two decades, with the main products being different kinds of sausages. Sausages have helped build many of China's leading brands, including Shineway, Jinluo, Yurun and Pinzhong. These brands are not only sector leaders, but also giants in China's food industry. However, most of these companies have focused substantial effort on building their own swine farming and internal supply facilities and have little demand for imported products.

The third subsector, **frozen prepared meats**, is where the primary interest in imports appears to be. This is the most recent part of the industry to develop, having started over ten years ago and growing to US\$3 billion in sales by 2013. The annual growth rate of the sector is 35 percent over much of the last decade, about 10 percent higher than the overall average for the food industry. The main product types are meat rolls for hot pot use (mainly lamb and beef) or daily cooking, with some variations in ingredients, sizes, flavors, etc.

The hub of the frozen prepared meat industry is in Shandong Province, hosting industrial leaders such as Longda, Huifa and Jiashibo. Huifa for example, has been in the industry for only 12 years, but has grown its sales to US\$200 million in 2013, boasting a fast annual growth rate over the last decade. Jiashibo (Huifa's strong competitor) is experiencing similar growth.

Unlike the giants in the sausage sector, the main manufacturers in the frozen prepared meat sector have not pursued a strategy of vertical integration, leaving them free to source raw materials as they see fit.

As they continue to expand, however, sourcing will become an increasingly important issue for them. A second characteristic of this industry sector is the nature of the ingredients demanded; production typically demands not lean muscle cuts, but high-fat parts such as pork collars, bellies, feet and offals. These parts are less widely utilized in the United States, and thus it has significant exportable supplies. As Chinese people's concerns about food safety and quality grow, and as supermarkets and cold chain logistics expand, the demand for primal cuts, retail-packaged meat, ready-to-cook meat and deli meat is increasing. According to Euromonitor's reports, China is expected to overtake the United States by 2015 to be the largest processed meat market in the world.

Seafood

China is the largest fish market in the world. Chinese people are fond of a wide range of fish, such as yellow croakers, ribbonfish, carp, catfish, turbot and shell fish.

China is also the largest fish producer in the world, accounting for one third of the world's seafood production and two thirds of the world's aquaculture production (by volume). Aquaculture accounts for two thirds of China's reported fish output. The principal aquaculture-producing regions are in the middle and lower areas of the Yangtze River and the Pearl River Delta.

Chinese people have a popular perception that fish are more nutritious than meat products. When consuming freshwater fish, Chinese people prefer to buy live fish and normally cook the whole gutted and scaled fish without removing the heads, tails or bones. As for shellfish, they are simply steamed or boiled before being consumed. This means that China's processed aquatic product consumption is relatively low compared with the worldwide aquatic product consumption.

Chinese consumers' demand for seafood has been soaring in the past two decades as their disposable income rises. According to the statistics by the Food and Agriculture Organization, Chinese seafood annual consumption will climb from the current 12 KGs per person to 36 KGs in 2020. However, China's domestic production is unable to keep up with the demand, which means a large part of the seafood needs to be imported. In 2013, China's reported seafood imports reached US\$8.6 billion, an increase of about 10 percent over the previous year. While some varieties of the imported seafood, such as lobsters, crabs, cod and roe are for China's domestic consumption, some other varieties, like salmon, crabs, cuttle fish and flounders are processed into fillets and/or crab sticks, and re-exported to the United States, European Union, Japan and some Southeast Asian countries.

The creation and expansion of China's middle class, especially in large coastal cities in Eastern and Southern China, have allowed them to afford premium seafood like salmon, halibut, lobsters, king crabs and Dungeness crabs. However, some upscale restaurants have seen a dramatic decrease in the consumption of high-end seafood due to the central government's austerity measures.

Seafood exports to China from all over the world continued surging in the first eight months of 2014 with the United States as one of the key players. For example, exports of U.S. lobster products to mainland China jumped 79 percent compared with 2013 to 2,858 tons from 1,597 tons, according to the U.S export data. This signature seafood product of the U.S is also gaining ground on China's e-commerce stage. In July 2014, Zhangzidao, one of the largest seafood dealers in China, sold 6,000 Boston lobsters in three days during a sales event on the commerce giant Alibaba.

China has recently introduced new regulations on protection of aquatic resources. Since 2012, China has required all foreign seafood businesses to register with Chinese authorities if they want to penetrate into this market, which means seafood exporters have to register information with the Certification and Accreditation Administration of China (CNCA).

2.3 Snack Foods and Chocolate Candy

Snack Foods

The snack food sector kept robust growth in 2013 and 2014. Statistics show that China's snack food industry output value grew from RMB 193 billion in 2004 to RMB 905 billion, an average 17 percent annual growth rate, which is far beyond the growth rate of China's GDP.

Major Category of Snack Foods	Output Value 2004 (billion RMB)	Output Value 2014 (billion RMB)	Average Annual Growth Rate 2004-2014
Dried & preserved fruits	17	122	21.78 percent
Tree nuts	18.6	86.4	16.60 percent
Jerky & other preserved meat	7.8	45.3	19.29 percent
Preserved bean products	5.9	46.2	22.87 percent
Dried & preserved vegetables	5.1	78	31.4 percent

Source: *China Sweets Industry magazine 2015.1*

The traditional snack foods in the Chinese market are still dominated by low-priced products with easy entry targeting at very price sensitive consumers, with the gross profit generally being less than 20 percent. High-end snack products with more technology content engineered into them and higher health benefits only consist of approximately 30 percent of the sector, but enjoy a gross profit of 30-50 percent, and sometimes as high as 60 percent.

Chocolate Candy

China is one of the largest candy producers in the world and is gradually becoming an active chocolate consumer. China's chocolate candy industry has experienced a fast-growing period and the growth is slowing down. According to a report from the China Confectionary Association, the total production of chocolate candy by large scale manufacturers (whose annual revenue is above RMB 20 million) in 2013 amounted to 2.63 million metric tons, a 7.94 percent growth from 2012. Although the sales increased by 24.87 percent and reached RMB 110.6 billion, the reported profit only grew by 3.77 percent due to rising prices of cocoa and milk powder as well as rising labor cost.

China Statistical Bureau's research in 2013 showed that there are 361 large scale manufacturers (whose annual revenue is above RMB 20 million) of chocolate candy in China, largely clustered in Zhejiang, Jiangsu, Shanghai, Tianjin and Beijing. There are over 500 small and medium-sized manufacturers of chocolate candy spreading to second and third tier cities.

A majority of chocolate consumers are within China's middle-class, and frequently chocolates are used as gifts for holidays, weddings, celebration of birth, etc. Therefore, chocolate is a less price sensitive

product in China's snack food market as brand image, quality and taste take on more weight than price in this sector.

Multinational brands dominate the Chinese chocolate confectionary market and will continue to do so in the foreseeable future. The top 3 companies account for a 67 percent share of retail value sales in 2013, according to Euromonitor: Mars Foods (43.3 percent), whose main brands including Dove, M&Ms and Snickers, Nestlé, who in 2013 had a 12.5 percent of retail value sales and owns the brands Nestlé Wafer (10.6 percent), Kit Kat (1.2 percent) and Smarties, and Ferrero Rocher, which took the share of 11.5 percent in 2013 but grew very fast.

The other most well-known international brands in the Chinese market are Godiva from the U.S., Lindt from Switzerland, Melty Kiss, Moomicn Candy and Morcnaga from Japan, Guylian and Cote D'Or from Belgium, Mozart from Austria, Pernigotti and Kinder from Italy, Truffles from France, Eclairs from U.K, Schogetten and Eichetti from Germany, and LOTTE from South Korea.

Some international manufacturers have established joint ventures or wholly owned plants in China, including MYROSE from Belgium, AFICIÓN from Switzerland, and Hershey's from the U.S.

China's leading domestic brands such as Le Conté and Golden Money continued to suffer share losses due to poor marketing and less popularity. Many domestic brands are still manufacturing chocolate candy with a cocoa butter substitute, which is becoming continually less attractive to health-conscious consumers. However, China's domestic brands are working hard to catch up. For instance, Amovo Chocolate (manufactured in Beijing) was successful in being the first domestic brand to produce handmade chocolate with 100 percent cocoa butter. It also claims to be the No.1 chocolate brand in e-commerce on Valentine's Day for the past five years.

Smile Foods Group, headquartered in Zhejiang Province, owns China's largest chocolate plant in Jiashan City, Zhejiang Province and invested in Chocolate Paradise, the largest amusement park with a chocolate theme. It is also the contracted producer of AFICIÓN, a Swiss brand of chocolate.

Competition is forcing the players in the sector to adapt. In July 2013, Kraft Foods Inc. changed its English name to Mondelez International and its Chinese name to mean "abundant of good flavors." In September 2014, Hershey's acquired 80 percent of the shares of China's leading candy manufacturer Golden Monkey and will acquire the remaining 20 percent in 2015.

China's Cocoa Products Import & Export & Consumption in 2013

	Import (Unit: metric tons)	Export (Unit: metric tons)	Consumption (Unit: metric tons)
Cocoa Beans	48,900	None	None
Cocoa Powder	31,800	10,400	50,000
Cocoa Paste	19,800	2,047	20,000
Cocoa Butter	13,400	19,000	15,000
Total	113,900	31,447	85,000

Source: China Sweets Industry 5th Edition 2014

There are six cocoa processing plants in China, with the leading processors located in East China. Shanghai Jin De Lai Cocoa Food Co., Ltd was established in 2009 and has an annual production capacity of 140,000 metric tons. Zhejiang Shaoxing Qili Xingguang Cocoa Products Co., Ltd was invested in by HK Qili Investment and enjoys the annual capacity of 200,000 metric tons. Jiangsu Wuxi Huadong recently began its phase one project with an annual capacity of 32,000 metric tons in April 2014. It will become China's largest cocoa processor once the plant is finished.

Although chocolate is one of the fastest growing market segments in the past five years, the per capita consumption of chocolate in China is far below the average consumption level the developed countries, hence indicating a sound potential for further growth for ingredients of chocolate. As leading international chocolate manufacturers such as Mars and Hershey's purchase their cocoa ingredients globally, over 90 percent of the domestically processed cocoa butter is exported, though most cocoa powder produced in China is consumed in the domestic market. Cocoa powder produced for low-end chocolate often contains a cocoa substitute, bakery products and ice cream products.

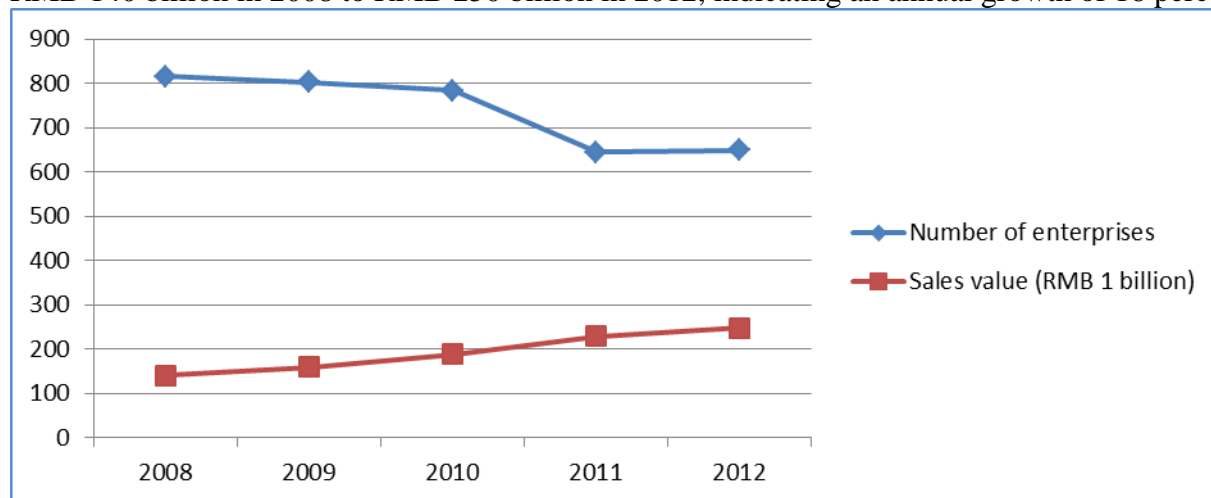
Post forecasts the consumption of chocolate ingredients, especially cocoa butter, cocoa powder, milk powder and tree nuts (hazel nuts, macadamia etc.), to continue to grow quickly in the next three years.

2.4 Dairy

Current situation

The 2008 toxic infant formula scandal that left four deaths and dozens of thousands harmed revealed China's poor regulation in the dairy food sector. In response, the Chinese government adopted many measures (i.e. reducing the number of small firms by raising operation costs and encouraging large firms to grow through mergers and acquisitions) to put the industry back on the right track. Due to public response, growth of milk production volume slowed substantially from 15-20 percent average prior to 2008 to 12.7 percent between 2009 and 2011. Production continued to slow to 8.1 percent in 2012 and to 5.2 percent in 2013.

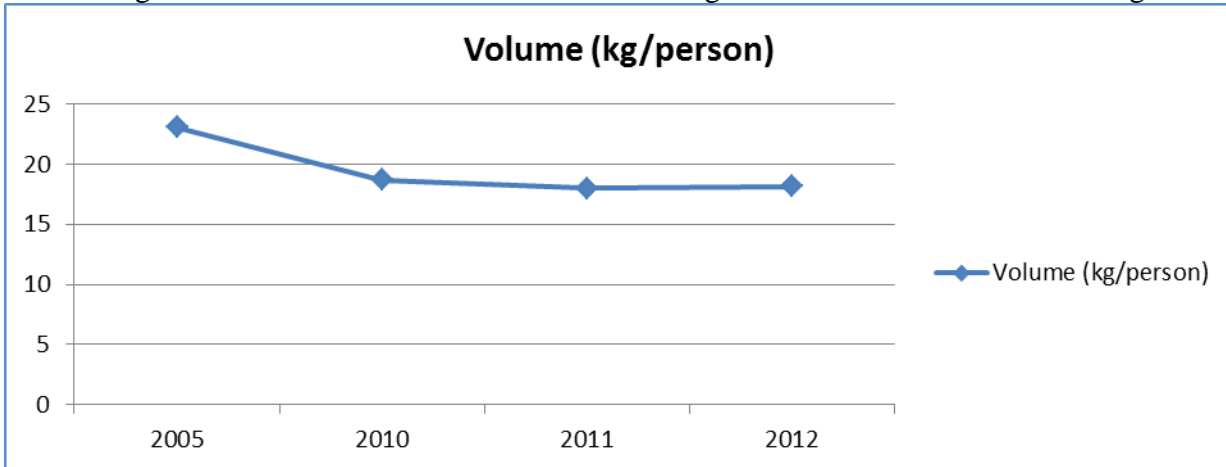
Despite the hard transition, the industry kept growing in sales value. The graph below shows when the number of manufacturers shrank from over 800 to 600, along with how the sales value increased from RMB 140 billion in 2008 to RMB 250 billion in 2012, indicating an annual growth of 16 percent.



Graph: Yearly Changes of Number of Dairy Food Manufacturer and Sales Value 2008-2012

Source: China Dairy Statistics 2013

The overhaul of the industry since 2008 effectively strengthened manufacturing and safety, and as a result, consumers' confidence recovered correspondingly. For example, fresh milk consumption volume of the 36 large and medium sized cities stabilized and began to recover in 2012. See the figure below:



Graph: Yearly Changes of Consumption of Dairy Food Per person 2005-2012

Source: China Dairy Data Report 2014

In the meantime, consumers' spending on dairy food has been climbing despite immediately following the toxic infant formula issue. In 2013, an individual's average spending on dairy food within 36 large and medium sized cities reached RMB 347.5. This is an increase of nine percent compared with the previous year, accounting for close to five percent of total spending on food.

Opportunities for the United States

In the foreseeable future, raw milk supply shortages will create opportunities for dairy product exporters. Since the second half of 2013, raw milk supply has been tight, pushing prices higher. As a result, Chinese imports have soared. In 2013, China's imports grew substantially over the previous year with volume up 36 percent and value up 53 percent, respectively. In terms of volume, milk powder grew 49 percent, whey powder 15 percent, and fresh milk a dramatic 97 percent.

The situation continued into 2014. For example, in June raw milk wholesale price reached RMB 4 per kilogram, compared with the US price of RMB 3.2, and the global average of RMB 2.78. Taking the quality difference into consideration, the price gap would be even larger. Consequently, milk imports in the first half of 2014 increased 48 percent over the same time period in 2013.

The juxtaposition of consumers' growing demand for dairy food with China's limited domestic supply of raw milk has generated opportunities for the United States, such as:

Demand for dairy products will continue to increase. FAS expects China's import of raw milk, infant powder, whey powder, cheese, etc. will continue rising into the coming years.

Investment in the United States. China's thirst for raw milk will channel more Chinese investment in U.S. dairy farms. Investment started with the November 2014 announcement of a joint venture between China's Yili and Dairy Farmers of America (DFA) to build a milk powder facility in Kansas.

Demand for alfalfa. Although China launched its Rejuvenate Alfalfa Project years ago, it will take years to have the project fully functional. In the meantime alfalfa demand will continue to grow. In addition, the decrease of the import tariff from nine percent to seven percent will further boost import volume (absent non-tariff trade barriers).

Breeding cattle. China's import of breeding cattle has increased from 40,000 heads in 2008 to close to 130 thousand in 2012, a 250 percent growth in four years. Although only breed cattle from Australia, Uruguay and New Zealand are allowed into China, the industry is very interested in sourcing US dairy genetics.

Prospect of dairy industry development

According to Euromonitor, China will overtake the United States to become the world's largest dairy market by 2017. The past years have witnessed China bouncing back from the 2008 melamine incident to consuming more dairy food than ever before. More importantly, roughly 15 million people annually are moving from rural areas to urban cities; urban inhabitants' consumption of protein, including dairy products, is significantly higher than that of rural consumers. Plus, China's total population is still increasing a net 6 million each year. At the 4th Annual Meeting of Dairy Industry in June 2013, Mr. Hongbin Gao, Vice Minister of the Chinese Ministry of Agriculture, stated that the average dairy food consumption of the Chinese is only one-third of the international average, and there is a huge potential for further growth. Mr. Gao predicted that China's consumption of dairy food would double from 2013 to 2020.

2.5 Health Foods

Market Overview

Dietary related health problems are on the rise in China and Chinese consumers are becoming increasingly health conscious. As a result, functional foods are making inroads into Chinese diets with their promises to improve health and nutrition.

Today, Chinese consumers are more eager to choose nutritious and healthy food to maintain general health and reduce the risk of chronic health problems such as diabetes and obesity. Increased disposable income is making health and nutritional food more affordable. Improved distribution channels, education and marketing campaigns have also contributed to the fast growth of the health and nutrition food market.

According to the Decree of the State Food and Drug Administration issued by the China Food and Drug Administration (CFDA) in 2005, there are two categories of nutrition and health food products: the "Health Food" and "Dietary Supplement." Both must register with CFDA and be evaluated by its authorized facilities before they are launched.

"Health Food" (Bao Jian Shi Pin) refers to a food claiming that it has certain health-improving functions or is able to supply vitamins and minerals. It is good for a particular group of people and is able to adjust bodily functions; however, it is not used to cure diseases. It will not cause any form of harm whether it be acute, sub-acute or chronic side effects. Currently there are 27 functional claims permitted to be

printed on the labels of these products. “Health Food” must register with SFDA so that they can print the logo of “Bao Jian Shi Pin,” or the so-called “blue cap” on its label.

“Dietary Supplements” refer to products that supplement vitamins and minerals instead of energy. Its function is to supplement the routine diet to prevent the deficiency of certain nutrients and lower the risk of certain chronic and degenerative diseases. Dietary Supplements cannot claim any functions on their labels.

Apart from health food and dietary supplements, there is a third category of products: the “Better for You” (BFY) products. BFY products are manufactured as ordinary food with Quality Safety (QS) certifications, and use claims such as “low in,” “high in,” “fortified” or “free from” on the label. They include lower sugar beverages, vitamin-enhanced fruit juices, probiotic drinks, infant formula, food for diabetics, organic products, vitamin A-fortified wheat flour, herbal tea, herbal liquor, and donkey-hide gelatin.

Due to different definitions of “health foods” in China, the market size estimation is quite varied. For example, the sales value of China’s health food in 2013 varied from different sources, ranging from RMB 180 billion to RMB 300 billion. Considering the Chinese food industry’s 12th Five-year-plan set the targeted market size of health products at RMB 1,000 billion by end of 2015, the market size of RMB 300 billion (US\$ 48.8 billion) is a more reliable figure.

There are over 16,000 manufacturers of nutrition and health food in China, among that 235 enterprises are of large scale production. These manufacturers have registered products with CFDA, so that they can print the so called “blue cap” with “health food” wording on the label. There are over 15,000 manufacturers producing “Better for You” (BFY) food products in China. It is estimated that the number of food products that contain fortified nutrition but do not present the “blue cap” is around 35,000.

According to the statistics from the CFDA official website, the number of registered domestic health foods with the “blue cap” is 14,507 and the number of registered imported health food items was 730 by March 2015. Compared with the statistics Post reported in 2012, the number of registered domestic health products increased by 25 percent, while the imported products only grew by about 10 percent during the same period. Although entering the Chinese market is a top priority for many global healthcare and dietary supplement companies seeking international growth, regulatory challenges have been holding them back.

The lengthy registration process and the importation procedures, which take an average of two years, have been accused of being a major barrier to Chinese consumers from gaining access to the best quality health foods. China’s Food Safety Law, the national law and regulation most closely tied to the healthcare food market, was undergoing significant revisions in 2014 and will be effective in mid-2015. The new law will combine the current “registration system” with the “filing system,” which is a premarket notification process, so as to shorten the lengthy registration process and reduce the cost of the health food suppliers, both international and domestic.

Major Players in the Market

Domestic nutrition and health food manufacturers are mainly located in Eastern China; 50 percent of them operate in the top six production bases of Beijing, Guangdong Province, Shandong Province, Zhejiang Province, Shanghai and Jiangsu Province. The rest are spread throughout central China, such as Hubei Province and Jiangxi Province, and Northern China, such as Liaoning Province and Heilongjiang Province.

Real Nutraceutical, By-Health Biotech Co., Ltd., Shandong Dongeejiao Group, and Bishengyuan Tea Group are the major health food manufacturers that produce branded products in China. Some large-scale health food and dietary supplement manufacturers are focusing on OEM manufacturing for overseas customers.

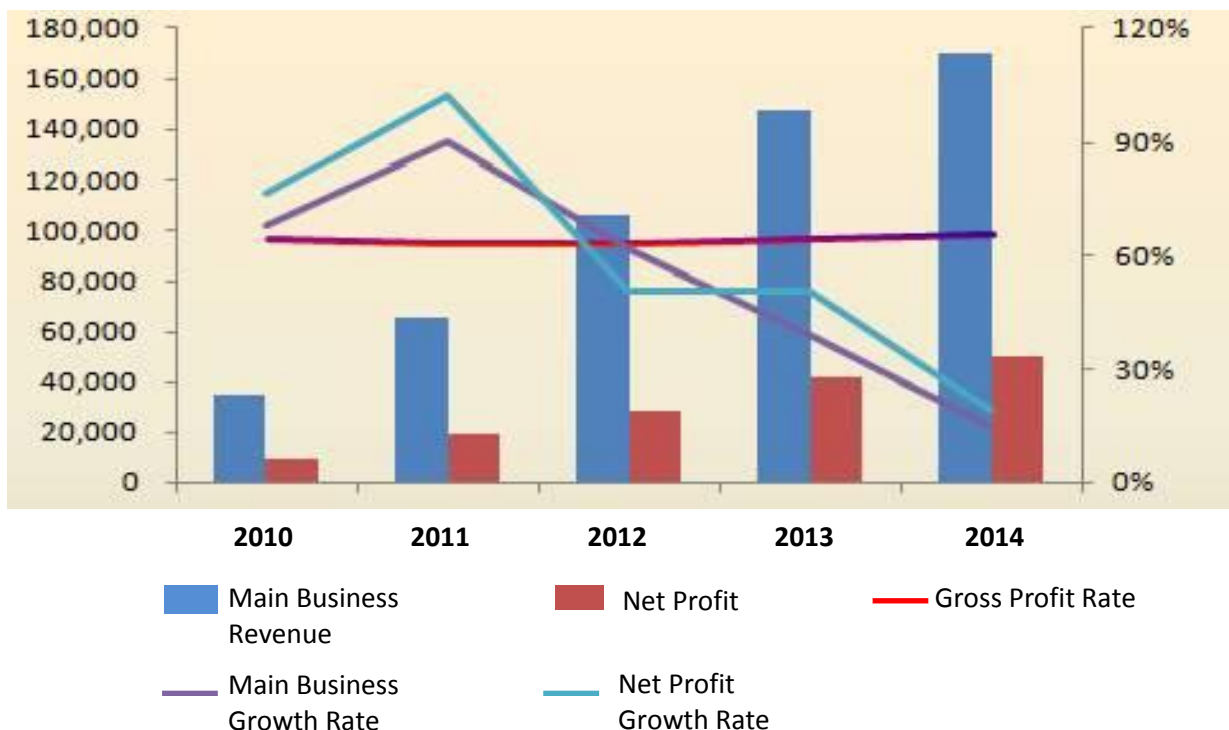
Leading international players entered China in the 1990s. Amway broke ground for its first plant in Guangdong Province in 1992 and for bringing the dietary supplement concept into China. Their Nutralife health food products portfolio has gained high popularity among Chinese consumers. In October 2013, Amway China Botanical Research Center with total investment of US\$250 million broke ground in Wuxi, Jiangsu Province. Since 2010, China has become Amway Group’s biggest market in the world. In 2013, Amway China’s sales hit a new record, reaching RMB 29.3 billion (US\$ 4.8 billion).

Wyeth introduced Centrum multi-vitamins to China as early as 1993. Since then, its health food products, including infant formula, have achieved huge success and became one of the leading brands in health food and baby food in China. Wyeth has invested over US\$530 million and established state-of-the-art plants to manufacture health food in Suzhou, Jiangsu Province. In 2013, Wyeth reported its sales revenue amounted to RMB 7 billion in China.

NBTY landed in China officially in 2006 and established the NBTY China Trading Company which introduced the Nature’s Bounty, MET-Rx Engineered Nutrition and American Health portfolios to the China market.

NBTY China Business Performance (2010-2014)

Source: Shuzheng Consulting

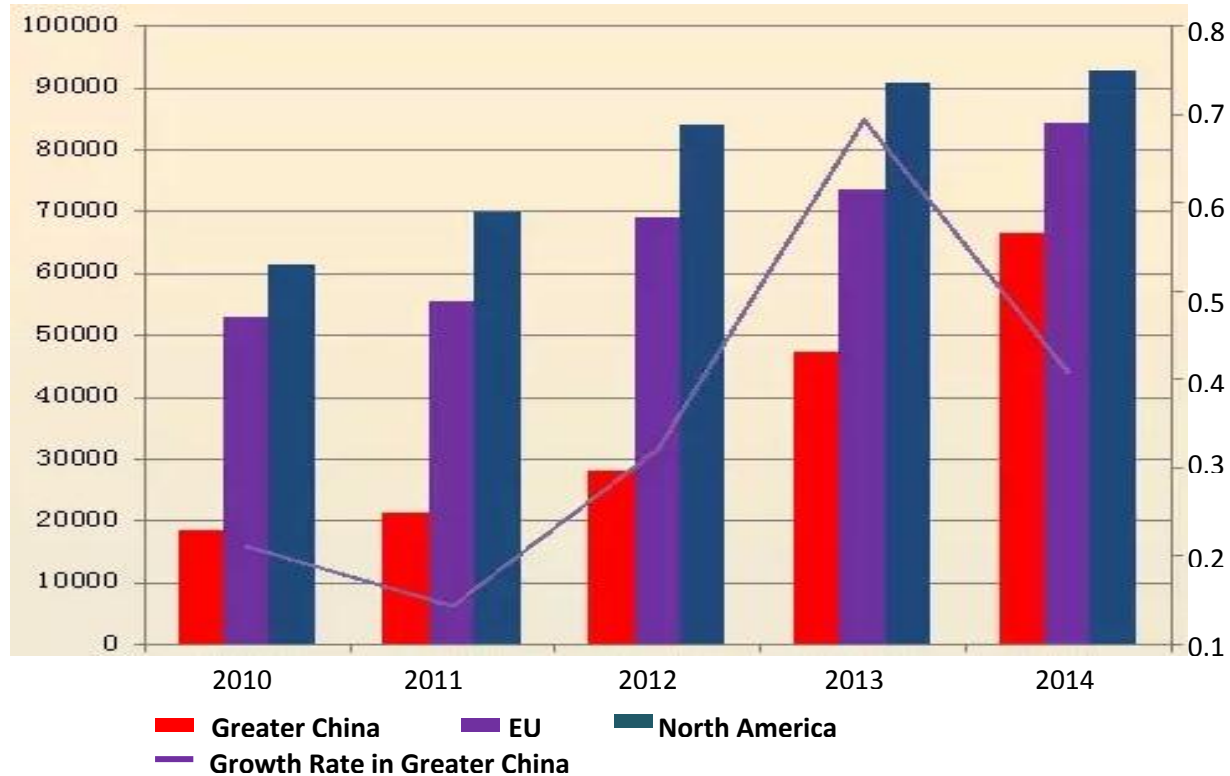


According to the 2014 annual report of NBTY issued on Feb 27, 2015, its sales revenue in 2014 amounted to RMB 1,705 million, a growth of 15.03 percent from 2013. It composed a net profit of RMB 503 million, which is an increase of 19.19 percent over the year before. NBTY’s revenue and profit have been growing steadily over the past five years, and their gross profit maintained a relatively high level. However, its main business growth rate and profit growth rate have been dropping since 2011, indicating its increasing challenges of product innovation, distribution via e-commerce and international acquisition. NBTY announced that it is going to kick off a “NBTY Nutritionist Center” system in 2015, so as to enhance its competitiveness in service not only to the retail outlet offline and online, but also to consumers via the distribution channel.

Herbalife (HLF) is a global nutrition and weight management company headquartered in Los Angeles, California. Its main products are nutrition products and protein drinks & powders for weight management. It invested in a production center in Suzhou, Jiangsu Province in 1998 and started its domestic production in 2000. According to Herbalife’s 2014 annual report, it acquired sales revenue of US\$4.9 billion, an increase of 2.76 percent over 2013. While its revenue growth was less than 5 percent in North America and less than 15 percent in the EU, its sales grew by 41 percent in China, amounting to US\$664 million. This ranked the Chinese market as the fastest growing region for its sales.

Herbalife Business Performance (2010-2014)

Source: Shuzheng Consulting



GNC entered China and established a trading company in Shanghai in 2011. So far GNC’s health products (with 15 kinds of health benefits in 13 categories) include herbal supplements, vitamins, collagens, proteins and dietary fibers. These are available at pharmacies, chain retailers and online food stores, including T-Mall, JD, YHD, Amazon China and Dang Dang.

In addition, RICHLIFE from Singapore and DHC from Japan are also expanding aggressively in China.

Distribution Channels

In China, the traditional mass market channels include mass merchandisers, drug store chains, supermarkets, convenience stores and club stores. These channels dominate the distribution of health foods with the “blue cap” and dietary supplements.

The growth of the direct sales industry (multi-level marketing), which uses the person-to-person mode of communication for elaborating the benefits of supplements, is also driving the growth of the nutritional supplement market. The Chinese government issues licenses very cautiously to companies within this distribution channel, but once they procure such licenses, these enterprises can develop rapidly.

Chinese consumers are beginning to seek nutritional advice from professional nutritionists at hospitals. This is driving the development of the health practitioner consultants as a new channel for nutritional supplement sales.

B2C E-commerce is emerging as an important channel for Chinese consumers to gain access to high-quality health foods, especially imported healthcare foods. E-commerce giants including T-Mall, JD, YHD and Lefeng are all expanding the health food and dietary supplement sectors aggressively. It is forecasted that e-commerce will take 25 percent of the share of the distribution channels in 2016.

Products Consumption Trends

More and more Chinese consumers are regularly consuming nutritious and healthy food. The most important factors that influence the decision-making of Chinese consumers when purchasing health food products are effectiveness, safety, brand name, convenience and price. While a large portion is for self-use, many buy these products as gifts for their family members, friends and business customers; therefore, packaging is also important to consumers.

The top ten categories of health products sold at T-Mall platform are quite stable in 2014 and early 2015.

Rank	Health Food Categories	Sales in Value (million RMB)
No. 1	Maca Extract	33.33
No. 2	Whey Protein	23.4
No. 3	Enzyme extracted from fruit & veggie	16.18
No. 4	Collagen	11.58
No. 5	Fish Oil	8.47
No. 6	Glucosamine	7.56
No. 7	Soybean isolated protein	6.15
No. 8	Dietary Fiber	4.5
No. 9	Multi-Vitamin and Minerals	3.05
No. 10	I-carnitine	2.79

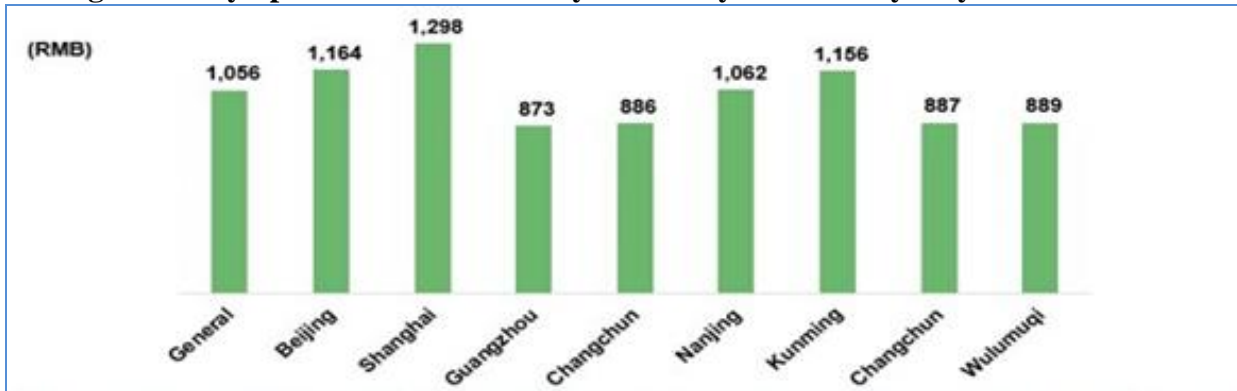
Source: Shuzheng Consulting report based on sales of health foods between Jan. 1-31, 2015 at T-Mall under the category of health foods/dietary supplements.

2.6 Baby Food

Market Size

Baby food products are the fastest growing product category in China’s supermarket retail sector. Approximately 16 million babies are born in China every year. Official Statistics show that the 2013 population of children under 4 years old is around 77 million. This has a tangible effect on the baby formula market and will continue to affect demand for toddler and children’s food products. The family plans that regulate one couple to only having one or two children ensure that more care and attention is lavished on the children.

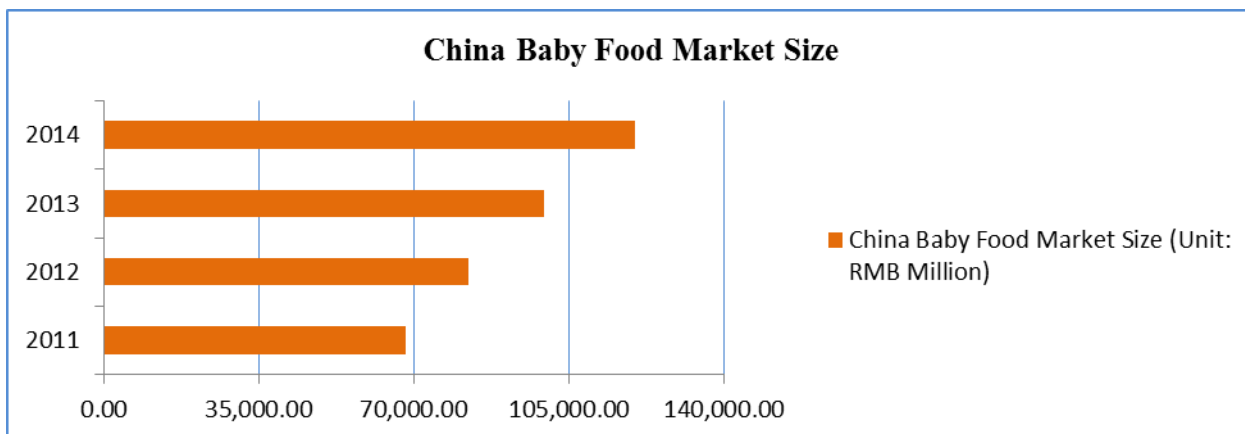
Average Monthly Spend on Children Baby Maternity Products by City Unit: RMB



Source: CBME China Children Baby Maternity Products Industry Report 2014 by UBM

In a report published in December 2014 by Children, Baby and Maternity Expo (CBME China), China’s baby products market remains highly lucrative with high consumer spending potential and a relaxed one-child policy. The average monthly spending on babies amounted to RMB1, 056, which is approximately 11-13 percent of a family’s monthly income of the consumers interviewed, a 10.2 percent growth from 2013.

According to Euromonitor, the size of the baby food market in China reached RMB 119 billion in 2014, an increase of 20.5 percent over 2013. This was due to a predicted baby boom in China, which will support strong volume growth.



Source: Euromonitor

In China, over 90 percent of mothers are working professionals. Working mothers are increasingly influencing the baby food industry, as they help maintain the income of the household at higher levels but have less time to prepare fresh food for their children. With increased disposable incomes, young Chinese couples are demanding safer and better quality baby foods and are less sensitive to price. This is causing a strong growth in the baby food market. The spread of retail outlets, improved cold chains, and distribution systems is contributing to a growing consumption of more diversified baby food products.

Many Chinese parents have chosen to buy overseas-produced baby formula due to the contamination scandal in 2008 that killed six infants. The government's move to raise standards for producers and to consolidate the industry is interpreted as a key effort to restore consumer confidence. With the encouragement of Chinese government, the number of baby food and baby formula manufacturers has been shrinking. China General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) raised the quality standards for baby formula and forced 475 of around 600 Chinese baby formula manufacturers to shut down their operations in 2012. By mid of 2014, only 82 domestic baby formula producers passed the review of the China Food and Drug Administration (CFDA).

China is expected to see the number of domestic baby formula producers shrink to around 50 by 2018, and the top 10 companies are expected to account for around 80 percent of the market share, according to a plan from the Ministry of Industry and Information Technology.

A number of international baby formula brand scandals were exposed during the reviewed period. For example, a wide-scale recall of products offered by Fonterra Co-operative Group Ltd was announced at the end of 2013 after a botulism-causing bacterium was claimed to be found during safety tests. Although the Fonterra recall proved to be a false alarm, it still led to a temporary import ban, with China stopping the import of all New Zealand milk powder. Those scandals also shook consumer confidence in imported baby food products, which were formerly considered to guarantee food safety and quality. Additionally, it further pushed new mothers to choose breastfeeding over formulas.

The Chinese government raised standards to overseas manufacturers of baby formula as well. In December 2013, AQSIQ issued Mandate 152 and the Certification and Accreditation Administration of the PRC (CNCA) released a registration form to dairy manufacturers, including baby formula producers. By March 2015, only 59 overseas manufacturers were allowed to be exported to China's market.

Market Segments

Infant formula milk powder, dried baby food (such as rice powders), and prepared baby food (packaged foods in cans and jars), constitute the major baby food products.

Market Size of Baby Food Sectors 2012-2014

Unit: million RMB

Sectors	2012	2013	2014
Infant Formula Milk Powder	75,240.69	90,931.15	109,962.36
Prepared Baby Food	897.08	1,108.12	1,349.24
Dried Baby Food	6,291.55	7,359.06	8,493.82
Total	82,429.33	99,398.34	119,805.41

Remarks: Category definitions:

- **Dried Baby Food**
Products which require the addition of water before consumption, and which are usually sold in packets. Cereals and dehydrated soups are also included.
- **Infant Formula Milk Powder**
This is the aggregation of standard, follow-on, toddler and special milk formula.
- **Prepared Baby Food**
Baby products sold in jars, cans or retort flexible pouches which do not require any cooking preparation other than heating. Includes pureed food, yoghurts, chilled desserts, soup, desserts, ice cream marketed for babies.

Source: Euromonitor

Infant Formula

Infant formula milk powder represented 91.8 percent of the market in 2014. It is also the fastest growing sector.

The top 5 international brands –International Nutrition (Dumex), Mead Johnson (Enfagrow, Enfapro, Enfachild, Enfaschool), Abbott Nutrition International (Gain, Similac), Nestle (Lactogen, Neslac), and Wyeth (Promise, S-26, Bright Promil) – dominated more than 50 percent of the market.

For baby milk powders, foreign brand names of milk powder manufactured in China (such as Mead Johnson, Abbot and Wyeth) are widely accepted because of a perceived reliability by consumers in quality and their affordability in price. Directly imported baby milk is popular among Chinese consumers. Almost every single overseas manufactured milk powder will have “imported with original package” (原装进口) displayed on the commercial package to catch consumers’ attention. The leading international infant formula manufacturers (in no particular order) that are dominating the China market in 2014 include:

- Mead Johnson (U.S.)
- Dumex (Europe)
- Nestle (Switzerland)
- Wyeth (U.S.)
- Abbott (U.S.)
- Nutrilon (Netherland)
- Karicare (New Zealand)
- Ausnutria (Australia)
- Friso (Netherland/Germany)
- Heinz (U.S.)

The leading domestic baby formula manufacturers in 2014 are Yili (Inner Mongolia), Beingmate (Zhejiang), Feihe (Heilongjiang), Yashili (Guangdong), Wondersun (Heilongjiang), San Yuan (Hebei), Ming Yi (Fujian), Sheng Yuan (Shandong) and Bright Dairy (Shanghai).

Although 90 percent of the infant milk powders are cow milk, some of the competitors from Holland and New Zealand have recently begun to market goat milk formula. Studies have shown that the mineral substance and protein proportion contained in goat’s milk is closer to human milk over bovine milk. It is also considered healthier, more nourishing and easier for babies to digest.

Prepared Baby Food

Homemade baby food is traditionally common in Chinese families where infants are fed rations of rice porridge with mashed fruit and vegetables, instead of prepared and bottled baby food. Instant cereal-based foods have proved considerably more popular, particularly those claiming nutritional supplements or other special qualities. More and more Chinese parents tend to purchase a variety of imported baby food, particularly in urban households with rising per capita disposable incomes. Instant baby cereal (whey/rice cereal), vegetable and fruit-based purees, and mashed noodles are the most widely consumed baby food items in China.

With regard to other supplemented baby food, the most widely available brands are Heinz, Gerber (under Nestle) and Biostime. These three main competitors all have production bases in China. According to retail stores' baby food promoters, Heinz is considered a reliable brand by most consumers with the widest variety of baby food in the market. Heinz also established an Institute of Nutrient Science in China which is dedicated to improve nutritional structure. And, the company has already shaped solid consumer loyalty in the market.

Consumer Trends

Post estimates that in 2015 the value of baby food sales will continue to grow due to price increases and the rising birth rate. The baby food market is not as price sensitive as other markets, especially in affluent areas, where consumers are more inclined to buy foreign brands. Quality and safety remain the key factors that influence purchasing decisions.

Competition in this sector will become even fiercer in 2015. Many firms are striving to increase their market share with intensive promotion and PR campaigns designed to restore consumer confidence.

When choosing baby formula and baby food, "Safety," "Nutritional benefits" and "Organic" are the top three factors influencing purchase.

In addition, the growing popularity of premium brands with higher unit prices will further support value sales growth. Quality will continue to be consumers' main focus in baby food during the forecast period. It is thus projected that manufacturers will increasingly focus on improving their brand reputation. Extending the paid maternity leave for new mothers from four months to one year was a hot topic in 2014. However, the government and charitable organizations seeking to encourage the wider use of breastfeeding might hinder the sales growth for baby food.

Key words 1: Imported Products = Better Products?

Both domestic and international baby formula companies have experienced blows to their reputation and, subsequently, sales. However, Chinese companies have been tarnished the most by concerns of adulterated baby foods, irresponsible advertising and other scandals.

Due to quality and safety concerns with domestic brands, many parents turn to online shopping or purchasing via friends or relatives traveling abroad to purchase "100 percent foreign brand baby formula." Imported baby food is seen as desirable for the implicit guarantee of quality. Public concern over domestic powdered milk formula still prevails six years after the melamine-tainted milk scandal,

which has indirectly enabled sales growth and opportunities for foreign brands of baby food to enter the market and establish credibility over domestic brands.

Some Chinese parents are streaming across the border to Hong Kong for high-quality infant formula, aiming to take advantage of the appreciation of China's currency against the Hong Kong dollar and the safety of the baby foods in that market. It is a regular business at Taobao, a Chinese C2C e-commerce platform, to resell these carried-over products. Some overseas Chinese living abroad even purchase baby food on Mainland internet shoppers' behalf and deliver the products directly to China through express mail.

Brands that gained confidence from Chinese parents enjoy good sales. TV commercials are critical for branding. One of the key channels to establish awareness and reputation among Chinese nursing mothers is the seminars organized by hospitals and community management offices. Many mothers also communicate on internet BBS on baby nursing knowledge and baby food quality.

As consumers are willing to pay a premium for high quality imported baby foods, an increasing number of giant Chinese food manufacturers, including Bright Dairy, Mengniu, Yili, Wahaha and Shengyuan contracted out their products to overseas manufacturers using an OEM model. Some large food distributors such as Nanpu launched their own private label baby formula, which are also manufactured in developed countries. The products are then sold in China as high-end imported products, but at a price lower than name-brand competitors.

Some Chinese companies register their firms to a foreign address, repackage imported bulk formula in China, and market their products as "imported baby formula" for higher price. AQSIQ imposed a series of new regulations forbidding the importation of large packaged milk powder and the repackaging into smaller packages in 2013. They also required that foreign manufacturing plants must register with CNCA before May 1, 2014. Once the manufacturing plant is successfully registered with CNCA, the brands OEMed by these plants are now legitimate imported infant formula as long as they are packaged into retail format in overseas market. The industry commented that these measures did not curb the influx of foreign baby brands, but instead helped them get their "imported" claims certified and endorsed.

Key Words 2: Safe and Natural Baby Food Ingredients

Many of the well-received brands' packages highlight that their formulas are proximal to breast milk with similar protein proportions to strengthen infants' immunity, 1,3-dioleoyl-2-palmitoyl-glycerol (OPO) to protect babies from enteric infection and allergy, and DHA and ARA to improve brain and retina development.

When choosing baby food, Chinese mothers tend to select products without edible additives like flavoring essence, sugar, maltodextrin and thickeners.

Chinese parents also believe that excessive "heat" (food that leads to bloating or excessive fluid retention) inside the body generated by the food consumed may trigger disease. Nursing mothers are more inclined to pick formulas without palmitic acid, which has been considered a primary creator of "heat" in the infant's body that influences babies' nutritional absorptive and digestive functions. Consequently, many brands tend to label products with "not containing palmitic acid" as a marketing tool when promoting their infant formula products.

Prohibition of Colostrums in Baby Formula

Since 2012, China’s Ministry of Health regulated that no colostrum powders are allowed in three product categories inclusive of:

1. Infant (0~12 months) formula
2. Older infant (6~12 months) and young children(12~36 months) formula
3. Infant formula with special medical purpose.

Organic Baby Food

Organic baby formula and supplementary foods are popular in China’s market. Since the United States and China do not recognize each other’s organic standards, imported products claiming to be organic on the packaging must receive approval from the Chinese government through an unwieldy approval process. This has limited the entry many foreign brands baby supplementary foods into China. However, many young parents in China tend to have their babies to eat the same food as those from developed countries. The emerging cross-border e-commerce can help them realize this dream; by placing orders on the platforms of KJT, T-Mall, Yihaodan, Amazon, etc., they buy organic baby food made in U.S. , European countries, Australia and New Zealand with affordable prices and reliable quality as long as the single purchase value is below a certain amount.

Although the retail price for organic baby formula is much higher, an increasing number of affluent parents are still willing to pay a premium for the “organic” label.

Key Words 3: Distribution Channel Experiencing Changes

E-commerce as a substitute for traditional food retail is growing in China. There is a high potential for growth of online sales of imported baby formula that remains unsaturated. The cross-border e-commerce makes it an even more lucrative market for baby formula companies looking to export to China.

Shopping Channels for Children Baby Maternity Products in China in 2014

	Average	Beijing	Shanghai	Guangzhou	Chengdu	Nanjing	Kunming	Changchun	Wulumuqi
Children baby maternity products store	43% ①	43%	33%	41%	38%	47%	49%	46%	51%
Supermarket	24% ②	24%	17%	25%	31%	28%	23%	24%	22%
Online shopping	15% ③	15%	23%	15%	13%	13%	13%	12%	13%
Department store	11% ④	10%	13%	11%	12%	7%	12%	14%	9%
Wholesale Market	3% ⑤	2%	6%	2%	4%	2%	1%	4%	3%
Purchase from overseas	3%	5%	5%	5%	1%	2%	2%	0%	1%
Pharmacies	1%	1%	2%	0%	1%	1%	0%	0%	1%
Others	1%	1%	1%	1%	0%	0%	0%	0%	1%

① Rank in 2013

Source: CBME China Children Baby Maternity Products Industry Report 2014 by UBM

According to the survey of UBM, which is the organizer of the CBME show, children and baby maternity products stores are the most preferred purchasing channel in both 2013 and 2014 reports, with higher popularity in 2014. The top attributes for shopping the baby food products from stores include assurance of quality and a full range of products, while for internet shoppers, their top reasons for shopping on e-commerce are convenience, cheaper price, and the time-saving delivery service.

2.7 Tree Nuts and Dried Fruit

South China Tree Nut& Dried Fruit market

Summary: The Pearl River Delta region has historically been China's trade hub for both imported and domestic tree nuts and dried fruits. This region boasts mature distribution channels across the country with its numerous delta tributaries, which has allowed traders, processors and packers to easily access tree nuts & dried fruits both domestically and from abroad. China will continue to rely on imports as output for domestic crops are of lower quality and insufficient to meet demand.

Consumption trends: The Chinese government has tightened the official budget for hospitality expenses since early 2013; government purchases have been shrinking significantly in 2013 and 2014, and expensive or luxury gifts are experiencing slow sales under these circumstances. Thus, market trends towards mass consumption in terms of marketed in affordable packages to households. Holidays remain the best sales season (or holiday consumption remains the best drive to seasonal sales), including Chinese New Year and Mid-Autumn Festival, as well as the first week of May and October. Middle class and young adults in China's first- and second-tier cities favor year-round snack food consumption.

The “third country channel”: Guangxi-Vietnam border trade

China-ASEAN Free Trade Agreement (FTA) came into effect in early 2010, and one of the aspects critical to both countries was to accelerate the pace of trade development along the Sino-Vietnamese border. Since 2010, China has become Vietnam's largest trading partner with Sino-Vietnamese trade value precipitously increasing from US\$32 million in 1991 to US\$41 billion in 2012.

Guangxi's proximity to Vietnam and Guangdong is a geographic advantage. U.S. agricultural products, tree nuts, frozen fish, veggies and fruit are currently the major commodities that can come in through the Vietnam-Guangxi boarder without quota limitation. Tree nut trade recorded 30 percent growth in 2013. Among this record, 90 percent were U.S. tree nuts, such as almond, pistachio, pecan, walnut, hazelnut and macadamia that came through the Nonghuai border crossing in Pingxiang city governed by Chongzuo Municipality. Chongzuo Municipality is a newly established city especially for border trade development, and it has four towns sharing 533 kilometers of border with Vietnam's Cao Bang and Lang Son City.

Due to the current conditions of the free trade agreement, all products need ASEAN to issue products their origin certificates. These certificates of origin cover a batch of goods, regardless of their values or sizes. Each certificate's handling fee is US\$6, and it could be issued within one work day. Therefore, most agricultural products are re-packaged or re-labeled in Vietnam, and then come through the border with the “product of Vietnam” certificate in order to benefit from the free trade policy.

Distribution channels

Retail market: From September to December 2013, the accumulative total of grocery retailing, including supermarkets/hypermarkets and convenience stores, increased by 11.5 percent. According to research company statistics, tree nut consumption increased by 7.6 percent compared to that of 2012.

Product quality, appearance and packaging all impact retail sales. Higher-end packaging and larger-sized tree nut kernels are used in gift sets and occupy a larger market share in first-tier cities like Beijing, Shanghai and Shenzhen. Simple, lower-quality kernels in smaller sizes are mostly favored by households in second- or third-tier cities.

Local brands for tree nuts, such as Tianhong (Rainbow), Kaixin (Happy Nut), Fujin, and Fengye (Maple), are now growing stronger in the retail sector. Moreover, new retail giants are able to economically provide healthy private label competition to household branded products. Examples of this trend can be found in Wal-Mart group's private label tree nut & dried fruit products. The potentials of such products are promising as market share and brand awareness continue to increase among the larger domestic and international grocery chains. Retail chains can potentially topple the cartel's control of the market if the direct purchasing trend grows strongly and successfully.

Whole sale market: The wholesale market is complex with various grades of nuts & dried fruit that are both domestic and imported. As the largest dried fruit and tree nut supplier market in the world, the Yide Road in the older part of Guangzhou has over 2,000 shops stretching for two miles that sell tree nuts, dried fruit and other dry goods. Nuts account for 30 percent of the goods sold in this market, and dried fruits are 20 percent. They can be found in numerous forms, such as roasted or salted, shelled and in-shell, sundried or processed, loose and packaged. Price is still a key factor in the wholesale business.

Bakery market: Increased disposable incomes and awareness of a healthy living style have raised the bar for using imported tree nuts and dried fruits in baked goods. According to national industry statistics, in 2013, baked goods as a whole witnessed rapid growth in value terms, including bread, cakes and pastries, and their sales totaled US\$21 billion with a growth rate of 30 percent. In addition to large scale bakery chains, the number of small but high-end bakeries and coffee shops grew rapidly in first- and second-tier cities. Since 2008, the usage of imported tree nut & dried fruit in the bakery sector has increased by an average of 10-20 percent annually.

Snack food market: Before 2008, snack food in China was considered as junk food and its target customers were mainly children and teenagers, with domestic snack food sold mostly in bulk and lacking food safety management. However, the situation has changed quickly in recent years. With economic growth and continuous product promotion, along with the fast development of processing machines and packaging equipment, the snack food industry has largely enhanced its output value, which reached US\$90 billion in 2013.

Additional Market Analysis for U.S. tree nuts & dried fruits

Pistachios: These are the most popular nut in China, thanks to its Chinese name "happy nut." In 2013, China imported US\$69 million worth of U.S. pistachios. Over 95 percent of imports come through South China ports: Guangzhou, Jiangmen, Gongbei and Shenzhen. The Custom statistics indicate that Chinese imports of U.S. pistachios dropped by 29 percent compared to imports in 2012. However, U.S.

export to Vietnam has increased by 1,041 percent to about a US\$3 million value in 2013. According to a border trader in Guangxi, over 90 percent of those tree nuts are transshipped via Vietnam to China.

Almonds: The Chinese import tariff for in-shell almonds has been reduced from 25 percent to 10 percent. This temporary reduction has been extended every year, including 2013. In 2013, South China's importation of U.S. in-shell almonds increased by 408 percent, valued at US\$17 million. Continuous economic growth also drove up in-shell almonds' price by approximately 10 percent. Again, U.S. exported US\$52 million of in-shell almonds to Vietnam, an increase of 27 percent since 2012.

Walnuts: China's annual domestic consumption of walnuts is largely based on the nut's widely recognized nutritional and medicinal aspects. Locals mainly consume walnuts as snacks via the retail sector, and use them as ingredients for cooking or baking via the food processing sector. Industrial manufacturers process walnuts into many other forms of food and drinks, such as cakes, biscuits, mixed nuts, walnut-flavored snacks, milk and oil.

In 2013, China's import of U.S. shelled walnuts dropped by 28 percent. Similarly with almonds and pistachios, the U.S. exports of \$US84 million worth of in-shell walnuts to Vietnam increased by 219 percent, compared with that of 2012.

The unhealthy competition continues within California's walnut industry. Huge demand leads to unhealthy competition among Chinese buyers. Some traders bid on new crops before harvest and buy from anyone offering or buying "fired run" without minimum quality specifications. The situation causes price fluctuation and uncertain quality control. Complaints of product quality and irrational high prices in the market negatively influence the image of the entire U.S. walnut industry in the Chinese market.

Raisins: In 2013/2014, U.S. raisin demand and unit price tended to stabilize in South China's retail and wholesale markets. New varieties of dried fruits emerged in the market, and lower-priced raisins offered by South America and China Xinjiang Autonomous Region have not only impacted the growth of American products but also threatened its market share. In 2013, 17 districts in China received 9,979 tons of U.S. raisins valued at US\$2.5 million. Overall import value had dropped by 11 percent compared with that of 2012. However, South China's import value had increased by 63 percent over that of 2012, and the imports to Guangzhou's port were up about 143 percent. Imports of substitute dried fruits entering local retail and food processing markets was another factor that impacted U.S. raisin demand in China. Dried cranberries, blueberries and raspberries from North America, along with dried pineapple, banana and mango from South East Asia, are widely available in the market with competitive prices.

Dried Cranberries: Since 2012, dried cranberries have become a superstar dried fruit in China's snack food and baking industry. Their natural color, favorable taste and reasonable pricing allowed them to quickly gain a foothold in the market. In 2013, China imported US\$6.9 million of dried cranberries from the U.S. with a 444 percent growth compared with the same period of 2012. South China accounts for 20 percent of the total import volume that mainly comes through Shenzhen and Huangpu ports.

Dried Prunes: China imported US\$7.1 million worth of dried prunes from the U.S. in 2013, an amount that dropped by 10 percent compared with that of 2012. Chile and France become strong competitors with the U.S., with 69 percent and 83 percent increases in 2013 respectively. Shantou Municipality

claims the highest volume of imported dried prunes from the U.S., followed by Guangzhou and Shenzhen in South China.

Conclusion: The demands still exceed supplies for tree nuts and dried fruit in the South China market thanks to the wealthy and growing economy as well as the improvement of living standards. Buyers, roasters and distributors are looking for more tree nut sources worldwide. Pricing remains the top sensitive factor of imported tree nut trade.

1.5 Regional Developments

1.5.1 Northeast China Food Processing Industry Overview

Northeast China consists of the three provinces of Liaoning, Jilin and Heilongjiang. The heartland of the region is the Northeast China Plain. This region has 110 million people, accounting for about eight percent of China's total population. Major cities, such as Shenyang, Changchun and Harbin, each have a population of eight to ten million inhabitants, and there are more than 30 cities that have more than a million people. In 2013, the region's GDP was RMB 5.44 trillion (US\$888 billion), accounting for about 9.5 percent of China's total GDP.

From the 1950's to the 1980's, this region was China's prominent heavy industrial base owing to its abundant coal reserves, and it was more urbanized than most of the other areas in China. However, the Northeast lagged behind much of the rest of the country during China's large economic growth of the 1990's, and it has only recently begun economic development in part due to China Central Government's focus on revitalizing it.

In addition to being China's industrial base, the region is also China's granary, as it is situated on one of the world's black earth belts. As the most important source of soybeans, corn and japonica rice, northeast China accounts for about 40 percent of China's soybean production, 35 percent of its corn output and 45 percent of its japonica rice crop.

Buoyed by economic growth and urban development, the region's agricultural imports have been soaring and demand for soybeans, red meat, dairy and sugar have all seen double-digit growth over the past five years. In addition to consumer demand, imports of inputs, such as machinery, animal genetics and breeding stock, and feed ingredients to support agricultural production are also important in this region. U.S. agricultural exports to the region have increased by 18 percent annually since 2009. Aside from soybeans, which make up three quarters of U.S. exports, products such as pork and offal, dairy, fresh fruits, and feeds and fodders have seen even faster growth, making the northeast an attractive market.

Food processing has been developing very fast in the past twenty years in this region, including processing of meat, seafood, beer, fruits, bakery and dairy.

Liaoning

Liaoning has the largest economy of Northeast China. Its GDP for 2013 was RMB 2.71 trillion (US\$441 billion), making it the 7th largest in China. Its per capita GDP was 61,686 Yuan (US\$10,062).

Main agricultural products of Liaoning include corn, rice, beef, dairy products and vegetables. The region around Dalian produces three-quarters of China's exported apples and peaches.

Seafood

Seafood processing is one of Liaoning's main food processing industries and is mostly concentrated along the coastal cities of the Bohai Sea, especially in Zhuanghe. Most of the processing plants import seafood products from Russia, the United States and the European Union. After processing, the seafood is re-exported to the United States, European Union, Japan and some Southeast Asian countries.

Liaoning Ocean Fishery Group Corporation (Liao Fishery), Zhangzidao Seafood Company and Donglin Seafoods Company, all headquartered in Dalian, are among the largest seafood processors in China. Liao Fishery, with over 10,000 employees and nine processing plants, has an annual seafood processing capacity of over 100,000 metric tons. And Zhangzidao saw sales of RMB2.6 billion (US\$423.4 million) in 2013.

Dairy

Liaoning Huishan Group is one of the largest dairy producers in the Northeast, and number four in China. Yili, a large national group, set up a liquid milk and yogurt production base in Shenyang in 2011. Yili and Mengniu occupy about 70 percent of the dairy product market in the Northeast and Huishan has a comparatively larger share in Liaoning. Liaoning Huishan is a large buyer of U.S. genetics and feed ingredients, especially alfalfa.

As people's income increases, more imported milk from Australia, New Zealand, Germany and Korea is consumed here. Some U.S. fluid milk is also trying to come into the market and some progress has been made.

Bakery

Holiland is the biggest cake producer in the Northeast and in China. It specializes in birthday cakes and seasonal Moon Cakes, covering about 120 cities in China with about 1,200 direct stores. Its premium stores, called Black Swan, target very high-end consumers and provide upscale products.

Toly Bread, headquartered in Shenyang, is one of the biggest players in China's bakery industry, with the main products being bread, seasonal Moon Cakes and Zongzi (glutinous rice dumplings). Besides branches and plants in all the big cities in the northeast China, Toly has expanded its operation to almost all over China. Not owning any of its own stores, Toly is implementing a different business model from Holiland. It cooperates with various tiers of retailers including big hypermarkets/supermarkets and small grocery stores. In 2013, its sales revenue amounted to RMB two billion (US\$325 million). It is now a significant user of U.S. wheat flour, dried fruits, nuts and cheese products.

Beer

People in northeast China have a long tradition of drinking beer, especially in the summer time. There are 17 beer breweries in Liaoning. China Resources (Snow Flake) owns ten of them, which accounts for 60 percent of the total production of Liaoning, followed by Harbin, Tsingtao, Yanjing and some local brands.

Meat Processing

Shenyang Lufeng Food Company is one of the biggest beef and lamb producers in Liaoning. It has a slaughtering capacity of 100,000 head of cattle and 500,000 sheep. Dalian Snow Dragon is a high-end beef producer in south Liaoning, which has its own beef cattle farms and processing plants.

Jilin

In 2013, the nominal GDP of Jilin Province totaled RMB1.3 trillion (US\$211.76 billion), with per capita nominal GDP of RMB47, 191 (US\$7,698).

Jilin's agricultural production is centered upon corn, rice and sorghum. It is one of the major grain producing areas of China and it has had the highest corn yield in China for many years. Corn accounts for about 75 percent of its total grain production, which is a key reason why the province has the most corn processing plants in the country, such as Chang Chun Dacheng and Jilin Huarun. Jilin Fuel Ethanol Plant in Jilin City is one the two largest biofuel producers in China.

Meat processing

Jilin Haoyue Halal Meat Co. Ltd, headquartered in Changchun, is the largest beef producer in China. Its annual slaughtering capacity is over one million head of cattle and 900,000 sheep. Twenty percent of its beef is exported, mostly to Islamic countries in the Middle East, accounting for 50 percent of China's total beef exports.

Dairy

Compared with the other two provinces in the Northeast, Jilin's dairy industry is not as large. Jilin Ground Dairy Industry Co. Ltd is the largest dairy producer in the province and has its own dairy farms.

Heilongjiang

In 2013, Heilongjiang's nominal GDP was RMB 1.43 trillion (US\$234.62 billion); its per capita GDP was RMB 37,509 (US\$6,119).

Heilongjiang is the largest grain-producing province in China, accounting for about 10 percent of China's total grain production. Its major crops include corn, rice and soybeans.

Dairy

Heilongjiang has the second largest number of milk cows and the second highest production level of milk among all the provinces in China. Many key dairy players in China have operations in Heilongjiang, such as Nestle, Bright, Yili, Mengniu, New hope, Being Mat, and Wahaha, as well as the local Wondersun and Feihe. This province also has the most dairy processing plants in China.

Wondersun Dairy Co. Ltd, a subsidiary of Beidahuang Agriculture Co. Ltd, is one of the largest dairy producers in northeast China. Beidahuang Agriculture Co. Ltd, belonging to the State Farm, is currently the largest agricultural conglomerate in China.

Feihe Dairy Co. Ltd, set up in 1962, is another key dairy player in Heilongjiang, specializing in baby formula. It moved its headquarters to Beijing several years ago, but all of its major operations, including dairy farms and dairy product processing plants, are all still in the province. Some of its large scale dairy farms have as many as 10,000 dairy cows each.

Beer

Harbin beer (belongs to Anheuser-Busch InBev), the earliest beer brewery set up in China (the year of 1900), is another strong brand over northeast China. It has a market share of 66 percent in Harbin and about 5 percent over China.

Major Provinces' Food Processing Industry in Northeastern China by Province 2013

Provinces	Categories	Number of Enterprises	Annual Sales (billion RMB)
Liaoning	Food Processors	3863	919.36
	Food Manufacturers	1533	463.51
	Beverage Manufacturers	230	48.52
Jilin	Food Processors	894	315.10
	Food Manufacturers	160	39.25
	Beverage Manufacturers	208	47.72
Heilongjiang	Food Processors	604	185.24
	Food Manufacturers	83	18.58
	Beverage Manufacturers	67	9.26

Sources: Statistical Yearbooks 2014 of the reported provinces

1.5.2 North China Food Processing Industry Overview

North China is home to 15 provinces, special municipalities and autonomous regions. The region covers about half of the land size of China, spreading from the east tip facing the Pacific Ocean in Shandong Province to Xinjiang autonomous region, the geographical center of the Asian continent. The provinces within the region vary so much geographically, socially, economically and culturally that it is hard to talk about them as a whole.

The food processing industry is clustered in the eastern part of the region, represented by Shandong and Henan, and it is highly competitive in sectors like meat processing, seafood processing, beer brewing, dairy products and noodle foods.

North China hosts two of China's top agriculture and food provinces, Shandong and Henan.

Sector	Province	Value (billion RMB)	Ranking in China
Food Processing and Manufacturing	Shandong	1,000	1
	Henan	405	3
Beverage Manufacturing	Shandong	128	2
	Henan	98	4

Source: China Provinces and Cities Economy Development Yearbook 2013

Meat processing

Meat processing is a major industry of the region. Henan is the largest meat processing province in China. It is estimated that 5 out of every 10 ham sausages produced in China are made in Henan Province alone. Henan Shineway Group (Shuanghui), the largest meat processor in China, has also been the champion of China's top 100 food processors since 2005. In September 2013, Shineway acquired Smithfield, one of the largest meat processing firms in the United States, at a price of US\$7.1 billion. Topin (Zhong Pin), listed in the U.S. stock market, is another big meat processor in Henan. Shandong is also home to a number of major meat processors, such as Jinluo, Longda, Delisi and Zhuchengwaimao.

Frozen food

Henan is also the largest quick frozen wheat and rice food manufacturing province in China, hosting a large number of major frozen food manufacturers, including the well-known brands of Syneer and Sanquan. Annually, these two each manufactures about 300,000 tons of frozen tangyuan, dumplings, hundun, etc., valued at about RMB5 billion. Overall the frozen food market is estimated to be worth as much as US\$10 billion per year in China.

Over the past 20 years, the sector has experienced high speed development, coupled with fierce competition. The survivors, represented by Syneer and Sanquan, are having profound changes on product lines, both in product upgrade and product diversification, to prepare for the upcoming round of competition.

Shandong hosts a large number of frozen prepared meat producers, taking advantage of its resourceful seafood production and big swine-farming capacity. The manufacturers, including Huifa, Jiashibo and Longda, produce various meat balls, barbecues and various prepared seafood products, to supply not only the ever-growing domestic market, but also foreign markets like Japan and Korea for hot-pot and easy-cooking meals. Huifa, for example, has maintained a 200 percent annual growth rate over the past 10 years.

Instant noodle

Huabei (North China) Plain, which is home to Henan, Hebei and Shandong Provinces, has been the most important wheat-producing region in China for thousands of years. So it makes sense that all major instant noodle manufacturers have established their business in the region over the past two decades. These include Master Kong in Tianjin, Baixiang and Union in Henan, and Jinmailang in Hebei.

China's production of instant noodles is as high as 50 billion units each year, equaling the combined production of all other countries. Although instant noodle is a low-priced food product (about US\$0.50 per unit), given the huge production volume, any agricultural product that it uses would see large sales in China.

In addition, instant noodle producers are expanding their product lines to include beverages, snack food, and high-end instant food, which may provide opportunities for U.S. agricultural suppliers.

Seafood

Seafood processing is one of North China's major food processing industries and is mostly concentrated in the coastal cities of the Bo and Yellow Seas, especially in Shandong Province. The majority of imported seafood products is processed in these areas and then re-exported to the U.S., Japan and other countries.

Beer

Beer production is among the most significant processing industries in the region. Tsingtao and Yanjing, the 2nd and 3rd largest beer brands in production volume in China, are both located in the region. Tsingtao beer, based in Qingdao of Shandong Province, is world famous. Yanjing Beer, based in Beijing, dominates 90 percent of the Beijing market and holds a 50 percent share in North China.

Snack food

There are three major snack food manufacturing centers in China, representing three different types of snack food. One is in Fujian Province of South China, producing various candy and confectionary foods. The other two are both in the North China region. One is Luohe in Henan Province, which hosts most of the big wheat flour and rice snack food manufacturers in China; the other one is Rongcheng in Shandong, where various sea products are processed into snack food.

Apart from Beijing, North China hosts a big group of emerging city markets, including Tianjin, Qingdao, Zhengzhou, Xi'an, Taiyuan, Urumqi, Hohhot and Shijiazhuang. These cities have experienced robust development over the past years at an average yearly growth of 15-20 percent, which is much higher than the national average. Companies aiming to expand their presence in China should not ignore these markets.

Figure: Food Processing Industry in North China by Province 2013*

Provinces	Categories	Number of Enterprises 2013	Annual Sales (billion RMB) 2013
Beijing	Food Processors	140	37
	Food Manufacturers	121	25
	Beverage Manufacturers	43	21
Henan	Food Processors	2040	302
	Food Manufacturers	676	113
	Beverage Manufacturers	448	67
Shandong	Food Processors	3899	1007
	Food Manufacturers	1059	219
	Beverage Manufacturers	457	128
Shaanxi	Food Processors	160	18
	Food Manufacturers	101	8
	Beverage Manufacturers	66	9
Hebei	Food Processors	640	190

	Food Manufacturers	249	70
	Beverage Manufacturers	150	39
Shanxi	Food Processors	127	29
	Food Manufacturers	76	11
	Beverage Manufacturers	57	15

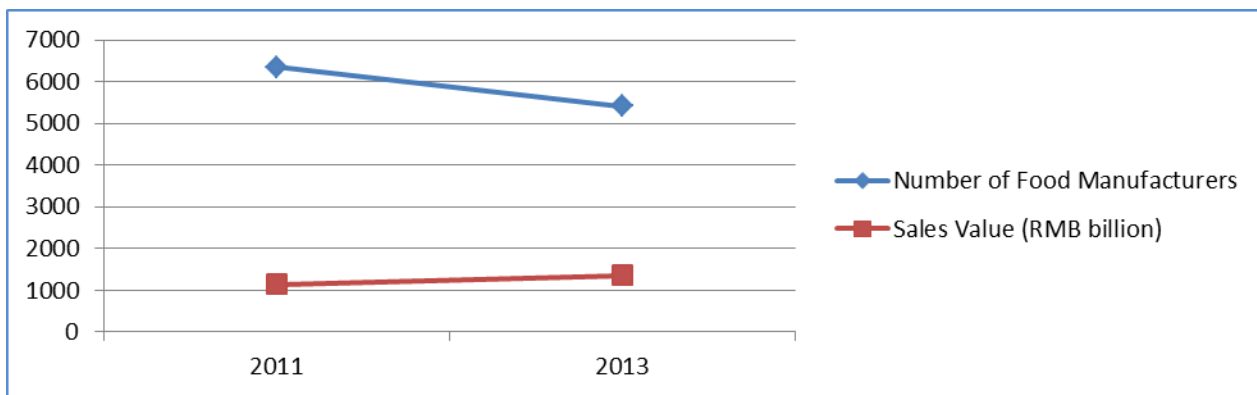
Blue: Data of 2013 from Statistical Yearbook 2014

Red: Data of 2012 from Statistical Yearbook 2013

Sources: Statistical Yearbook 2013 and 2014 of the reported provinces

** Enterprises refer to those only with an annual sales revenue of exceeding RMB5 million.*

Similarly to what happened in all of China, North China also saw a big decline in the number of food operations while sales value continued to increase. In Shandong Province, for example, the number of food operations was 6347 in 2011, dropping 15 percent to 5415 in 2013. At the same time, sales value increased from RMB1148 billion to RMB1354 billion, an 18 percent growth. See the graph below.



Graph: Change of Number of Food Manufacturers and Sales Value between 2011 and 2013

Source: Statistics Year Book 2014

1.5.3 East China Food Processing Industry Overview

East China is a food processing powerhouse, with strengths in almost every sector of the food processing industry. For the purpose of this report, the region includes one municipality and five provinces in eastern China, upstream along the Yangtze River: Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province and Hubei Province.

Facts about East China (2013)

City and Provinces	Total Population (year-end) (unit: million)	Percent of National Total	Area Sq. km.	Enterprises with HK, Macao, TW, Foreign Funds	GDP (billion RMB)	Per Capita GDP (RMB)	Disposal Income (RMB)
National Total	1,360.72		9,600,000	57,402	56,884.5	41,908	18,310.8
Shanghai	24.15	1.8	6,300	4,369	2,160.2	90,092	42,137.6
Jiangsu	79.39	5.8	102,600	11,254	5,916.2	74,607	24,775.5
Zhejiang	54.98	4.0	102,000	6,697	3,756.9	68,462	29,775.0
Anhui	60.30	4.4	139,700	809	1,903.9	31,684	15,154.3
Jiangxi	45.22	3.3	167,000	834	1,433.8	31,771	15,099.7
Hubei	57.99	4.3	185,900	839	2,466.9	42,613	16,472.5

Source: 2014 China Statistical Year Book

The Yangtze River Delta (YRD) boasts one of the most vibrant regional economies in China. Its geographic scope includes Shanghai and Zhejiang and Jiangsu Provinces, all ranked among the top 10 provinces in terms of economic size. Occupying only 2.2 percent of China's land area, the region's total GDP accounted for nearly 20.8 percent of China's GDP in 2013. It absorbed over one-third of foreign direct investment (FDI) in China over the past ten years.

The YRD's affluence, high population density, sound infrastructure and easy access to seaports all contribute to the prosperity of its food processing industry. Its strength is in dairy products, meat products, seafood products, snack foods, baby foods, instant noodles, health foods and drinks & beverages. Many famous brands of packaged food and beverage products were created in this region. It also hosts the branches of many famous multinational food processors, such as Mars, Mondelēz International, General Mills, Nestlé, PepsiCo, Cargill and Group Danone.

Shanghai, Nanjing, Kunshan, Wuxi and Suzhou of Jiangsu Province, along with Hangzhou and Ningbo of Zhejiang Province, hosts numerous domestic and international food & beverage processors.

Anhui Province, Jiangxi Province and Hubei Province, located geographically in inland China, have comparatively weaker economies than the Yangtze River Delta region in terms of income and consumption level, capability of attracting foreign investment, and food processing technology. However, as the costs of infrastructure, public utilities and labor keep increasing in the Yangtze River Delta region, these three provinces are becoming more and more attractive to both Chinese and overseas food manufacturers. Some international food giants moved their plants to this region and started tapping

into the opportunities in these emerging markets, which enjoy the advantage of lower land and labor costs, local markets with high growth potential, and convenient transportation compared with YRD.

Per Capita Annual Expenditure on Food of Urban Households (2013)

Unit: RMB Yuan

City and Provinces	Per capita Cash Consumption Expenditure of Urban Households	Per capita Expenditure on Food of Urban Households	Per capita Cash Consumption Expenditure of Rural Households	Per capita Expenditure on Food of Rural Households
National Average	18,022.64	6,311.92	6,625.5	2,495.5
Shanghai	28,155.00	9,822.88	14,234.7	5,334.6
Jiangsu	20,371.48	7,074.11	9,909.8	3,283.2
Zhejiang	23,257.19	8,008.16	11,760.2	4,190.9
Anhui	16,285.17	6,370.23	5,724.5	2,269.7
Jiangxi	13,850.51	5,221.10	5,653.6	2,389.1
Hubei	15,749.50	6,259.22	6,279.5	2,308.5

Source: 2014 China Statistical Year Book

Shanghai

Shanghai is the city with the largest population and the largest market for processed food and beverages in China. “Made in Shanghai” has become a quality guarantee for Chinese consumers when they choose processed food products and beverages.

Bright Food Group is the biggest food conglomerate in Shanghai and the second largest food group in China, only second to COFCO. Its sales revenue reached RMB 120 billion (US\$ 19.5 billion) in 2014, and its international business was over 20 percent of it. It owns four publicly listed companies, eight nationally famous brands and over 30 regional brands focused on Shanghai. These include Bright Dairy for dairy products, Big White Rabbit for candy, Zheng Guang He for drinks and beverages, Ai Sen for processed meat products, Meilin for canned food products, Guan Sheng Yuan for honey products, and Gold Maple and Shi Ku Men for rice wines.

Many other leading brands from Shanghai, including Ten Wow and Lyfen, are famous in the country and distributed nationwide.

Shanghai also attracted investment from major multinational food processors. To name a few, Nestlé set up a joint venture with Shanghai Bright Food Group to produce drink powders, beverages and health food products. Shanghai Shenmei is an important bottling plant for Coca-Cola. Wanchai Ferry, owned by General Mills, manufactures the top frozen dumpling brand in Shanghai. LOTTE, the South Korea’s largest food group, also invested in a joint venture with Hershey’s from the United States to produce chocolate products under the LOTTE, Hershey’s and Kisses brands in Shanghai.

While the international manufacturers enter the eastern China market, Chinese companies are aggressively pursuing assets overseas in seek of food product research capabilities and good raw material resources, and also to address the popularity of imported food. In 2014, Shanghai-based Bright Food Group bought a majority stake in Italian olive oil producer Salov Group and acquired a 56 percent share of Tnuva, Israel’s biggest food company and a major dairy producer.

Jiangsu Province

Jiangsu Province is very strong in meat products and snack foods processing. Yu Run Group, China's biggest processed meat product manufacturer, is headquartered in Nanjing, the capital city of Jiangsu. A private company that started processing meat in 1993, Yurun ranked No. 5 in China's Top 500 enterprises in 2013, with sales hitting RMB 129.8 billion (US\$21.1 billion), a 22 percent growth over the year before. Yurun Group has increased investment in logistics and supply chain integration, and it has set up several agricultural product trading centers in various parts of China. However, the expanded business modules decreased their competitiveness in its main business—cold chain meat and processed meat sector—which made Yurun the No. 1 market share brand in China for the past 16 years. According to its annual reports, the sales revenue of its food business had been dropping over the past three years, with its revenue in 2011, 2012 and 2013 HK \$ 32.3 billion, HK \$ 26.8 billion and HK \$ 21.4 billion, respectively. In December 2014, Yurun also suffered from a scandal of clenbuterol found in its products. Meanwhile, Shineway, its main domestic competitor from Henan Province, was quickly increasing its shares in the processed meat market and had almost caught up with Yurun in 2014.

Suzhou and Wuxi are the “richest” cities in Jiangsu Province; with their 2014 per capita GDP amounted respectively to US\$ 19,922 and US\$ 20,154, higher than the first-tier cities in China. Suzhou has attracted large investments by foreign food manufacturers including Nabisco and Rich Products from U.S., Pokka Four Seas from Japan, Loyal Food Industrial from Canada, President Instant Noodles from Taiwan, and Po Li Foods from Panama. Unilever invested in Taicang, which is under the Suzhou municipality's administration, to manufacture Wall's ice cream. Wuxi, located in South Jiangsu Province, is famous for Jiangnan University, the top Chinese university specializing in food and nutrition. Many famous food groups established R&D centers in Wuxi to take advantage of the food processing talent and the preferential terms offered to food processing companies in the city's economic zone. Danisco, a world-leading food ingredient and additive manufacturer from Denmark, invested in a plant in Wuxi to produce enzyme preparations.

Driven by strong growth in food consumption, China's consumption of soybean oil and soybean meal for feed have been rising drastically. Soybean has been a top bulk agricultural export of the United States to China for the past five years. In 2013, U.S. exported soybeans valued at US\$13,365.4 million to China. Most oil crushing plants are located along China's east coast, accounting for 80 percent of China's total crushing capacity. Among them, the Donghai Food & Oil Co. located at Zhangjiagang in Jiangsu Province, is a joint venture by COFCO, ADM from U.S., and KENSPO from Singapore. It is the world's largest oil crushing plant, with a daily crushing capacity of over 20,000 metric tons of soya.

Zhejiang Province

Zhejiang Province is known as the host of several top drinks & beverage brands in China. Headquartered in Hangzhou, the largest city in Zhejiang, Zhong Cui Foods is a strategic global partner of Coca-Cola. It was the first Coca-Cola bottler in China, and it still remains the leading bottlers for Coca-Cola's sales value.

China's largest domestic beverage brand, “Wahaha,” was also created in Hangzhou. It has been honored as China's No.1 enterprise in the beverage industry for over ten years. Apart from drinks and beverages, Wahaha also produces infant formula, snack foods, canned congee, and health food products. However, due to its failure in diversification of its business, its sales revenue slipped 7 percent and reported sales of RMB 72.8 billion (US\$11.8 billion) in 2014. The company attributed the downturn to higher operating costs and problems with its marketing strategy. In recent years consumers have shifted to more

fashionable products of higher quality, and Wahaha, which used to target second- and third-tier cities, did not catch up with the pace of new product research and development and marketing strategy adjustments.

“Nongfu Spring,” created in 1996 by Yangshengtang Co., Ltd. in Hangzhou, is the largest drinking water brand in China. It took one-third of the market share with sales revenue hitting nearly RMB 13 billion. Following the success of the “Nongfu Spring” drinking water, the company launched, in series, sports drinks, vitamin-fortified drinks, tea drinks and fruit juice drinks. In April 2013, Beijing media the *Beijing Times* accused the company of intentionally not adopting Chinese national water standards and instead adopting the lower standards of Zhejiang province. This started a dispute between the company and the newspaper. In November 2013 the company accused the *Beijing Times* of defamation and filed a lawsuit against the newspaper for slandering its reputation to help its rival brand C’est Bon, which is owned by China Resources, a state-owned company headquartered in Beijing. In 2014, the disputes between Nongfu Spring and C’est Bon continued, and the topic eventually shifted to the pH value of the drinking water products.

Beingmate, headquartered in Hangzhou, is the biggest Chinese brand specializing in baby food and infant formula. It is one of the few leading local dairy brands that proved free from the melamine contamination, and it gained enormous growth after that big downturn of China’s dairy industry. It was publicly listed on Hong Kong’s stock market, and its high-end infant formula products also entered the Hong Kong market. In 2014, Beingmate split off from its non-food business and tried to concentrate on its baby food business. In addition to establishing its own raw milk supply base in northeast China, Beingmate imports a huge amount of milk powder and whey protein from overseas countries. In 2014, Fonterra acquired 20 percent of Beingmate’s stake to increase its access to China’s baby and child food market.

Ningbo, the second largest city of Zhejiang, benefits from its coastal location and produces various kinds of processed seafood that are widely distributed throughout China.

Lin’an is known as the Capital of Tree Nuts, and it has a very competitive processing and distribution capacity for both local and imported nuts, such as American pecans.

The affluent Zhejiang Province not only fostered many successful local food and drink enterprises, but it also attracted foreign investment. Mars Foods’ investment in Jiaxing made it an important production base of high-quality chocolate products. The plant produces chocolate branded in Dove, M&Ms and Snickers.

Anhui Province

Although not traditionally particularly developed, Anhui Province, which is located west of Jiangsu and Shanghai, is well-positioned to capture the industrial shift from China's coastal areas into the interior. Four cities in Anhui Province including Hefei, Ma'anshan, Wuhu and Tongling were added to the Yangtze River Delta in the expansion plan of the YRD Economic region. This boosted the investment and food processing technology in the province. Yili Dairy Group and Huatai Group invested heavily in Anhui province.

According to the statistics of Anhui Agriculture Committee, the number of large-scale agricultural products processing enterprises hit 4824 in 2014, among which are 49 national leading agricultural enterprises. Tree nuts processing, poultry & meat processing and snack foods are pillar industries in Anhui's agriculture sector.

In recent years, Anhui is attracting more foreign investment in its agriculture sector and food processing industry, thanks to its lower land and labor costs. For example, Tyson Foods established its poultry farm and processing facilities in Anhui. Unilever also moved its processing plant for Lipton tea products to Hefei, the capital city of Anhui Province.

Jiangxi Province

The Poyang Lake in the northern part of Jiangxi Province is the largest freshwater lake in China, and it is known as the "Land of Fish and Rice." It produces rice, cotton, tea, sugarcane, oil-bearing seeds, beans, white lotus, melon seeds, ducks and chicken. Benefiting from its natural resources, the food processing industry in Jiangxi is strong in tea, meat, poultry, Chinese liquor and fruits. There are also numerous small processors of snack foods made from local agriculture produce.

Jiangxi has many middle-sized dairy farms, and about 50 percent of them own 20-100 dairy cattle. The leading dairy companies are Jiangxi Bright Hero—the joint venture between Shanghai Bright Dairy and Jiangxi Hero Dairy—Jiangxi Liziyuan Dairy, and Nanchang Sunshine Dairy. The production of local dairy companies can satisfy about 60 percent of the demand in Jiangxi.

Jiangxi hosts some large-scale health food manufacturers including Jiangzhong Nutritionals, which purchases Wisconsin ginseng every year. It also hosts some famous beverage manufacturers such as Runtian Beverage Company, which produces various kinds of fruit and sports drinks.

Hubei Province

Hubei Province is a leading province in central China in terms of food industry output in 2014. Food manufacturing has emerged to be the second largest industry in Hubei Province, only after automobile manufacturing.

There were over 2,700 food enterprises of middle and large scale in Hubei Province in 2014. Oil crushing, fruit and vegetable processing, and aquatic product processing are the key businesses in its food processing industry.

Hubei is also strong in beer and beverage manufacturing. Foreign and Chinese famous brands, including Budweiser (beer), Tsingtao (beer), Yanjing (beer), Coca-Cola, Pepsi-Cola, Wahaha (beverage),

President (beverage), Huiyuan (juice), Red Bull (functional drinks) and Yinlu (beverage), are manufactured in Hubei province.

Hubei has benefited from investment by large-scale meat processors from other parts of China, such as Yurun from Jiangsu Province and Jinluo from Shandong Province, and dairy processors like Mengniu and Yili from Inner Mongolia. Beingmate from Zhejiang Province has also invested in Hubei.

In addition, Hubei Province is a hub for health and functional food. Jing Brand health care wine, headquartered in Huangshi, is the biggest brand of its kind in China.

1.5.4 Southwest China Food Processing Industry Overview

Southwest China, which includes Sichuan, Yunnan and Guizhou Provinces, the Chongqing Municipality and the Tibet Autonomous region, has a population of 195 million—and a regional GDP in 2012 roughly equivalent to Canada’s at more than US\$868 billion. The region lags coastal areas in its level of development, and it has been targeted by the Chinese government for increased investment. Chengdu and Chongqing, the most advanced cities in this region, account for 37 percent of the region’s total GDP. There are more than 3,300 food processing companies in the Southwest China region alone—about 50 percent are food processors, 19 percent are food manufacturers, and 31 percent are beverage manufacturers. Sichuan leads the food processing industry in the region, accounting for about 60 percent of the food processors and manufacturers in the southwest region and 45 percent of the region’s total GDP.

Per Capita Annual Expenditure on Food of Urban Households (2012)

Per Capital Annual Expenditure on Food of Urban Households (2012)								
Provinces	Expenditure on Food	Grains	Meat, Poultry & Processed Products	Aquatic Products	Liquor and Beverage	Cake	Milk & Processed Products	Dining Out
National Average	987.07	74.92	193.40	66.82	48.13	20.09	41.43	214.88
Chongqing	1122.59	68.16	260.10	43.49	39.93	13.94	51.88	245.92
Sichuan	992.46	67.50	247.14	30.29	41.16	12.78	44.12	201.18
Guizhou	815.83	64.70	187.44	16.18	36.33	12.19	27.76	172.31
Yunnan	893.49	66.81	186.02	19.06	23.50	25.47	35.29	191.51
Tibet	901.58	75.58	196.86	8.33	48.91	5.50	65.12	176.43

Source: Sichuan, Chongqing, Yunnan, Guizhou Statistical Year Books 2013 Latest available data, including only those enterprises that realized annual sales over US \$786,163 (RMB 5 million) in FY 2012 * US \$ 1 = RMB 6.12*

Dairy Products

Southwest China has a number of prominent dairy companies. Headquartered in Chengdu, New Hope Dairy is the largest dairy group in Southwest China and the largest non-state-owned dairy company in China, with total annual milk processing capacity of about 700,000 metric tons. New Hope Dairy has extended sales channels throughout China. Chongqing Tianyou Dairy is the second largest dairy company in Southwest China, with 500,000 metric tons of annual dairy product output. It occupies a 70 percent market share in the Chongqing Municipality and has sales channels covering 10 provinces, autonomous regions, and municipalities nationwide. There are also smaller but still influential dairy companies in the region, including Chengdu Jule, Chongqing Guangda and Yunnan Ouya, with over

400,000 metric tons of combined annual output. All have comprehensive product lines, including milk beverages and fermented product lines.

Due to the growing demand of lactobacillus beverages and yogurt, the use of imported nonfat dry milk (NFDM) and other dairy components has begun to increase substantially and should continue to be strong in the future. Demand for whole milk powder among the above entities continues to be strong. Also, whey protein concentrate (WPC) has a promising future as a growing substitute for NFDM, and some trading companies are also packaging WPC34 for retail. In comparison, whey powder has relatively limited opportunities in Southwest China.

Demand for lactose in the market is relatively mature yet still growing. Interest comes from local pharmaceutical companies and a few trading companies interested in food-grade lactose for infant formula production.

Meat Processing

Meat processing is the second largest pillar industry of the food industry in Sichuan. Meat production (including pork, beef and mutton) totaled more than 6.6 million metric tons, with pork production exceeding 5.1 million metric tons. As one of the five major regions for animal husbandry in China, Sichuan ranks first in the production of pork, most of which comes from the domestic herd.

Chongqing Youyou is the biggest pickled meat and poultry processing company in China. With two processing plants in Chongqing and Chengdu, it has 30,000 metric tons of annual processing capacity to make various of pickled meat products, such as chicken paws/feet, turkey wings and pork/pork skin. About 70-80 percent of the chicken paws it uses are imported.

New Hope Foods is the top local meat processing enterprise in Southwest China and its products account for about 25 percent of total market share in China for processed meat. Due to the competitive prices, some meat processing factories like New Hope Group's MEIHAO and DEYI Green Food are attempting to use more imported pork to produce *huotui chang*, a canned meat. However, most raw materials are still from local suppliers.

Nationally ranked top three meat processing companies, Shuanghui (Henan), Yurun (Jiangsu) and Jinluo (Shandong), are also in Sichuan.

Food Processing Industry in Southwest China by Province, 2012

Provinces		Number of Enterprises	Gross Output (Million US \$)
Sichuan	Food Processors	1,076	365.46
	Food Manufacturers	410	108.51
	Beverage Manufacturers	552	327.88
Chongqing	Food Processors	317	90.12
	Food Manufacturers	98	20.99
	Beverage Manufacturers	69	22.02
Yunnan	Food Processors	303	67.35
	Food Manufacturers	99	22.75
	Beverage Manufacturers	115	24.17
Guizhou	Food Processors	139	23.89
	Food Manufacturers	49	11.35
	Beverage Manufacturers	146	71.67
Regional Total (excluding Tibet)	Food Processors	1,835	546.83
	Food Manufacturers	656	163.61
	Beverage Manufacturers	882	445.74
Source: Sichuan, Chongqing, Yunnan, Guizhou Statistical Year Books 2013* Latest available data, including only those enterprises that realized annual sales over US \$786,163 (RMB 5 million) in FY 2012 * US \$ 1 = RMB 6.12			

Alcoholic Beverages

Southwest China is often referred to as the top Chinese liquor production area in China. MaoTai, Wuliangye, Lu Zhou Lao Jiao, Jian Nan Chun, Lang Jiu and Tuo Pai liquor manufacturers in Guizhou and Sichuan Provinces are all well-known nationwide. Despite the recent downturn in Chinese liquor (baijiu) consumption caused by the government's crackdown on luxury banquets, sales revenue and total production of baijiu are expected to be US\$151 billion and 84.37 billion liters in 2016 respectively. Sorghum is a primary ingredient in baijiu production.

Southwest China is also home to one of China's largest breweries, Chongqing Brewery, owned by Carlsberg.

Seasonings and Food Ingredients

Consumer preferences of strongly flavored, hot and spicy food in Southwest China create a high demand for seasonings, condiments, spices, sauces, preserved products and pickled products. However, the seasoning industry remains very traditional and almost all ingredients are sourced locally, presenting little export opportunity. Guizhou Nanming Laoganma Flavor Food, Ltd. is the largest domestic enterprise in China, with production capability of 1.8 million bottles of chili products per day. They mainly produce tempeh-flavored chili, chili oil, fresh ground beef, and fermented bean curd. Other key manufacturers, such as Sichuan Haoji Food Co. Ltd, Chengdu Jingong Weiye Food Co. Ltd, Sichuan Pixian Bean Paste Co., Ltd., Guiyang Nanming Laoganma Flavoring Food Co. Ltd., Chongqing Zijialu Spice Co., Chongqing Fuling Pickled Product Group, and Chengdu Xinfan Kraut Co. Ltd, are popular brand manufacturers and main suppliers to foodservice operators not only in the Southwest but also nationwide.

Dried Fruits and Nuts

Chengdu-based HuiJi Foods is a top three roasted nut company in China with estimated sales in 2013 of US\$250 million and projected sales in 2015 of US\$325 million. The company has purchased U.S. nuts since 2009, and in 2014, it expanded its product portfolio to include pecans.

Based in Kunming, Yunnan Sunway Foods' annual imports of U.S. nuts total more than 5,000 metric tons. They are best known for walnuts but are continuing to expand operations into other fruit and nut products. China's expanding bakery sector is driving increasing purchases.

1.5.5 South China Food Processing Industry Overview

Guangdong

The food processing industry has a long history in Guangdong Province, which is China's fifth largest food manufacturing base with 2,087 food processing manufacturers and accounted for 5.8 percent of total output across the country in 2013.

Guangdong's food processing industry covers agricultural products, beverages, food manufacturing, food additives, tobacco, and food packaging and equipment. Soft drinks, candies, soy sauce, rice noodle and preserved fruit from Guangdong are well recognized with a great reputation for high quality and safety. Giant food processing manufacturers in Guangdong contribute to the import of billions of U.S. dollars of processed food into China's market.

Guangdong Food Processing Enterprises comprehensive ranking 2012

Ranking	Company Name	Sales revenue (\$billion)	Business scope
1	Guangdong Haid Group	1.27	Feed processing
2	Guangzhou Dongling Oil and Food Stuff Group	9.26	Vegetable oil processing
3	Foshan Haitian Food	9.16	Condiment and seasoning
4	Guangzhou Pearl River Beer	5.00	Beverage
5	Guangdong Zhaoqing Star Lake Bioscience Co., Inc	2.29	Food additives
6	Guangdong Guanghong Group	2.05	Slaughter and meat, egg processing
7	Shenzhen Kondarl Group	1.93	Slaughter and meat, egg processing
8	Guangdong Blackcow Food	1.05	Beverage
9	Jiangmen Sugar Cane Group	0.65	Sugar
10	By-health	0.56	Healthy food

Guangxi

With a provincial agricultural economy, Guangxi is best known for its sugar cane production.

Traditional rice noodle and chili paste are two main categories of processed food.

Guangxi's economy has benefited from the China-ASEAN Free Trade (FTA) Agreement which came into effect in early 2010. Large trade volumes have been recorded in 25 officially authorized commercial ports between Guangxi and Vietnam. China has become Vietnam's largest trading partner with Sino-Vietnamese trade value precipitously increasing from US\$32 million in 1991 to US\$41 billion in 2012. Agricultural products such as frozen and dried fishes, vegetables, tree nuts, meat and dried fruit fall into the tax exemption category. To support the rapid growth of bilateral trade, Guangxi's government established bilateral trade food processing industry districts in two border towns, Shuikou and Longzhou, mainly for processing tree nuts, dried fruits, sea foods, oils and grains. Twenty-one food processing factories entered the districts in 2013.

The largest food manufacturing enterprises include:

Instant Food – Guangxi Heiwulei Food Group

Fruit and Vegetable Canned Food – Guangxi Meitong Food Co., Ltd

Animal Feed – Guigang Yangxiang Animal Feed Co., Ltd

Hunan

Hunan Province, located north of Guangdong, is a traditional agricultural province supplying Guangdong and other provinces with rice, livestock and vegetables. Hunan's food processing industry output was valued at US\$50.4 billion with 1,584 registered food manufacturers in 2013. Grains & oils, livestock, poultry and snack food dominate Hunan's food processing industry.

The largest food manufacturing enterprises include:

Foodstuff – Hunan Kaixue Group

Vegetable – Changsha Mawangdui Co., Ltd

Vegetable & livestock – Hunan Yixin Chuanghui Industrial Co., Ltd

Animal Feed – Tianxin Industrial Co., Ltd; Changsha Huaying Industrial Co., Ltd

Tea product – Hunan Tea Product Company

Oil – Changsha Vegetable Oil Company

Seasoning – Huanan Lianbang Food Co., Ltd

Hainan

Hainan is a tropical island well-known for growing vegetables and fruits. Hainan's food processing industry output was valued at US\$2.7 billion with 99 registered food manufacturers in 2013. Canned food and soft drink beverages are traditional processed foods in Hainan with 230,000 tons and 421,100 tons of output volumes respectively. Thanks to the development of the marine and fishery industry, Hainan experienced fast growth in its sea food processing industry in recent years—products include frozen and dried fishes, processed shrimps and fish meal products. Last year, the output value of Hainan's aquatic products grew 7 percent to reach US\$3.4 billion. However, most of the food processing manufacturers in Hainan operated as family-owned workshops, which are small-scale and decentralized. Food safety is another concern for this industry as various manufacturers are not registered with the commercial and industrial department and lack appropriate official supervision.

The largest food manufacturing enterprises include:

Fresh Fruit – Hainan Sanli Import & Export Co., Ltd; Qiongzong Lvkenong Fruit Co., Ltd

Flower plant – Hainan Haoran agricultural Co., Ltd

Fujian

Fujian is the largest food processing base in South China. Roasted eel is its largest processed food export. Fujian has 1942 registered food manufacturers and their output value reached US\$62.5 billion in 2013. Fujian's confectioneries and canned food production has ranked top in the country. A wide selection of snacks, baked products, packaged food, frozen vegetables, processed seafood and beverages have been supplied to domestic and international markets. Fujian was the cradle of several established national brands, such as Dali, Yake, Fumao, Qinqin and Panpan.

Fujian has been heavily influenced by Taiwan's diet culture due to geographical and historical reasons. There are ample Taiwanese investments in Fujian's food processing industry, such as Xiamen Sunmile food, the largest bakery chain in South China, with over 400 bakeries. It is also the third largest bakery chain in China, after Christina Bakery in Shanghai and Haolilai in Beijing. Besides producing mid-level fresh bakery items, this Taiwan-owned company sells packaged baked items exclusively in their own retail chain outlets.

The largest food manufacturing enterprises include:

Live Stock & Poultry Product – Quanzhou Food Co., Ltd,

Herbal Beverage – Fujian Huian Laoba Food Co., Ltd

Vegetable – Xiamen Tongan Minnan vegetable market; Putian Xinmei Co., Ltd;

Canned Food – Fujian Nanpu Industrial Co., Ltd; Jinjiang Yongxiang Canned Food Co., Ltd

Frozen Food – Fujian Changtai Taihua Food Co., Ltd

SECTION IV: POST CONTACT AND FURTHER INFORMATION

For further information about the China market, please visit our website at www.usdachina.org or contact any of the following USDA offices in China:

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