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China - Peoples Republic of

Food Processing Ingredients

Food Processing Ingredients Annual

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Report Highlights:
China's economic growth has slowed in recent years, and this slowing expansion has taken a toll on many industries, including the food processing/manufacturing sector. This sector experienced overall revenue growth of only four percent in 2015 (compared to eight percent in 2014). Despite slowing revenue growth and consolidation, a number of national trends will support the China food processing sector as whole, including the continued rise of disposable incomes, urbanization, and growing consumer demand for safe, convenient, high-quality processed food options. As a result, imported food ingredients are increasingly in demand by domestic processors, including U.S. ingredients.

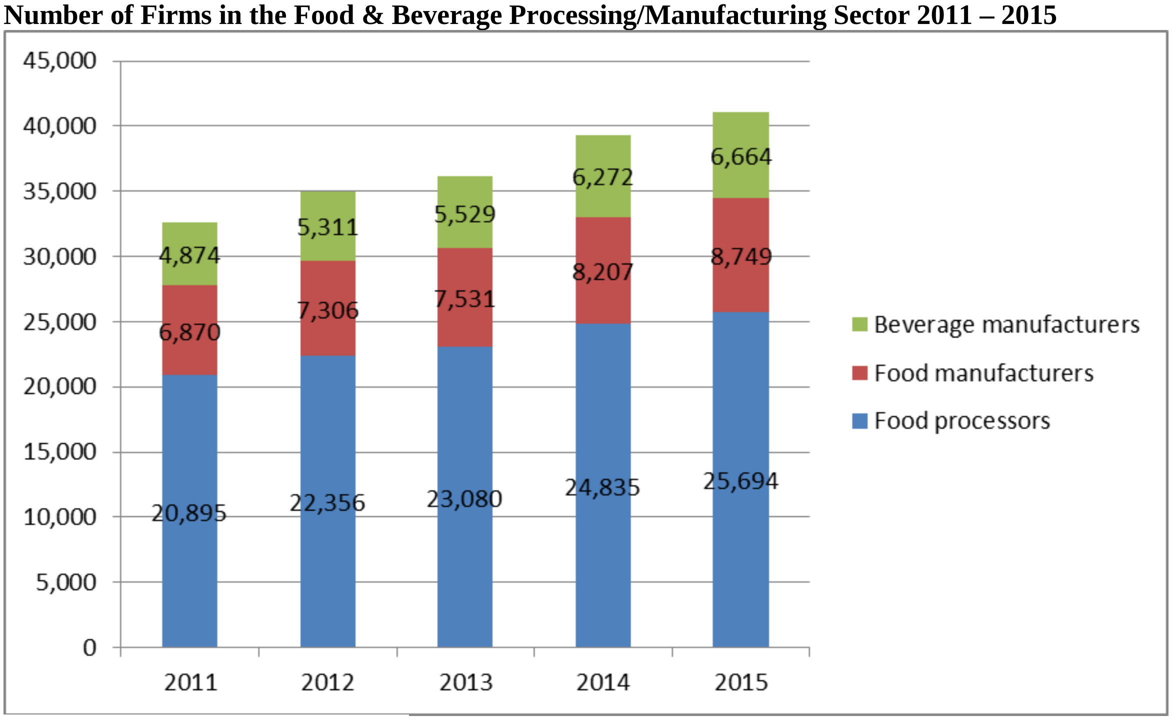
Post:
Beijing ATO

SECTION I. MARKET SUMMARY

Although China's economy has rapidly expanded over the past three decades to become the world's second largest economy in 2010, growth rates have slowed recently. 2015 GDP annual growth was at only 6.9 percent, the lowest level since 1990. This slowing expansion has taken a toll on many industries, including the food processing/manufacturing sector which experienced overall revenue growth of only four percent in 2015 (compared to eight percent in 2014). According to analysts, the food processing sector is also undergoing a period of consolidation where regionalized businesses are increasingly losing market share to larger food processing companies that have better access to investment capital and modern technology.

Despite slowing revenue growth and consolidation, a number of national trends are supporting the sector as whole, including the continued rise of disposable incomes, urbanization, and growing consumer demand for convenient, high-quality processed food options. As a result, imported food ingredients are increasingly in demand by domestic processors. As more and more of the Chinese population of 1.3 billion flocks to urban areas where consumers require packaged foods, the country's food processing industry is likely to continue expanding for the next several years.

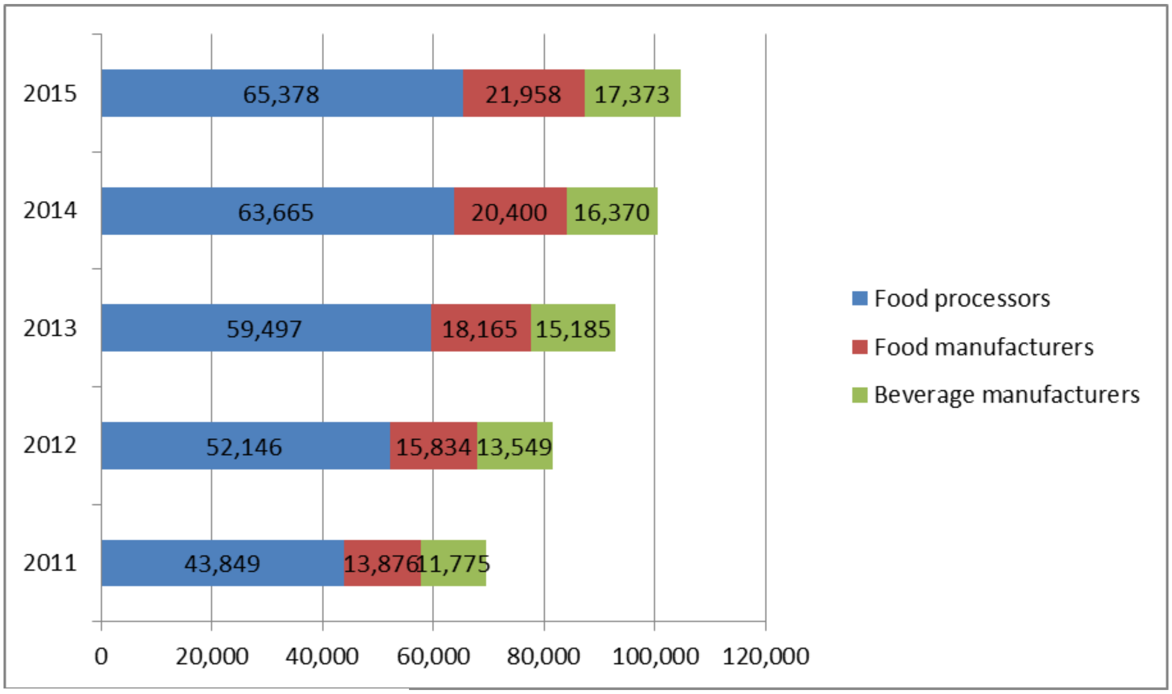
Number of Firms in the Food & Beverage Processing/Manufacturing Sector 2011 – 2015



Source: China Statistical Yearbooks

Notes: Statistics are only available for firms with annual sales revenue in excess of RMB 20 million ($1USD = 6.4Chinese RMB); Beverage manufacturing includes alcoholic beverages (i.e., distilled spirits, beer and wine), soft drinks and tea; Food manufacturing includes packaged food, pastries and confections, dairy products, canned foods, fermented products, condiments, etc.; Food processing includes rice milling, flour milling, oil refining, sugar refining, slaughtering, salt processing, feed processing, aquatic product processing, etc.

Food & Beverage Processing/Manufacturing Sector Revenue (in RMB 100 million) 2011- 2015



Source: China Statistical Yearbooks
Note: Statistics are only available for firms with annual sales revenue in excess of RMB 20 million

Rising incomes and urbanization continue to influence and change Chinese diets, with a shift away from staple foods such as grains, and increases in the consumption of proteins and fruits. For example, according to the Chinese Bureau of Statistics, between 2013-2015, consumption of cereal grains fell 11 percent while consumption of poultry and fresh fruit rose 17 percent and 7 percent, respectively (see table below).

Per Capita Consumption of Major Foods Nationwide (2013-2015) **Unit: kg**

Item	2013	2014	2015	% of Change 2013 Vs. 2015
Grain	148.7	141	134.5	-10%
Cereal	138.9	131.4	124.3	-11%
Tuber	2.3	2.2	2.4	4%
Beans and Products	7.5	7.5	7.8	4%
Edible Oil and Fats	10.6	10.4	10.6	0%
Edible Vegetable Oil	9.9	9.8	10	1%
Vegetable and Mushrooms	97.5	96.9	97.8	0%
Fresh Vegetables	94.9	94.1	94.9	0%
Products of Meat	25.6	25.6	26.2	2%
Pork	19.8	20	20.1	2%
Beef	1.5	1.5	1.6	7%
Mutton	0.9	1	1.2	33%

Poultry	7.2	8	8.4	17%
Aquatic Products	10.4	10.8	11.2	8%
Eggs	8.2	8.6	9.5	16%
Milk and Dairy Products	11.7	12.6	12.1	3%
Fresh Melons and Fruits	37.8	38.6	40.5	7%
Nuts and Processed Products	3	2.9	3.1	3%
Sugar	1.2	1.3	1.3	8%

Source: 2016 China Statistical Year Book Page 170. 6-4
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 that survey. The coverage, methodology and definitions used in the current survey are different from those used for urban and rural household surveys prior to 2013. As a result, Post is not comparing the 2013 statistics with those from previous years.

Impact of Policies

In order to improve food safety after a series of scandals rocked the industry in recent years, Chinese regulators have recently implemented stricter policies for food companies. An example of this was in 2013 when regulators reviewed all baby formula manufacturers in the country and reissued production permits to those who passed a revised examination. The number of baby formula manufacturers shrank over the next three years from over 600 to 103 by 2016. This action supported increased imports of food ingredients because the larger, more modern enterprises that could adhere to stricter safety policies tended to more frequently utilize high-quality imported ingredients.

China's new food safety law, which was implemented on October 1, 2015, reiterates labeling requirements established back in 2002 by the Ministry of Agriculture's Decree 10 instructing that processed foods with genetically modified (GMO) ingredients must be labelled. According to industry contacts, several large-scale food processors remain concerned that these requirements lead to extra burden on testing, labelling and ingredient traceability. The requirements have also discouraged traders from importing processed products labeled as containing GMO ingredients as these imports must be accompanied by bio-safety certificates for each of the GMO ingredients and require pre-approval from the Ministry of Agriculture.

Value of Imports by HS Section (2012-2016) **Unit: US $100 million**

HS Section	2012	2013	2014	2015	2016	% of Change 2015 Vs. 2016
Meat and Edible Meat Offal	41.06	59.26	58.38	67.98	102.58	50.90%
Fish and Other Aquatic Products	54.92	59.95	65.98	63.36	68.93	8.79%
Dairy Produce, Bird's Eggs, Natural Honey, Edible Products of Animal Origin	32.54	52.45	64.89	33.04	35.17	6.45%
Edible Vegetables and Certain Roots and Tubers	24.08	25.49	25.92	26.21	18.37	-29.91%

Edible Fruits and Nuts, Peel of Citrus Fruit or Melons	38.03	40.88	51.32	60.09	58.52	-2.61%
Cereals	47.50	50.54	61.75	93.50	56.61	-39.45%
Products of the Milling Industry; Malt; Starches; Inulin; Wheat Gluten	5.78	8.00	9.63	9.52	8.92	-6.30%
Oil Seeds and Oleaginous Fruits; Miscellaneous Grains, Seeds and Fruits; Industrial or Medicinal Plants; Straw and Fodder	385.35	426.52	459.54	398.64	383.32	-3.84%
Preparations of Meat, or Fish, and other Aquatic Products	1.83	1.97	2.49	2.40	1.84	-23.33%
Sugar and Sugar Confectionary	25.43	23.62	17.86	20.80	14.63	-29.66%
Cocoa and Cocoa Preparations	6.24	7.14	8.71	8.72	6.84	-21.56%
Preparations of Cereals, Flour, Starch or Milk, Pastry – Cooks' Products	19.49	25.84	28.15	38.43	45.64	18.76%
Preparations of Vegetables, Fruit, Nuts or Other parts of Plants	6.24	6.62	7.66	8.75	9.82	12.23%
Beverages, Spirits and Vinegar	31.02	30.57	31.52	42.81	47.84	11.75%

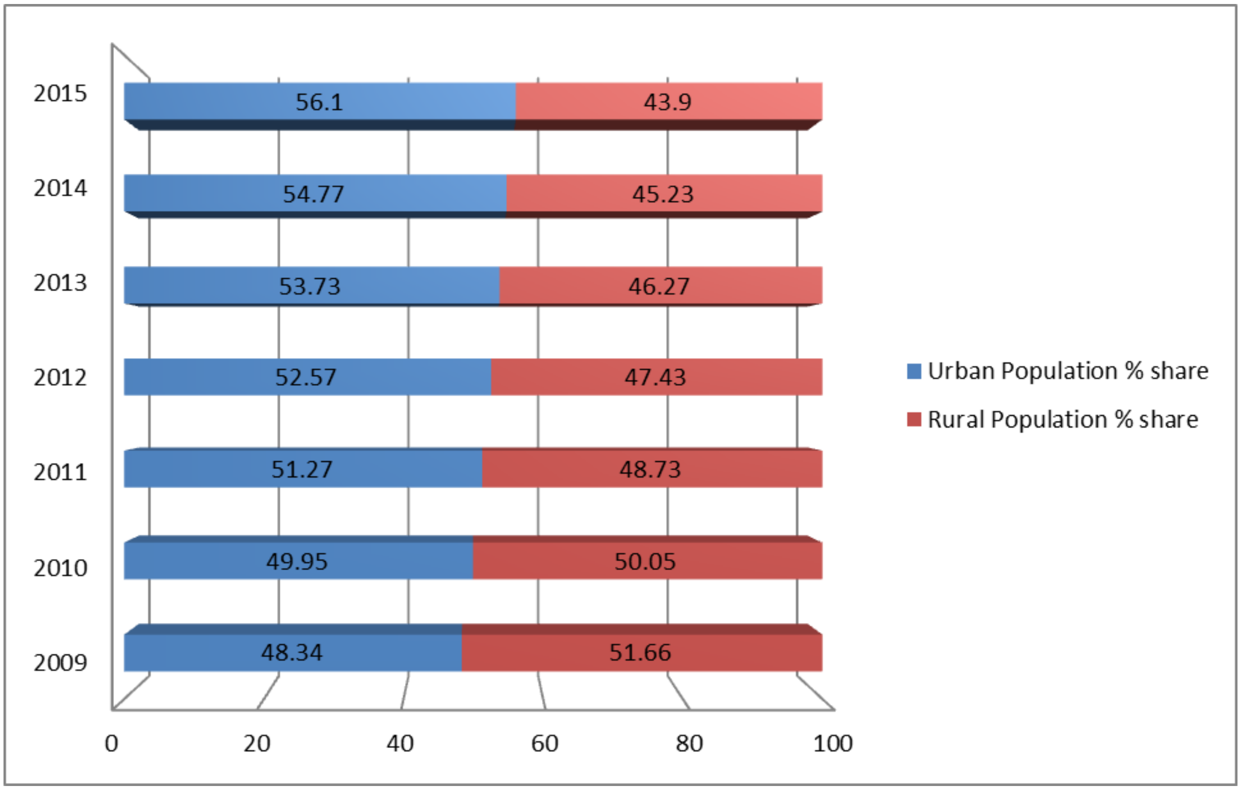
Source: Global Trade Atlas

Key Market Drivers

Urbanization

Urbanization, a key driving force: China's rural population has been rapidly declining relative to its urban population since the 1980s and this urbanization has helped transform the country into the world's second largest economy. 2011 was a symbolic year as it marked the first time China's city dwellers outnumbered its rural residents. In 2015, the Chinese urban population reached 56 percent, a tremendous change from the 48 percent level of 2009. Moving to the cities has allowed the population access to a far greater range of products (especially processed products) and has also resulted in a shift away from staple food consumption. This dramatic change in living environment has caused the traditional preference for fresh food and wet markets to give way to a preference for more convenient foods and supermarkets, which has had profound implications for China's demand for processed foods.

Urbanization Trends (2009-2015)



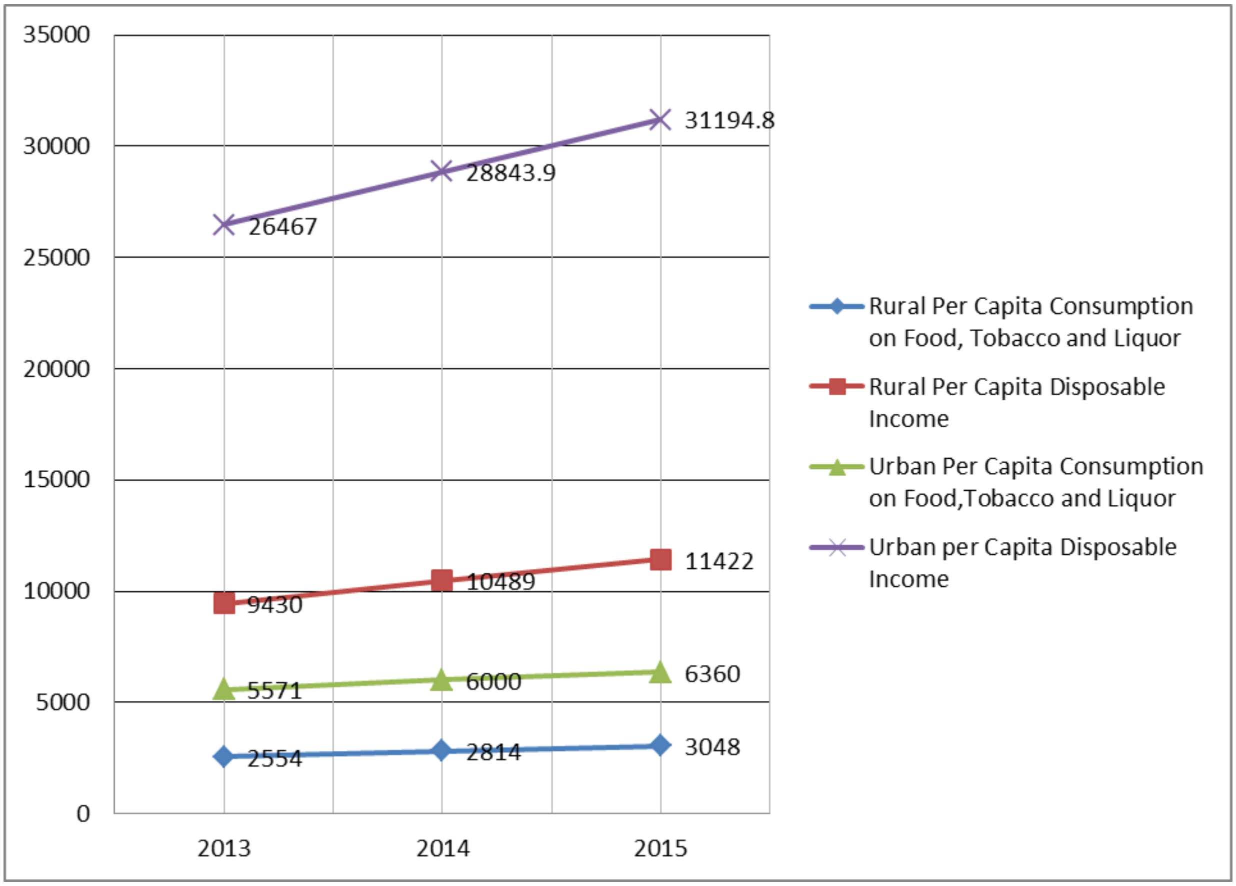
Source: 2016 China Statistical Year Book Page 37. 2-7

Rising Expenditures on Food

According to the China Statistical Year Book, the per capita annual cash consumption on food in urban areas grew by 5.9 percent from 2014 to 2015, while in rural areas the growth rate was 10.3 percent. The urban residents' 2015 per capita income increased by 8.1 percent compared to 2014, and in rural areas the growth rate was 8.8 percent. Due to price factors and availability of products, rural areas consumed more fresh food and less processed food compared with their urban counterparts.

In 2015, China per capita consumption expenditure nationwide was RMB 15,712. Among this, the expenditure on food, tobacco and liquor was RMB 4,814, accounting for 30.6 percent of the total consumption expenditure.

Per Capita Income and Cash Consumption on Food (2013-2015) Unit: RMB



Source: 2016 China Statistical Year Book Page171. 6-6, 6-11
Remarks: The National Bureau of Statistics started an integrated household income and expenditure survey in 2015, including both urban and rural households. The data shown in this table is compiled on the basis of this survey. The coverage, methodology and definitions used in the survey are different from those used for urban and rural household surveys prior to 2013. As a result, Post is not comparing the 2013 statistics with those from previous years.

Concerns over Food Safety

Despite several actions taken by the Chinese government to restore consumer confidence after a series of scandals rocked the food processing industry in recent years, contacts report consumers are still extremely concerned over the safety aspects of domestically produced food products. This situation is a key reason demand for imported food products is so high.

Established Distribution Channels

Most processed food products and beverages are distributed through hypermarkets/ supermarkets and convenience stores. Major international retail giants (AEON, ParkNshop, TASTE, RT-Mart, Metro, Carrefour, Wal-Mart, and Lotus) are present in most of China's 1st, 2nd and even 3rd-tier cities. Chinese nationwide and regional retail chains have also continued to grow and develop. Convenience stores such as Kedi, 7-11, OK Mart and Family Mart have emerged as a strong platform targeting the younger generation with ready-to-eat meals, packaged snack foods and beverages.

E-commerce has also become an important channel for packaged foods and beverages with online retail sales in 2015 reaching $183 billion and accounting for 18 percent of total traditional retail sales. Major platforms, such as T-mall, JD.com and VIP.com, generate over 80 percent of the total online sales in China.

Soaring Labor Costs

Laborers across the country are demanding higher pay, better working conditions and better benefits. The new generation of small-town, migrant workers do not want to relocate to coastal cities but would rather find employment closer to home. As a result, many factories are now being built in under-developed inland China. The rising labor costs and shortages have caused some of the larger manufacturers to reduce their footprint and a great number of small plants to shut down.

Foreign Direct Investment and Off-shore Production

Many large-scale Chinese food processors are actively looking for acquisitions overseas in order to gain direct access to high-quality raw materials. Some leading Chinese dairy companies have also started manufacturing their own branded products in plants overseas, catering to consumers' stronger confidence in imported dairy products.

Advantages	**Challenges**
China's food processing industry is enormous and caters to both the domestic and export markets.	The slowdown in Chinese economic growth is decelerating the expansion of the Chinese food processing industry.
Development of the industry to date has been propelled by sheer market size. Newer technologies and demand for higher quality foods will continue to push the industry forward for years to come.	Soaring labor costs and higher rental fees diminish industry profit margins.
Urbanization and changes in living standards favor increased consumption of processed foods.	Food processors in less developed areas lag far behind those in the affluent coastal regions in terms of technology and standards.
Increasing consumer concerns about domestic food safety standards create significant opportunities for high quality imported ingredients, particularly in comparatively affluent 1st and 2nd tier cities	Chinese standards and regulations on food processing and ingredients can differ from those of the United States, sometimes causing technical trade barriers.
Strong retail and e-commerce sector development in 1st and 2nd tier cities facilitates processed food distribution.	Infringement of intellectual property rights remains a serious concern in China.
High-end restaurants and five-star hotels target a niche consumer group and tend to use higher quality imported ingredients.	Increased access for imports has resulted in greater competition from other exporting countries.
The Chinese baking sector is developing quickly, resulting in increased demand for various imported baking ingredients (e.g. dried fruits, wheat, cheese, flour, etc.).	Many Chinese consumers are price-sensitive and imported products frequently have difficulty competing with domestic substitutes.

Well-off consumers pay very close attention to quality and are willing to pay a premium price for imported processed foods.	Import procedures can be complicated and time consuming, especially for new-to-market U.S. companies.
A large number of emerging city markets offer tremendous opportunities for further growth.	Fragmented markets in a geographically large nation with underdeveloped logistics can make access difficult.
Imported foods and ingredients from the United States are generally regarded as high in quality	Any changes in U.S.-China relations could impact demand for U.S. products.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Being the largest food consumption market in the world, with a huge food processing industry, China is always one of the top choices for food ingredient suppliers hoping to expand their business. Apart from general trade rules, it is recommended that those companies interested in the Chinese market keep the following tips in mind prior to coming to China for the first time:

1. The Chinese market is immense and opportunities are ample. Even small-market, niche products can be quite profitable with the right marketing.

2. China is not a unified market and thorough research is critical before entering the market. China is a diverse country with highly fragmented internal markets. Each region tends to have unique food culture, business and official practices, dialect, economic and educational background, etc. It is impossible to summarize a single entry strategy applicable to the entire country. Hence, exporters are recommended to keep several factors in mind when developing a target entry strategy, such as region, age group, eating preferences, ways of using a product, etc.

3. It is critical to find reliable importers and distributors. Most companies lack the resources to build a permanent marketing presence in China. Therefore, local importers/distributors frequently take up that task (with varied results). It is essential to find those who have established wholesale/retail outlets and relationships in the target market. They should not only be able to make orders for a product but also make sure the product is penetrating the market and can grow in the future. The best distributors have marketing specialists on staff and have experience working with other exporters. Finding a distributor that understands your vision and plans for your product, and will work with you in the same direction, is also critical. Where possible, it is recommended to visit their facilities and warehouses, especially when a product is highly perishable. Frequent interaction will keep you "in the loop" on developments with the distributor's operation, and will also make them feel that you are vested in their efforts.

4. E-commerce in China is growing fast. Large online shopping platforms for processed foods such as Tmall, JD.com, Yihaodian, and Amazon.cn are growing rapidly. Consumers have developed a preference to shop via their mobile phones. Therefore, your chosen importers/distributors should also have access to these platforms if your products are suitable to sell online.

5. Major trade shows in China can be a cost effective approach to understanding the market and meeting agents/importers. Some high-quality exhibitions in China include Food & Hotel China (FHC), China Fisheries & Seafood Expo, SIAL China, China International Meat Industry Expo, Bakery China Show, China Food & Drinks Expo. (a.k.a, Tang Jiu Hui) and Food Ingredients China (FIC).

6. Chinese business culture matters. The most distinctive aspect of Chinese business culture is the need to cultivate "guanxi", or relationships. In a country where contracts can be difficult to enforce, it is guanxi that tends to hold a venture together. Guanxi and a sense of trust are built up through repetitive friendly interactions. One aspect of guanxi is "face." While the notion of "losing face" is often discussed, more important to a venture is the concept of "giving face." This simply means allowing your Chinese partners to be seen as generous or respected. This isn't just about pride; your partner may need the prestige that comes from your support to build his own relations with government officials or customers in order to keep the business flowing. Although the influence of guanxi is slowly declining as China modernizes, contacts report it is still very important.

7. All of the ATO offices (Beijing, Shanghai, Guangzhou, Chengdu and Shenyang) are prepared to provide assistance to exporters, including providing updated market information, organizing reverse trade missions, networking at trade shows, etc. Exporters are welcome to learn more about our services by visiting www.usdachina.com.

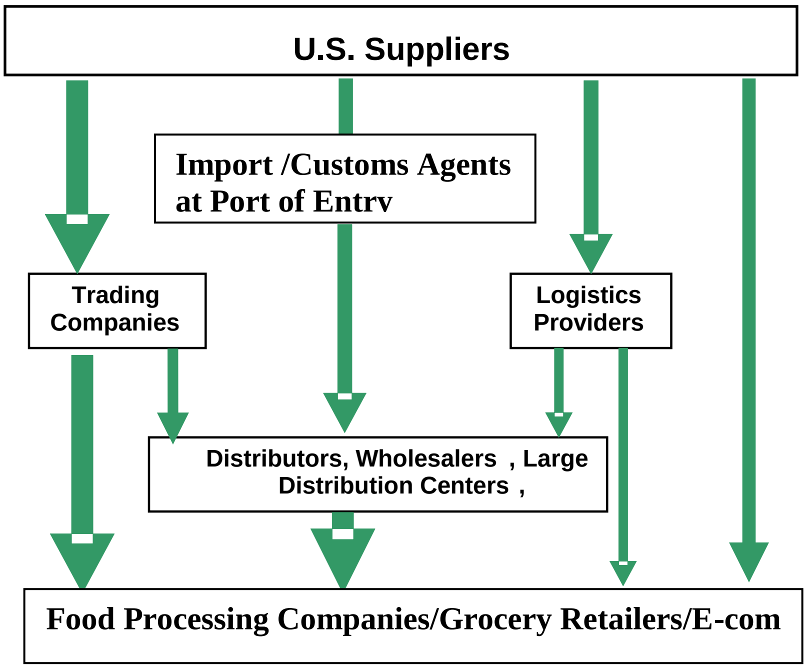
B. MARKET STRUCTURE

The traditional pattern for exporters abroad is to sell directly to Chinese importers. Years ago, only state-owned companies in China were authorized to import. However, many of these companies did not actually import, but "rented" their import authority out to other companies, along with perhaps providing some associated services such as clearing customs, facilitating government inspection and certification processes, and relaying payment for the imported products from the real importers. Many of these companies are still in business, acting as large-scale importers who then wholesale to local distribution companies that are too small to warrant direct import.

These traditional importers are now being complemented by a fast-growing cohort of small to medium-sized import specialists. These companies can be very effective and the best of them are importers/distributors that provide full services from customs clearance all the way to marketing strategies. Food ingredient import specialists will have good contacts among manufacturers, and can advise on the products most likely to sell. U.S. exporters should be aware, however, there are a large number of newly established, inexperienced importers who have minimal understanding on issues such as import documentation and customs processing.

Exporters abroad also have the option to establish a sales outlet and sell their products directly in China rather than through a local business. The advantage of this option is the exporter can meet customers face to face and learn first-hand market conditions and trends. However, establishing a presence in China can be a very complicated process, involving a large investment in time and money.

Multiple large processors, manufacturers and e-commerce platforms are now motivated to directly source products from exporting countries to reduce costs. According to market analysts, several major hypermarkets and supermarkets in first-tier cities are currently directly sourcing up to 30 percent of their fresh fruit from outside the country. By doing so, retailers are able to both enhance traceability of the products purchased and reduce costs by 20-30 percent. Some large e-commerce platforms are also directly sourcing products (especially fresh fruit) from outside of China.



Source: ATO Guangzhou

Distribution Flow

China is generally divided into five regions:

- South China: Guangzhou, Shenzhen, Xiamen, Fuzhou and Nanning
- East China: Shanghai, Ningbo, Hangzhou, Hefei, Nanjing and Wuhan
- North China: Beijing, Tianjin, Hohhot, Jinan, Qingdao, Lanzhou and Manzhouli
- Northeast China: Dalian, Harbin and Shenyang
- Southwest China: Chengdu, Chongqing, Kunming, Guiyang and Lhasa

Goods that enter China through major ports in these five regions will flow to key distribution centers such as Dalian in Northeast China, Tianjin in North China, Guangzhou in South China, Chengdu in Southwest China and Shanghai in East China. Products are then wholesaled to end-users or further distributed to second and third-tier cities.

U.S. Agricultural Exports to China's Five Regions 2014-2016

China Imports from United States (Transport Mode: All Transport Modes) Via District: All Districts Commodity: Agricultural, Fish & Forestry, Group 1 (2012)							
Year To Date: January - December							
	United States Dollars			% Share			
District	2014	2015	2016	2014	2015	2016	%Δ 16/15
All Districts	**31,317,177,118**	**26,595,213,283**	**25,788,436,164**	**100**	**100**	**100**	**-3.03**
East China	8,385,697,719	7,350,348,406	7,176,067,752	26.78	27.64	27.83	-2.37
North China	11,099,073,764	8,717,251,937	8,547,276,104	35.44	32.78	33.14	-1.95
Northeast China	2,468,332,671	1,983,398,791	1,622,441,477	7.88	7.46	6.29	-18.2
South China	9,253,752,421	8,385,293,999	8,266,115,416	29.55	31.53	32.05	-1.42
Southwest China	110,320,543	158,920,150	176,535,415	0.35	0.6	0.68	11.08

Source: China Customs Data

Cold Chain

China's cold chain logistics industry has significantly improved over the past decade. Large-scale cold storage facilities are prevalent and highly developed in most major cities. Also, refrigerated trucking services are increasingly available throughout the country.

C. COMPANY PROFILES

Major Biscuit Companies

Company	Major Products	Brand	Headquarter Location
Fujian Dali Group	Biscuit, snack food, beverage, energetic drinks	Daliyuan, Copico, Haochidian, Landy Castle, Hi-Tiger， Heqizheng	Jinjiang, Fujian
Fujian Fuma Food	Package cake, pie	Fuma	Jinjiang, Fujian
Garden Foods Co.	Biscuit, bread, candy	Garden	Dongguan, Guangdong
Guangdong Jiashili	Biscuit, moon cake	Jiashili	Kaiping, Guangdong
Master Kong Holding Co.	Biscuit, instant noodle, beverage	Master Kong	Tianjin
Mondelez China	Biscuit, chocolate	Oreo, belVita, Halls, Pacific, RITZ, TANG, Trident, Tuc, Stride, etc.	Shanghai
Orion Foods Co.	Pie, biscuit, snack food, gum	Orion	Shanghai/Guangzhou
Shanghai Ezaki Glico Foods	Biscuit	Glico	Shanghai

Major Confectionery & Chocolate Company

Company	Major Products	Brand	Headquarter Location
Beijing Madajie Food Co.	Candy, chocolate, biscuit	Madajie	Beijing

Fujian Jinguan Food Co.	Candy, chocolate, jelly, pastry products, seasoning	Jinguan	Jinjiang, Fujian
Fujian Yake Food Co.	Candy, chocolate, jelly, snack food	Yake	Jinjiang, Fujian
Guan Sheng Yuan Group	Candy, seasoning, honey	Guan Sheng Yuan, White Rabit, etc.	Shanghai
Guangdong Ke Wei Chocolate Food Co.	Chocolate	Tasty Choco	Kaiping, Guangdong
Hsu Fu Chi Foods	Candy, package pastry product, snack foods	Hsu Fu Chi	Dongguan, Guangdong
Labi Xiaoxin (Fujian) Foods	Jelly, snack food	Labi Xiaoxin	Jinjiang, Fujian
Mars China	Chocolate, candy	Dove, Snickers, M&M's, etc.	Beijing
Nestle China	Chocolate, candy, ice cream, beverages, etc.	Nestle	Beijing
Shanghai Golden Monkey Food Co.	Chocolate, candy, jelly, soybean products, snack food	Golden Monkey	Shanghai
Strong Food	Candy, jelly, pudding	Xizhilang	Shenzhen, Guangdong

Major Dairy Products Company

Company	Major Products	Brand	Headquarter Location
Bright Dairy	Liquid milk, milk powder, cheese, butter	Bright	Shanghai
Danone China	Yoghurt, beverage	Danone	Shanghai
Feihe Dairy Co.	Milk powder	Feihe	Qiqihaer, Heilongjiang
Guangzhou GuangMei Xiangmanlou Husbandry Co.	Liquid milk,	Xiangmanlou	Guangzhou, Guangdong
Guangdong Yantang Dairy	Liquid milk, yoghurt	Yantang	Guangzhou, Guangdong
Guangzhou Fengxing Milk Co.	Liquid milk, yoghurt	Fengxing	Guangzhou, Guangdong
Huishan Dairy	Liquid milk, milk powder	Huishan	Shenyang, Liaoning
Mengniu Group	Liquid milk, milk pawder, ice cream, cheese	Mengniu, Telunsu, Guanyiru, Chunzhen, etc.	Helingeer, Inner Mongolia
Modern Farming	Liquid milk, yoghurt	Modern Farming	Ma'anshan, Anhui

New Hope Dairy	Liquid milk, yoghurt	New Hope	Chengdu, Sichuan
Sanyuan Foods	Liquid milk, yoghurt, milk powder	Sanyuan	Beijing
Wondersun Dairy Co.	Milk powder, liquid milk	Wondersun	Wandashan, Heilongjiang
Yili Group	Liquid milk, milk powder, ice crea, yoghurt	Yili	Hohehot, Inner Mongolia

Major Quick Frozen Food Manufacturers

Company	Major Products	Brand	Headquarter Location
Fujian Anjoy Food Co.	Frozen foods, surimi	Anjoy	Xiamen, Fujian
Fujian Hai Yi Foods Co.	Frozen foods, surimi, sausage	Haiwang	Fuzhou, Fujian
Fujian Teng Xin Foods Co.	Frozen foods, surimi	Haixin, Yuji	Fuzhou, Fujian
General Mills China	Frozen foods (mainly dumplings), snacks, canned food, ice cream	Wanchai Ferry (for frozen food)	Shanghai
Guangzhou Likoufu Foods Co.	Frozen foods	Likoufu	Guangzhou, Guangdong
Hai Pa Wang Foods Co.	Frozen foods	Hai Pa Wang	Shantou, Guangdong
Henan Sanquan Foods Co.	Frozen foods, snacks	Sanquan	Zhengzhou, Henan
Shanghai Star Foods Co.	Frozen foods, salad, pasta, fried rice	Guiguan, New e	Shanghai
Zhejiang Wu Feng Frozen Foods Co.	Frozen foods, ice cream	Wufeng, Napoleon, Shangkouai, Pamper Me, Shuangyizu,	Hangzhou, Zhejiang
Zhengzhou Synear Foods Co.	Frozen Foods	Synear	Zhengzhou, Henan

Major Meat Products Company

Company	Major Products	Brand	Headquarter Location
Chia Tai Co.	Cooked poultry products, meat ball, processed meat products	Chia Tai	Qingdao, Shandong
DaChan Foods Co.	Poultry, cooked poultry products	DaChan	Beijing
Delisi Foods Co.	Pork and meat products	Delisi, Beijishen	Weifang, Shandong

Jinluo Foods.	Pork, poultry and processed meat products	Jinluo	Linyi, Shandong
Longda Foodstuff Group	Pork, processed meat, vegetable, dried products	Longda	Laiyang, Shandong
New Hope Liuhe Co.	Poultry, pork	Qianxihe, Beiyouzi, Meihao, Liuhe Meishi	Beijing
Shandong Feng Xiang Foods	Poultry, cooked poultry products	Fengxiang	Zhucheng, Shandong
Shuanghui Group	Pork, poultry and processed meat products	Shuanghui, Smithfield	Luohe, Henan
Wens Group	Poultry, pork	Wens, Jiarun,	Xinxing, Guangdong
Yurun Foods	Processed meat products	Yunrun,	Nanjing, Jiangsu

Major Seafood Processing Company

Company	Major Products	Brand	Headquarter Location
Baiyang Aquatic Group Inc.	Catfish, tilapia, shrimp, processed aquatic products, surimi	Baiyang	Nanning, Guangxi
HainanXiangtai Fishery Co.	Tilapia, shrimp, golden pompet, processed aquatic products	Xiangtai, Red Coconut	Haikou, Hainan
Qingdao Oceanese Group	Processed seafood	Ocean Leader,	Qingdao, Shandong
Zhangzidao Group獐子岛	Processed aquatic product, canned foods	Zhangzidao	Dalian, Liaoning
Zhanjiang Evergreen Aquatic Co.	Shrimp, fish	Evergreen	Zhanjiang, Guangdong
Zhanjiang Guolian Aquatic Co.	Shrimp, tilapia, processed aquatic products	Guolian	Zhanjiang, Guangdong
Zhejiang Ocean Family Co.	Seafood, processed aquatic products, canned foods	Ocean Family	Hangzhou, Zhejiang

Major Snack Food Manufacturers

Company	Major Products	Brand	Headquarter Location
Beijing Yushiyuan Foods Co.	Snacks, dried fruits	Yushiyuan	Beijing
Fujian Qin Qin Foods	Snack food	Qinqin	Jinjiang, Fujian
Guangdong Jiabao Group	Preserved and dried fruits	Jiabao	Shantou, Guangdong
Hangzhou Chaoda Foods Co.	Dried fruits, snacks	Xuehai Meixiang	Hangzhou, Zhejiang
Luohe Weilong Foods	Spicy flavor snacks	Weilong	Luohe， Henan

Oishi China Ltd.	Dried nuts, potato chips, snacks	Oishi	Shanghai
Pepsico China	Beverages, potato chips, snacks	Lays, Cheetos, Quaker, etc.	Beijing
Qia Qia Food Co.	Dried nuts, potato chips, snacks	Qia Qia	Hefei, Anhui
Shanxi Weizhiwang Foods Co.	Dried fruits, beverages	Weizhiwang	Yuncheng, Shanxi
Tenwow Group	Dried nuts, preserved and dried fruits	TenWow	Shanghai
Want Want Foods	Snack food, beverage	Want Want	Shanghai

Major Bakery Chains

Company	Area Coverage	Brand	Headquarter Location
Anhui Caidie Bakery Co.	46 stores in 1 province	Caidie	Hefei, Anhui
Beijing Daoxiangcun Food Co.	In 11 provinces	Daoxiangcun	Beijing
Beijing Holiland Foods Co.	in 28 provinces	Holiland	Beijing
Beijing Wedome Cake Co.	347 stores in 4 provinces	Wedome	Beijing
Bread Talk	378 stores in 31 provinces	Bread Talk	Shenzhen, Guangdong
Changsha Rosa Foods Co.	In 6 provinces	Rosa	Changsha, Hunan
Shanghai Christine Co.	Over 1,000 stores in three provinces	Christine	Shanghai
Shanghai Croissants de France Co.	100+ stores in 4 provinces	Croissants de France	Shanghai
Shanghai Ganso Foods Co.	594 stores in 30 provinces	Ganso	Shanghai
Shenyang Toly Bread Co.	Distributes through retailers in 14 provinces	Toly	Shenyang, Liaoning
Wuhan Imperial Crown Co.	168 stores in 1 province	Crown	Wuhan, Hubei
Wuhan Luckys Food Co.	200+ stores in 4 provinces	Kengee	Wuhan, Hubei
Xiamen Sunmile Foods Co.	in 1 province	LianJi, Essence, Huangyuantang	Xiamen, Fujian
Xi’an Maky Foods Co.	in 6 provinces	Maky	Xi’an, Shaanxi
Yunnan Joy Bakery	in 1 province	Joy	Kunmin, Yunnan

D. SECTOR TRENDS

<u>More Consumers Read Labels and Research Products before They Buy</u>

Although most people learn about health food from media advertisements, food labels are still considered the most useful source of health and nutrition information for educated consumers.
Many consumers now carefully check nutrition labels on packages before a buying decision is made. Also, when considering any new or higher-priced product, more and more shoppers are researching on-line and checking with friends, experienced users and experts on what exactly the product contains before making any actual purchase.

Children's Food – Huge Potential
With the ending of the One-Child Policy at the end of 2015, the current birth rate of approximately 16 million per year is expected to rise. At the same time, consumer confidence in infant and children's prepared foods using domestic ingredients is extremely low (due to multiple food safety scandals in recent years). As a result, marketing contacts expect educated consumers' already well-established preference for imported high quality ingredients to strengthen further.

Health and Wellness
There is rapidly growing demand for prepared health foods in the more affluent 1st tier cities of Beijing, Shanghai, Guangzhou and Shenzhen. Also, foods with less chemicals and more nutrition are being sought after by the Chinese middle class, who are willing to pay a premium for what they want. Functional foods that are high in fiber, protein, whole grains, vitamins, calcium or minerals are becoming more popular among this group of consumers.

SECTION III. COMPETITION

Ingredients Competition 2016

Product Category	Major Supply Sources in 2016	Competitions and Trends
Poultry (0207) Import value: $1,284 mil	• Brazil $1046 mil, 81 percent • Argentina $108 mil, 8 percent • Chile $95 mil, 7 percent	• South American products accounted for over 97 percent of total imports. Most products were wingtips and chicken paws. Chicken paws are warmly welcomed in South China while leg quarters and drumsticks are consumed heavily in Northwest China. • China has restricted U.S.-origin poultry and poultry products (except poultry meal and feather meal) since January 2015 in response to December 2014 HPAI outbreaks in the United States. Prior to this, in 2014 China imported $223 million from the United States, a quarter of total poultry imports that year. • Overall poultry imports jumped in 2016 (up nearly 40 percent), because of the inability of China to meet demand domestically.
Pork and pork products (0203) Import value: $3,190 mil	• Germany $666 mil, 21 percent • Spain $520 mil, 16 percent • United States $409 mil, 13 percent • Denmark $334 mil, 10 percent	• China's 2016 imports have soared by over 120 percent because of record high pork prices. Low profits and tightening environmental regulations had caused a fall in pork production, resulting in a sharp rise in prices. • Pork imports from the United States doubled in 2016. The United States is by far the largest supplier of pork offal (020649) and these imports from the United States tripled in 2016 to over $900 million.

Beef and beef products (0201-0202) Import value: $2,515 mil	• Brazil $765 mil, 30 percent • Australia $559 mil, 20 percent • Uruguay $525 mil, 21 percent • New Zealand $329 mil, 13 percent	• China's import value for beef continues to climb, and doubled in just the two year period between 2014 and 2016. • In 2016, Brazil replaced Australia as the largest supplier to China. In 2012 Brazilian beef exports were banned because of BSE, but this ban was removed in 2015. • Australia is the only country that shipped chilled beef to China. • China lifted the longstanding bovine spongiform encephalopathy (BSE)-based ban on U.S. beef imports on September 22, 2016, removing a major obstacle to resuming U.S. beef imports. However, the United States and China must first negotiate the import protocol conditions before trade can resume.
Fish and seafood (03) Import value: $6,893 mil	• Russia $1,359 mil，19 percent • United States $1,085 mil，20 percent • Canada $607 mil, 9 percent • New Zealand $427 mil，6 percent	• Russia and the United States are the top two exporters of seafood to China. • Overall seafood imports, including the United States, have been relatively flat over the past 4 years. • An estimated 40 percent of China's seafood imports were processing trade driven and re-exported to other countries. For example a large amount of Russian fish is processed and re-exported. The United States was the second largest seafood exporter to China and at the same time the United States was also the second largest seafood importer from China (after Japan). • Although overall seafood demand is relatively stagnant, demand for high-end products such as live lobsters continue to strengthen. • Deterioration of fishery resources and overfishing continue threatening domestic fishery ecological environment, China's seafood import is expected to keep increasing over the years to come.
Dairy (04) Import value: $3,517 mil	• New Zealand $1,886 mil, 54 percent • Australia $298 mil, 8 percent • France, $290 mil, 8 percent • United States $269 mil, 8 percent	• For years, New Zealand, the United States, Australia, France, and Germany have been taking the lead on exporting dairy products to China. • New Zealand has dominated the huge milk powder market. • Low prices in recent years have depressed Chinese dairy production, resulting in rising imports. Food safety scandals have also boosted imports. • The United States is by far the largest supplier of whey to China and about 70 percent of imports of U.S. dairy are whey.
Edible Nuts (0801-02) Import value: $691 mil	• United States $214 mil – 31 percent • Mongolia $76 mil – 11 percent • Indonesia $59 mil –	• The United States is the largest exporter of tree nuts, primarily almonds, pistachios, pecans, and walnuts. Iran is the primary competitor to the United States in pistachios, and for walnuts it is domestically produced nuts.

	9 percent • North Korea $49 mil – 7 percent	• After gaining access for shelled walnuts in 2014, Chile's in-shell walnuts were also granted access to the China market in January 2016. Under a Free Trade Agreement (FTA), Chilean walnuts enter China with zero tariffs. • A large amount of tree nuts are transshipped through Hong Kong and Vietnam to China, so do not show in Chinese import statistics. • Mongolia and North Korea primarily supply pine nuts to China.
Edible Fruits (0803-0814) Import value: $5,161 mil	• Chile $1,205 mil – 23 percent • Thailand $1,102 mil – 21 percent • Vietnam $569 – 12 percent • Philippines $482 – 9 percent • United States $362 mil – 7 percent	• United States is a large exporter of fruit to China, including cherries, oranges, grapes, apples and other products. • Chile is also a major supplier, especially of cherries and grapes, although Chile's exports are counter seasonal to U.S. supplies. • China imports a huge amount of tropic fruits from Southeast Asian countries, for example durians from Thailand, dragon fruit from Vietnam, and bananas from Philippines. • China is also a large market for dried fruits, and U.S. dried cranberry exports have surged in recent years.
Baking related (19) Import value: $4,564 mil	• Netherlands, $1,066 mil, 23 percent • Ireland $579 mil, 13 percent • New Zealand $407 mil, 9 percent • Germany, $372 mil, 8 percent	• The United States has small market share in this sector, at only three percent of the total market. • Baby food is by far the largest segment, and is growing rapidly. The Netherlands is the largest supplier of infant formula to China. • Cookies, biscuits and wafers are also a rapidly growing section, with total Chinese imports climbing from around $450 million in 2014 to nearly $700 million in 2016. • The Moon Cake Festival, or the Mid Autumn Festival, could be a good opportunity for U.S. exporters. Dried or processed fruit ingredients, nuts, as well as light flavored cheese have good potential since they add health and nutritional benefits. Various high quality U.S. ingredients such as cranberries and almonds have been creatively mixed with conventional lotus seed puree or multiple nuts in some recipes. • Domestic products, while cheap in price, are less competitive in both variety and quality compared with imported products.

Source: World Trade Atlas and USDA GAIN Reports

SECTION IV: BEST PRODUCT PROSPECTS

Best Product Prospects 2017

Product Categories (with Harmonized System codes)	2011 Imports from All Origins ($ million)	2016 Imports from All Origins ($ million)	5 Yr. Growth	Import Tariff (IT) and VAT Rates	Remarks
Beef, Fresh, Chilled or Frozen (0202, 0201)	95	2515	2,547%	IT=12% or 25%, depending on specific product VAT=13%	• Chinese consumer demand for beef continues to rapidly expand with import values doubling over the past two years. • China lifted the longstanding BSE-based ban on U.S. beef imports on September 22, 2016. However, the United States and China still need to negotiate export protocol conditions before trade can resume.
Milk and Cream, Not Concentrated nor Sweetened (0401)	60	640	967%	IT=15% VAT=17%	• Low international prices in recent years have depressed Chinese dairy production and increased imports. • Domestic food safety scandals and consumer preference for imported milk have also boosted dairy imports. • Despite rapidly increasing fluid milk imports, U.S. market share is less than 1% as many U.S. dairy plants are excluded from shipping due to delays in approvals of U.S. dairy products under China's new (2014) registration regulations.
Berries, Fresh and Processed (081040, 081020, 081010, 081110, 081120, 200893)	21	146	595%	IT=Varies from 14% to 30% VAT=13% or 17%, depending on	• Demand for foods with health benefits, such as cranberries and blueberries, is surging. • The rapidly growing baking

				specific product	sector increasingly uses berries as a key ingredient. • Major retail chain contacts anticipate strong consumer demand for U.S. strawberries which were recently granted Chinese market access.
Pork, Fresh, Chilled or Frozen (0203)	846	3,190	277%	IT=12% or 20%, depending on specific product VAT=13%	• 2016 imports have dramatically increased over the previous year due to record high domestic pork prices. • Low profits and tightening environmental regulations in recent years have caused a reduction in domestic pork production.
Food Prep. For Infant Use (190110)	868	3,072	254%	IT=5% VAT=17%	• With the One Child Policy ending in 2015, birth rates are expected to rise. • Recent domestic food safety scandals will continue to drive consumer preference for imported infant food ingredients.
Stone Fruits, Fresh and Processed (0809, 200870, 081320, 200860)	254	942	271%	IT=Varies from 10% to 25% VAT=13% or 17%, depending on specific product	• Demand for fresh and processed high quality stone fruits, such as cherries, peaches and plums, continues to rapidly expand. Imports of U.S. plums have doubled in the past two years. • Demand for stone fruit around Chinese holidays is especially strong.
Cheese and Curd (0406)	139	419	201%	IT=12% or 15%, depending on specific product VAT=17%	• Middle to high-income earners are increasingly developing a taste for products that contain cheese. • Domestic cheese production in China is extremely low.
Hops (1210)	11	31	182%	IT=10% or 20%, depending on specific product VAT=17%	• The craft beer industry is beginning to take off in China, with a resulting increase in hops imports.

Crustaceans (0306,1605)	973	2,201	126%	IT=Varies from 5% to 15% VAT=13% or 17%, depending on specific product	• Although overall seafood imports have been flat for the past 4 years, demand for high-end products such as lobster continues to strengthen. • As of January 1, 2017, tariffs for King Crab and Lobster imports are reduced from 14% to 7% and 15% to 10%, respectively.
Baking Related (19, ex. 190110)	763	1,491	95%	IT=Varies from 5% to 30% VAT=17%	• The Chinese baking industry continues to rapidly expand. • Imports of cookies and other snack foods have increased rapidly in recent years.
Butter (0405)	184	303	65%	IT=10% VAT=17%	• As a key ingredient in various processed products, demand for imported, high-quality butter continues to steadily grow
Tree nuts (0801,0802)	298	691	78%	IT=Varies from 10% to 25% VAT=13%	• Demand for foods with health benefits such as almonds, pistachios and walnuts is rapidly expanding. • Tree nuts such as almonds, pistachios, pecans and walnuts are key ingredients in the growing baking and snack food industries.
Poultry (0207)	872	1,284	47%	IT=Varies from 10% to 20%, chicken paws at 1 Chinese RMB/kg VAT=13%	• Chinese consumer demand for poultry products is currently outpacing domestic production capabilities. • China has restricted U.S.-origin poultry and poultry products (excluding poultry meal and feather meal) since January 2015 in response to December 2014 HPAI outbreaks in the United States. • China has also imposed countervailing duties on U.S. poultry.

Sources: Global Trade Atlas, China Customs Data and USDA GAIN reports

Note: Import tariff rate decided using the WTO Most Favored Nation rate

SECTION V. POST CONTACT AND FURTHER INFORMATION

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SECTION VI. APPENDIX FOR REGIONAL PROFILES

South China Food Processing Industry Overview

ATO Guangzhou's South China regional coverage includes the provinces of Guangdong, Fujian, Hunan, Guangxi and Hainan. The area has a population of 271 million and an estimated per capita GDP of $8,500. As the primary manufacturing hub of the country, the relatively affluent region has a dynamic economy, containing two 1st tier cities (Guangzhou and Shenzhen) and several rapidly expanding 2nd and 3rd tier city markets (e.g. Dongguan, Zhuhai, Xiamen, etc.). The region's food processing industry, already immense, has displayed significant growth over the past five years with the largest operations located in Guangdong, Hunan and Fujian provinces.

Provinces	Type of Processor/Manufacturer	Number of Enterprises 2015	Gross Output 2011 (USD 100 Million)	Gross Output 2015 (USD 100 Million)	% of Change 2011 Vs 2015
Guangdong	Food Processors	936	351	489	39%
	Food Manufacturers	705	201	282	40%
	Beverage Manufacturers	259	132	179	35%
Hunan	Food Processors	1272	315	469	49%
	Food Manufacturers	386	98	159	62%
	Beverage Manufacturers	387	62	103	67%
Fujian	Food Processors	Unavailable	237	426	80%
	Food Manufacturers	Unavailable	110	202	84%
	Beverage Manufacturers	Unavailable	81	135	65%
Guangxi	Food Processors	528	231	367	58%
	Food Manufacturers	133	27	60	119%
	Beverage Manufacturers	149	44	84	89%
Hainan	Food Processors	62	15	21	38%
	Food Manufacturers	16	6.8	6.9	2%
	Beverage Manufacturers	26	2.5	2.8	15%
Regional Total (excluding Tibet)	Food Processors	Unavailable	1151	1752	52%
	Food Manufacturers	Unavailable	444	704	59%
	Beverage Manufacturers	Unavailable	323	502	55%

Source: Guangdong, Hunan, Fujian, Guangxi and Hainan Statistical Year Books 2016
Notes: Including only those enterprises that realized annual sales over $3,125,000 USD (RMB 20 million); $1USD = 6.4Chinese RMB

Meat Processing

South China's meat processing industry mainly focuses on the production of chilled pork and pork products (sausage, ham, bacon, etc.) for the huge domestic market. With major processing plants in Guangdong and Guangxi, Shuanghui is the most well-known brand for both product categories. The South China market also has many small to medium size players, such as Huang Shang Huang, which is the leading brand for premium preserved meat products and sausage. Hormel, with its plant in Shenzhen, is also a significant producer of bacon and ham products in the region.

Seafood Processing

Compared with other regions, South China consumers tend to eat fresh seafood and consume very limited processed seafood products. Thus, the seafood processing industry in South China, apart from surimi production, is mainly export focused. The major surimi producers, including companies such as Tengxin, Anjoy, Haiyi and Hai Pa Wang, are located in Fujian and Guangdong province and mainly use low-priced fish from Southeast Asian countries as ingredients. Major export-focused tilapia and shrimp processing plants, such as Baiyang, Xiangtai, Evergreen and Guolian are located in Guangdong and Hainan provinces.

Baking Industry

South China's baking industry is highly developed and strongly influenced by Hong Kong and Taiwan baking traditions. Major bakery chain outlets can easily found in most 2nd and 3rd tier cities throughout the region. A few of the more well-known chains that depend on imported ingredients (such as dairy, dried fruits and nuts) for their operations include Break Talk, Maxim, Surprised Me, Dim Cube, Paper Stone and Le Cake.

Dairy Products

The dairy industry in South China is mainly focused on liquid milk and yoghurt products. UHT milk accounts for around 80 percent of the liquid milk market and the key players include Yili and Mengniu. Imported UHT milk has gained significant market share in recent years as consumers are increasingly willing to pay a premium for high quality milk products. Guangdong dairy farms such as Yantang, Fengxing and Xiangmanlou mainly focus on pasteurized milk for regional consumption.

Snack Food

Candies, chocolates and prepared/processed fruits & nuts are highly popular in South China. One of the leading sweets manufacturers in China is Guangdong-based Dongguan Hsufuchi Food Co. which depends on significant imports of milk powder, almonds and cranberries. Also based in Guangdong province, Foshan Nanxing Fruit Nut Co. is a major importer of pistachios, almonds, cashews, pecans, walnuts, and macadamias, and has successfully built its "Rainbow" brand into one of the top prepared nut products in the country. Just across the border from Hong Kong, Zhuhai Kaxin Food Company is a major producer of several packaged snack foods and depends on imported raisins and cranberries as ingredients.

Alcoholic Beverages

Guangdong province produced roughly 36 million barrels of industrial larger beer in 2015, ranking as China's second largest producer and accounting for nine percent of the nation's beer production. The largest brewer in South China is the Budweiser plant in Foshan, Guangdong which can produce nearly 9 million barrels of beer annually. Since 2015, the craft beer movement has really started to take-off in the region, especially in the first-tier cities of Guangzhou and Shenzhen. Local craft brewers mainly use imported U.S. hops to make IPA style beer. According to Global Trade Atlas, from January to November 2016, U.S. hop (dried and pellet) exports to China reached $2.7 million, an increase of 90 percent compared to the same time the previous year.

East China Food Processing Industry Overview

The East China region includes one municipality and five provinces along the Yangtze River (Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province and Hubei Province). Known as the business center of China, the region has a robust economy and a population of approximately 323 million people. In recent years, there have been large-scale investments in improving the region's food processing, food distribution, and food storage capabilities.

East China Food Processing Capacity by Province in 2014 (100 million Yuan*)

Province	Food Processing		Food Manufacturing		Liquor, Beverage and Refined Tea	
	Sales Value	Ranking in China	Sales Value	Ranking in China	Sales Value	Ranking in China
Shanghai	351.60	24	621.67	12	108.88	27
Jiangsu	4171.24	5	849.06	10	986.49	6
Zhejiang	1037.29	17	524.94	16	470.28	14
Anhui	2801.52	8	578.76	14	602.61	10
Jiangxi	1704.73	15	474.93	17	297.26	19
Hubei	4425.31	3	949.86	6	1480.60	2

Source: China Provinces and Cities Economy Development Yearbook 2015
**1$ = 6.14 Yuan, Period Average Currency Exchange Rate 2014, China Statistical Yearbook 2015*

Dairy Products

East China hosts the headquarters of Bright Dairy & Food Group, China's No. 3 dairy manufacturer, and Modern Farm Group, China's No. 4 fluid milk producer. Other large dairy producers with a presence in the region include Yili, Mengniu and New Hope.
China's baby formula industry is dominated by international brands and a significant amount of imported product for the sector is further processed in East China. The leading players in the region include Mead Johnson, Abbott Nutrition International, Nestle, and Wyeth. The leading domestic baby formula brand owners in East China are Beingmate and Bright Dairy.

Bakery Products

Western style bakeries and baking products have become popular in the region. Major international players include Ganzo, Ichido's, Paris Baguette, Bread Talk, Yamazaki and Tous Les Jours. Local bakeries such as Marco Polo, Holiland, Kaisiling, and Jing'an Bakery are also popular in the region. Imported ingredients such as cream cheese, butter, raisins, dried prunes, frozen blueberries, dried cranberries, and pecans are increasingly used in both the international and domestic stores' baking products.

Snack Foods

The snack food sector in the region has been growing rapidly for the past decade. Major categories of snack foods include chocolate and candies, dried and preserved fruits, tree nuts, jerky and other preserved meat.
There is large foreign investment in the region from international chocolate and sweets producers including Mars Foods (Dove, M&Ms and Snickers), Hershey's, Nestlé (Wafer, Kit Kat, Smarties etc.), LOTTE, and Mondelēz International. Production of confectionary products is largely clustered in Zhejiang, Jiangsu, and Shanghai.
Eastern China is also a significant production base for the tree nuts industry. Lin'an, in the eastern province of Zhejiang, is known as "the capital of tree nuts" in China. Lin'an is very competitive in terms of processing and distribution for both local and imported nuts

Meat Products
The province of Jiangsu hosts Yu Run Group, China's second largest pork producer in terms of sales.

Beverage and Drinks
East China is host to several top beverage brands in China. Zhong Cui Foods, based in the province of Zhejiang, is a strategic partner and leading bottler for Coca-Cola Co. Zhejiang is also the home of China's largest domestic beverage brand "Wahaha," which has been China's No.1 enterprise in the beverage industry for the last ten years. Nongfu Spring is a producer of sports drinks, vitamin-fortified drinks, tea drinks and fruit juice drinks with facilities throughout East China.

Ready-to-Cook Foods or Quick Frozen Foods
A popular quick frozen food brand in the region is "Wanchai Ferry" owned by General Mills. Wanchai Ferry manufactures the top frozen dumpling brand in Shanghai and distributes them nationwide. Laurel Foods of Shanghai is the top brand for quick frozen hot-pot food ingredients, including meat balls and fish balls. Karisom, based in Jiangsu, is among the leading traditional instant noodle manufacturers in China.

North China Food Processing Industry Overview

The North China region is home to 12 provinces, special municipalities and autonomous regions, including Beijing, Tianjin, Hebei, Henan, Shandong, Shanxi, Shaanxi, Ningxia, Gansu, Qinghai, Xinjiang Uygur and Inner Mongolia. It stretches about 3,200 miles from Shandong Province, facing the Pacific Ocean, to Xinjiang, near the geographical center of Asia. Shandong and Henan are the top food producing provinces in the region. Both are situated in the east and are highly productive in terms of wheat, seafood and swine yields. These two provinces also have the country's leading meat and seafood processors, and flour food manufacturers.

North China Food Processing Capacity and Ranking in Province in 2014 (100 million Yuan*)

Province	Food Processing		Food Manufacturing		Liquor, Beverage and Refined Tea	
	Sales Value	Ranking in China	Sales Value	Ranking in China	Sales Value	Ranking in China
Beijing	375.74	23	276.46	21	193.98	21
Tianjin	842.18	19	1299.45	4	176.53	22
Hebei	2,197.73	13	918.84	7	486.21	12
Shanxi	350.87	25	132.24	26	120.19	25
Inner Mongolia	1,487.15	16	612.89	13	303.78	18

Shandong	12,036.48	1	2479.47	1	1387.60	4
Henan	5,409.13	2	2330.26	2	1395.07	3
Shaanxi	990.96	18	411.45	18	447.06	15
Gansu	346.68	26	110.07	28	160.19	24
Qinghai	66.47	30	24.81	30	37.76	28
Ningxia	128.64	28	141.57	25	31.35	29
Xinjiang	441.79	22	207.01	22	111.20	26

Source: China Provinces and Cities Economic Development Yearbook 2015
**1$ = 6.14 Yuan, Period Average Currency Exchange Rate 2014, China Statistical Yearbook 2015*

Meat processing

Meat processing is one of the region's most important sectors. Henan is the number one meat processing province in China, and also home to Shineway Group (Shuanghui in Chinese Pinyin), the largest meat processor in China. Shineway acquired Smithfield at a price of US$7.1 billion in September 2013, and became the mother company of this U.S. meat processor. Topin (Zhong Pin in Chinese Pinyin), a U.S. stock market listed company, is another leading meat processor in Henan. Shandong also hosts a number of other major meat processors such as Jinluo, Longda and Delisi.

Seafood processing

Seafood processing is mostly concentrated along the coastal belt of the Bo Hai Sea and Yellow Sea, especially in Shandong Province. The seafood processing sector consumes a significant amount of the region's domestic supplies from farming and catching as well as imports from other countries. Processed fish fillets are mostly re-exported to countries like the United States or Japan while semi-prepared foods using seafood ingredients are mainly for the Japanese and Korean markets.

Quick frozen wheat/rice food manufacturing

Henan is the largest quick frozen wheat and rice food manufacturing province in China, hosting a number of leading manufacturers, including Sanquan and Synear, the top two in China. Industry leaders report they are proactively seeking upgrades in their product lines, and more imported food ingredients are expected.

Quick frozen hot-pot food manufacturing

Shandong hosts a large number of frozen prepared meat producers. The leading manufacturers, like Longda and Huifa, produce various prepared seafood and meat products, to supply both domestic and foreign markets.

Milk and dairy food

Statistics show that during the past 15 years between 1999 and 2014, per capita milk consumption has increased over ten times from 1.2 L/person/year to 14.4 L/person/year. With a growing dairy industry, Inner Mongolia has become China's undisputable milk province, hosting China's top two dairy tycoons, Yili and Mengniu. In 2015, sales of Yili exceeded US$10 billion, the largest in Asia.

Instant noodle

Henan, Hebei and Shandong provinces host all the major instant noodle manufacturers in China. The list includes 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 packs each year, equaling the combined production of the rest of the world. Although instant noodles are 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. Instant noodle producers are now expanding their product lines to include beverages, snack food, and high-end instant foods, which may provide opportunities for U.S. agricultural suppliers.

Beer

Beer brewing is a star sector of the region. Tsingtao and Yanjing, the second and third largest beer brewers in China, are both located in the region. Tsingtao beer, based in Qingdao of Shandong Province, sells its products worldwide. Yanjing Beer, based in Beijing, dominates 90% of the Beijing market and holds a 50% share in North China.

Northeast China Food Processing Industry Overview

Northeast China includes the three provinces of Liaoning, Jilin and Heilongjiang. The three provincial capitals are Shenyang, Changchun and Harbin. Each provincial capital is home to seven to ten million residents. The region is home to 110 million people and has 30 cities with populations of over a million people each. Northeast China has a land area of 780,000 square kilometers and is roughly the size of Pakistan. The port city of Dalian, the wealthiest city in northeast China, has five million people and boasts a per capita income of over $14,000. Northeast China's 2015 GDP reached $932 billion and accounted for roughly nine percent of China's total. Northeast China is the most important grain producing region in China, producing nearly 50 percent of China's japonica rice, 45 percent of its sorghum, 43 percent of its soybeans and 33 percent of its corn.

Structure of Northeast China's Processing Industry

Provinces	Categories	Number of Enterprises			Annual Sales (100 million RMB)		
		2013	2014	2015	2013	2014	2015
Liaoning	Food Processors	1,533	1,403	1,158	4,635	4,243	2,872
	Food Manufacturers	2,081	1,877	1,432	4,031	3,499	2,096
	Beverage Manufacturers	249	227	192	528	482	337
	Total	3,863	3,507	2,782	9,194	8,224	5,305
Jilin	Food Processors	894	900	1,033	3,040	3,076	3,070
	Food Manufacturers	160	167	201	363	355	408
	Beverage Manufacturers	208	203	218	465	484	535
	Total	1,262	1,270	1,452	3,868	3,915	4,013
Heilongjiang	Food Processors	NA	1,090	NA	NA	2,755	NA
	Food Manufacturers	NA	165	NA	NA	538	NA
	Beverage Manufacturers	NA	174	NA	NA	319	NA

	Total	**NA**	**1,429**	**NA**	**NA**	**3,612**	**NA**
Northeast China	**Total**	**NA**	**6,206**	**NA**	**NA**	**15,751**	**NA**

*Source: 2013 & 2015Provincial Yearbook Data for Heilongjiang are not available.
*Due to the absence of complete statistics, ATO Shenyang cannot provide a trend analysis. That said, our understanding is provincial commerce has held steady in 2016.

Seafood
Seafood processing is one of Liaoning's main industries and is mostly concentrated along the coastal cities of the Bohai Sea, especially in the town of Zhuanghe. Zhuanghe has over 80 seafood processing plants and most of them rely on imported seafood for further processing. The United States, Canada, Russia, and the European Union are the major international suppliers. Most of Zhuanghe's re-exports go to the United States, Japan and South Korea.

The Liaoning Ocean Fishery Group Corporation (Liao Fishery), Zhangzidao Seafood Company, and Tianbao Green Foods Company, all headquartered in Dalian, are among the largest seafood processors in China. Zhangzidao saw sales of 2.7 billion RMB ($425 million) in 2015. Liaoning Ocean Fishery, with over 6,000 employees and nine processing plants, has an annual seafood processing capacity of over 100,000 metric tons. Dalian Tianbao processed 60,000 tons of seafood products and their sales revenue reached over 1.5 billion RMB ($220 million) in 2014.

Dairy
The dairy industry is very developed in Northeast China. Roughly 17 percent of China's dairy cattle are located in the region. Northeast China's major dairy operations include Feihe, Wondersun, Huishan and Ground. China's other dairy giants, such as Yili, Mengniu, Bright, New hope, Being Mate, and Wahaha, as well as foreign players like Nestle, all have operations in Northeast China.

Similar to many other regions in China, Northeast China imports milk from Australia, New Zealand, Germany and Korea. U.S. fluid milk is also now beginning to enter the market.

Heilongjiang, with nearly two million dairy cattle, has the second largest number of dairy cattle in China, second only to Inner Mongolia. Heilongjiang also has the most dairy processing plants in the country.
Feihe Dairy Co. Ltd, established in 1962, is the key dairy player in Heilongjiang and specializes in manufacturing baby formula. Feihe moved its headquarters to Beijing several years ago, but all its major operations, including dairy farms and dairy product processing plants, are all still in Heilongjiang. Some of Feihe's large scale dairy farms have as many as 10,000 dairy cows each.
Wondersun Dairy Co. Ltd, a subsidiary of Beidahuang Agriculture Co. Ltd, is another large dairy producer in Heilongjiang. Beidahuang Agriculture Co. Ltd is a subsidiary of the Heilongjiang State Farm, which is at present the largest agricultural conglomerate in China.
The largest dairy producer in Liaoning is Huishan Group. Huishan Group is the fourth largest dairy company in the country and its pasteurized milk, called Dr. Fresh, has been gaining popularity throughout the major cities in northeast China. With over 30 dairy farms, Huishan Group is a large buyer of U.S. genetics and feed ingredients (alfalfa in particular).

Bakery

Shenyang's TolyBread, set up in 1997, is the largest bread manufacturer in all of China. With over 20 bread processing plants throughout the country, TolyBread produces bakery products, bread, *zongzi* (glutinous rice dumplings) and moon cakes. TolyBread products are on the shelves of over 100,000 stores throughout China and their 2015 sales revenues reached a record $400 million. The company is a significant user of U.S. wheat flour, dried fruits, nuts and cheese products.

Meat Processing

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

Beer

People in Northeast China have a long tradition of drinking beer, especially in the summer time. China Resources (Snow Flake), the largest beer producer in China, has 20 of its 97 breweries located in Northeast China.

Harbin beer, which belongs to Anheuser-Busch InBev, was set up in 1900 and is China's oldest brewery. Harbin Beer has a 60 percent market share in Harbin and about five percent nationwide.

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 198.17million and a regional 2015 GDP of US$1020.5 billion (roughly equivalent to Mexico). Chengdu and Chongqing, the most advanced cities in this region, account for 38 percent of the region's total GDP. There are more than 4,529 food processing companies with annual revenue over 20 million RMB in the Southwest China region. Roughly 52 percent of these companies are food processors of agricultural products, 19 percent are food manufacturers, and 29 percent are beverage manufacturers.

Structure of Southwest China's Processing Industry

Provinces		Number of Enterprises	Gross Output (100 Million US $)
Sichuan	Food Processors	1,135	432.62
	Food Manufacturers	476	154.37
	Beverage Manufacturers	647	445.37
Chongqing	Food Processors	480	144.16
	Food Manufacturers	158	36.82
	Beverage Manufacturers	97	31.01
Yunnan	Food Processors	425	91.12
	Food Manufacturers	1244444	30.05
	Beverage Manufacturers	183	40.19
Guizhou	Food Processors	291	8.67
	Food Manufacturers	109	7.05
	Beverage Manufacturers	376	111.88
Regional Total (excluding	Food Processors	1,835	546.83

Tibet)	Food Manufacturers	656	163.61
	Beverage Manufacturers	882	445.74
Source: Sichuan, Chongqing, Yunnan, Guizhou Statistical Year Books 2016* Latest available data, including only those enterprises that realized annual sales over US $3,125,000 (RMB 200 million) in FY 2015 * US $ 1 = RMB 6.4			

Dairy Products

New Hope Dairy is the largest dairy group in Southwest China and the largest non-state-owned dairy company in the country, with total annual milk processing capacity of about 900,000 metric tons. New Hope Dairy differentiates themselves from other competitors such as YILI and Mengniu by targeting the urban fresh milk market. Chongqing's Tianyou Dairy is the second largest dairy company in Southwest China with 500,000 metric tons of annual dairy product output. There are also smaller but still influential dairy companies in the region, including Chengdu's Jule, Chongqing's Guangda and Yunnan's Ouya, with over 450,000 metric tons of combined annual output. All have comprehensive product lines, including milk beverages and fermented product lines.

Meat Processing

The per capita consumption of meat and processed meat product in Southwest China is almost 20% higher than the national average. Because of unique eating habits such as hot pot and pot-stewed food, Southwest China is traditionally a huge market for U.S. meat products. 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 for various pickled meat products, such as chicken paws/feet, turkey wings and pork skin.

Some of the nation's top meat processors and importers have operations in Southwest China. 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 the country for processed meat.

Alcoholic Beverages

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. Sorghum is a primary ingredient in Chinese liquor production and several of the major liquor producers use imported sorghum, mostly from Australia.

Seasonings and Food Ingredients

A tradition of hot and spicy food in the region creates strong demand for seasonings, condiments, spices, sauces, and preserved and pickled products. Guizhou Nanming Laoganma Flavor Food, Ltd. is the largest domestic seasonings enterprise in China, with production capability of 1.8 million bottles of chili products per day. They also produce tempeh-flavored chili, chili oil, fresh ground beef, and fermented bean curd. Other key manufacturers, such as Sichuan Haoji Food Co., Chengdu Jingong Weiye Food Co., and Sichuan Pixian Bean Paste Co. are popular brand manufacturers and the main suppliers to foodservice companies nationwide.

Dried Fruits and Nuts

The local snack food industry has been growing steadily in recent years. U.S. raw nuts dominate the local roasted food market, but face increasing competition from other countries like South Africa, Australia and Iran. Chengdu-based HuiJi Foods is a top three roasted nut company in China with projected sales in 2016 of US$350 million. The company has purchased U.S. nuts since 2009, and in 2014, it expanded its product portfolio to include almonds and pistachios.