MONTHLY REPORT

TRADE SERVICING

– WUSATA

July 2023

Monthly Trade Servicing Report

Market: China & HK **Submitted by**: China In-market Representative **Month & Year:** July 2023

Executive Summary

With China continuing to recovery from the economic and social impact of COVID-19, total import value of agricultural commodities has increased by roughly 8 percent through the first six months of 2023. Gathering from data from the Chinese Customs, import volumes were mixed, with significant increases in vegetable oils and soybeans, modest increases in meats and grains, and lower volumes of cotton, dried fruits, and nuts. The overall increase in agricultural imports comes amid concerns that the broader economy remains sluggish, with monthly economic data showing the post-covid recovery is slowed by low consumption and retail sales, a troubled housing sector, and youth unemployment (ages 16-24) at a record high of 21.3 percent.

Having the recent opportunity to engage with many U.S. suppliers in the past month, it is evident to SMH that there is still major disconnect from inexperienced suppliers looking to export to China with the new requirements for importing as well as how the market is and has changed since the COVID era. For a market such as China, it is extremely important for would-be exporters to be educated about not just the opportunities, but also challenges in the market, as China has always had been difficult to predict when it comes to its trade policies and requirements. Suppliers will need to look further than just the sheer population of the market, but understand how its distribution network operates and differs from the U.S., and how exporting to the market differs from other countries before engaging with buyers from China to avoid wasted resources and avoid potential pitfall.

Market Intelligence Update

Yellen raised China's hopes for tariff cut

U.S. Treasury Secretary Janet Yellen's trip to China has raised hopes in Beijing that Trump-era tariffs on Chinese imports may be eased as she tries to smooth relations between the two nations, but strong anti-China sentiment in the U.S. may make that impossible.

Trade and political analysts in Washington say that even though cutting some of the "Section 301" tariffs would help U.S. companies and consumers, as well as Chinese exporters, doing so would expose Biden to a buzz-saw of Republican criticism at a dangerous time.

"The political calculus is pretty clear," said Harry Broadman, a former White

House, World Bank and U.S. trade official who is now a managing director with Berkeley Research Group. "That would be red meat for the opposition."

Looking soft on China could cost Biden the 2024 presidential election, he said, adding that anti-China sentiment in the U.S. in recent years is the highest he's ever seen, fueled by former President Donald Trump's China policies.

Yellen discussed trade irritants and other policy differences with China's top economic officials and Premier Li Qiang for a marathon 10 hours over two days last week -- meetings that she said put U.S.-China ties "on surer footing."

U.S. tariffs and high technology export controls to Beijing's new anti-espionage law that threatens the activities of U.S. companies in China were among the topics, the U.S. Treasury said. Yellen said nothing publicly to indicate that the U.S. was poised to ease tariffs, but commentators in China were hopeful, amid a U.S. Trade Representative review.

In a statement on Monday, China's Finance Ministry called for the U.S. to cancel punitive tariffs, roll back export curbs and end import bans from Xinjiang province.

"Yellen has a say in the next phase of the U.S.'s four-year tariff review," said Hong Hao, chief executive of Grow Investment Group in Hong Kong. "While U.S might continue its technological curbs on China, a reduction or exemption of non-core tariffs against China is possible."

China's state-run Global Times, normally a harsh U.S. critic, called Yellen a "professional and pragmatic" official who could influence the Biden administration to take such steps to improve the economic relationship.

Yellen last year advocated eliminating some duties on "non-strategic" goods as a way to ease some specific costs amid high inflation.

But U.S. political pressure to raise China tariffs is growing, said Chad Bown, a trade economist with the Peterson Institute of International Economics who has researched them extensively.

"There is no political appetite to reduce tariffs on China – Secretary Yellen will do well in this political climate if they manage to stay where they are," Bown said.

U.S. officials have been tight-lipped about any response to the Chinese call for action, noting that no new initiatives were under way. A U.S. Treasury spokesperson declined comment on tariffs.

A USTR spokesperson said the agency was continuing its review and was evaluating feedback received, nearly seven months after it closed public comments.

Collections of U.S. tariffs on Chinese goods peaked at $49 billion in fiscal 2022, bringing the total amount collected from U.S. importers over four years to $182.9 billion, according to U.S. customs data.

U.S. imports from China had nearly reached their 2018 peak in 2022, but are down 24% so far this year.

Novel meat substitutes must supply half of China's 2060 protein intake to decarbonise food sector: report

The largest protein markets in Asia need to massively scale up their adoption of novel meat substitutes in the coming decades to meet the region's climate goals, according to a study by Asia Research and Engagement (ARE).

China, the world's top food consumer, needs alternative proteins to comprise 50 per cent of its protein intake by 2060 to have a credible trajectory towards eliminating food emissions. The figure rises to at least 85 per cent for fast-growing India and Pakistan, though traditional plant protein could play a bigger role in these countries.

"Ambitious" measures in stopping deforestation and reducing industrial meat production are still necessary, but these existing efforts by themselves are not enough to rein in climate change, the Singapore-based consultancy said.

The report adds to calls for businesses and governments to help replace traditional meat products with new plant, microbe and cell-based alternatives, which have lower carbon emissions but are not widely consumed. Livestock accounts for about half of global food emissions, and a sixth of total manmade greenhouse gases.

"Promoting alternative proteins and reducing meat consumption are vital to Asia's climate and protein security," the study said.

ARE researchers found, through modelling work, that China could pursue stringent sustainability efforts and still have its food emissions exceed a "climate-safe" level by a cumulative 4.3 gigatonnes of carbon dioxide from now till 2060 – also the year by which the country has pledged to reach net-zero.

The safe level would have required China's protein emissions to drop 72 per cent to 0.2 gigatonnes by 2060, referencing a benchmark set by climate nonprofit Science Based Targets initiative.

Even if China ends deforestation by 2030, fully switches to clean energy by 2055 and makes steep cuts in food waste and livestock emissions, the country's 2060 food emissions would still be hovering close to 0.4 gigatonnes, twice the safe level.

Emissions are propped up by increasing protein demand from China's growing middle class. A shrinking population in later decades, as China ages, does not serve as a complete counterbalance.

That leaves replacing industrially produced meat with alternative proteins to cancel out most of the excess emissions, an effort that will need about US$730 billion in capital expenditure up until 2060. Industrial meat production should peak by 2030 and fall rapidly thereafter, the ARE report said.

Intensive livestock farming in China creates large amounts of manure and environmental pollution, the study noted, adding that Chinese importers with limited deforestation pledges have been importing large volumes of Brazilian soy as animal feedstock, potentially causing deforestation overseas.

Recent studies have shown that alternative proteins have significantly lower climate change impacts than conventional meat, with the additional energy expenditure from producing food in specialised factories far compensated for by the smaller land and raw material footprint.

China's latest "Five-Year Plan", the country's top directive for national development up until 2025, for the first time called for research into lab-grown meat and plant-based foodstuffs. Globally, plant-based proteins have gained some momentum, but only Singapore and the United States have approved lab-grown meat products for sale.

"Imported raw ingredients" and similar terms banned in China's infant formula product labelling from Oct 1

Chinese authorities are imposing stricter rules on the infant formula industry, with terms such as "imported raw ingredients" and "import milk source" banned on all product labelling from October 1, 2023.

The State Administration of Market Regulation (SAMR) explained the newly updated Registration of Infant Milk Powder Formula Regulation on a press conference held on July 10.

The existing set of regulations which has been put in place since October 2016 will cease to operate when the new rules kick in.

According to the SAMR, the new rules will focus on three aspects, such as introducing stricter requirements on product registration and on-site inspection, standardizing product labelling, and promoting research and development across the industry.

“Ever since the Regulation was implemented from October 1, 2016, the percentage of infant formula powder products that has passed our annual sampling inspection has exceeded 99 per cent. Product quality has significantly improved, and the milk powder sector has developed according to the standards set in place.

“The market share of local brands has also increased annually. In year 2020, about 60 per cent of infant formula sales came from domestic brands. Trust from the consumers has notably gone up.

“However, how to further improve the formula registration and approval process, promote research and development of new formulations, and encourage innovation across the sector would need to be clarified via new legislation,” said SAMR director Zhou Shiping who oversees the special foods department.

In the new regulations, the SAMR has decided that terms such as “imported milk source”, “originating from overseas farms”, “imported raw ingredients”, “non-polluted milk source” and other “unclear” messaging will be banned on the product labelling.

Similarly, terms such as “milk sourced from the original ecosystem” and “ecological farms” are also not allowed.

The rules would be applicable to companies manufacturing and selling infant formular powder within China, as well as importers.

Functional health claims such as strengthening the immune system, modulating the gut microbiome, and cognitive health benefits, as well as disease prevention claims are not allowed either.

In addition, so long as an animal milk source is indicated on the product name, the product’s components, namely the raw milk, powdered milk, whey powder and other dairy proteins should come from that animal species.

For components that should not be present in the products by law, companies are not supposed to market the absence of these components by using phrases such as “does not contain” or “no addition of” those components.

Manufacturing wise, on-site sampling inspection must be conducted before the products are allowed to be sold in the market.

At the same time, the regulator aims to shorten the products approval process, such as reducing the product inspection process from 30 to 20 working days.

Individuals who have obtained the registration certification via bribery and scam, or those who have transferred their infant formula powder registration certification would be faced with a penalty of RMB$200,000 (US$28,000), up from the existing penalty of RMB$30,000 (US$4,100).

➢ *Activities & Achievement*

This month's activity is mainly related to the Food Service & Ingredient Inbound Mission, and trader contact for Mainland China and Hong Kong markets.

• *Trade Visits*

Dates:	*July 2023*
Context:	*Building relationships with local traders and importers; Develop new traders*
Objective:	*Introduce WUSATA services and advantages of U.S. agricultural products to new traders.*
Strategy:	*Visit and communicate with local traders in all target markets including Eastern China, Southern China, Northern China and Hong Kong & Macau.*

Thank You!

Submitted by SMH, China/Hong Kong In-market Representative