MONTHLY REPORT

TRADE SERVICING

– WUSATA

June 2023

Monthly Trade Servicing Report

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

Executive Summary

With the June announcement by the General Administration of Customs of China on Decree 248, as briefed in the Market Intelligence Update segment below, China is advising all importers that exporters subject to Decree 248 facility registration requirements risk detailed shipments and other administrative delays if the relevant production facility or cold storage is not completely registered before the product is produced or shipped, as appropriate.

For U.S. exporters, not only had GACC personnel have limited discretion to assist with clearing shipments detained for reasons related to Decree 248, but they are now less available to facilitate the release of any detained shipments.

According to FAS, GACC Bureau of Import Export Food Safety (BIEFS) personnel also recently told FAS China staff that products whose facilities are subject to competent authority recommendation requirements need to be produced after the facility is completely registered. This is a change from earlier statements that the facility needed to be registered before the products are shipped. This change has not been notified to the World Trade Organization or communicated in writing to FAS China.

According to BIEFS, facilities subject to self-registration requirements still need to be registered before products are shipped. It is noteworthy, that GACC's definition of "produced" remains unclear. GACC informed FAS China that shipping date means the date the product is loaded, and the FAS China offices are working to seek clarification on this issue.

SMH is currently working with FAS China on a webinar on the latest development on Decree 248, which should offer potential exporters the opportunity to gain better understand and clarifications on issues surrounding the policy.

Market Intelligence Update

Decree 248 Changes and the June 30 Deadline

The General Administration of Customs of China (GACC) has alerted importers that certain overseas facilities should "complete" their registration by June 30, 2023. Facilities seeking to minimize potential trade disruptions should upload relevant information into CIFER by June 23, 2023. Products arriving in the People's Republic of China (PRC) after June 30 from facilities with registrations that produce certain categories of products and whose registration applications are not "complete" may be at risk of not being able to clear customs. Exporters should work with their suppliers and importers to confirm whether their products are susceptible to the risks associated with the June 30 deadline.

In late 2021, as part of the implementation of Decree 248, GACC's BIEFS requested that all foreign competent authorities submit lists of facilities for registration. The BIEFS has since asked foreign competent authorities to ensure "complete" registration applications have been submitted for the establishments on these lists by June 30, 2023.

The BIEFS has not clarified how this request applies to the United States in light of Article 11 of Decree 248 and the Phase One Agreement. Currently registered facilities whose information is "incomplete" and are exporting products requiring competent authority registration may be at higher risk of having detained shipments that cannot be cleared after June 30, 2023.

The product categories susceptible to these potential disruptions include bee products, edible oils and fats, stuffed wheaten products, edible grains, milled grain products and malt, nuts and seeds, health and functional foods, special dietary food, and casings.

Please note that exporters of U.S. meat, poultry, dairy, and seafood products should continue following procedures for exporting to China as outlined by relevant U.S. food safety regulators (i.e., FSIS and FDA)

China's Plant-Based Meat Industry Falters After Initial Hype

After much hype and fanfare, China's plant-based meat market is showing signs of a slowdown as smaller players find themselves struggling to sustain consumer interest.

Once the darlings of both foreign and domestic investors, Chinese plant-based startups are folding amid a downturn for the industry globally.

For instance, Hey Maet, a Shanghai-based plant-based meat brand, ceased operations after its business license was revoked in April, according to Aiqicha, a Chinese enterprise database. Another brand, Beijing-based Zhenmeat, hasn't released any new products since 2020, and its official WeChat account hasn't been updated since last September.

Meanwhile, major foreign plant-based brands, including U.S. plant-based giant Beyond Meat and Nestle's Harvest Gourmet, have seen lackluster sales in China, with Beyond Meat's most popular product on online marketplace Tmall selling less than 600 units per month.

The meat alternative first gained prominence in China in 2019, when Beyond Meat's blockbuster Nasdaq listing led to a wave of domestic plant-based start-ups being founded. Interest in meat alternatives grew at the start of the pandemic, particularly among the young, as consumers became more aware of environmental and public health issues surrounding meat consumption.

During this time, major foreign chains including Starbucks, KFC, and Family Mart rolled out plant-based meat products in China for the first time. A 2022 industry report showed that there were more than 5,000 companies in the sector.

Both Hey Maet and Zhenmeat were domestic startups that received significant foreign and local media coverage when they were launched. Founded in April 2020, Hey Maet raised tens of millions of yuan in three funding rounds, the last of which was in late 2020. Its investors included Chinese food giant Shuangta Food and U.S.-based venture capital firm UpHonest Capital.

Marketing itself as "China's Beyond Meat," Zhenmeat was founded in 2019 and also raised millions of yuan in funding. It was especially known for producing the country's first plant-based mooncake, which sold more than 1,000 boxes in a week during Mid-Autumn Festival in 2019.

Despite the initial excitement, these domestic startups have found it difficult to expand and retain customers. A 2020 report found that 74% of customers in China would not purchase plant-based meat again due to dissatisfaction with the texture and flavor of the product.

Doris Lee, chief executive officer of GFI Consultancy, a China-based consulting firm specializing in the alternative protein industry, told Sixth Tone that the main problem is with the products themselves. "While the China market has huge potential for growth, it is faced with unique challenges, in particular, a higher expectation of plant-based meat products in terms of taste, price, and functionalities," she said.

"With the diversity of Chinese cuisines and cooking methods, it's hard to develop just one single product that can win over the hearts and taste buds of Chinese consumers. The development and refinement of plant-based meat products require a process of iteration and continuous improvement."

On online marketplace Tmall, a plant-based hamburger patty can cost three times as much as a conventional meat patty. High prices have been blamed for the industry slowdown globally, with retail sales of plant-based meats also plateauing in major markets such as the U.S., U.K., and Singapore. Beyond Meat's stock price has fallen 95% from its peak, with the company recording a net loss of $366 million last year.

Nonetheless, industry insider Lee believes the plant-based industry is here to stay in China, even as the industry goes through its current challenges.

“The industry is still in its early stages in China and is an emerging industry,” said Lee. “Any new industry, especially in the food sector involving new technologies, takes time to establish.”

Gen Z tops in consuming dairy products

Generation Z is leading in the consumption of dairy products, and their intake of milk and milk derivatives has been higher than the total average in China, according to a new report.

Gen Z refers to those born between 1995 and 2009.

These young consumers pay attention to the types of dairy products, purchasing scenarios and channels. Young parents also tend to put more emphasis on scientific parenting, leading to more valuation over details of various dairy products, showed the survey recently released by the China Dairy Industry Association and Royal FrieslandCampina, the largest dairy firm in the Netherlands.

The report found that the milk quotient of Chinese consumers is 64.1 points out of 100 this year, the highest reading since the survey began. The China Milk Quotient, an indicator system launched in 2018, is determined through industry research and expert workshops.

"With the upgrading of consumption structure, Chinese residents have been increasingly pursuing high-quality food that is green and healthy. The steady increase in the milk quotient over the past six years indicates such a trend," said Ren Fazheng, a professor at China Agricultural University.

Since the COVID-19 pandemic, Chinese consumers have shown higher health awareness and have consumed more dairy products to enhance their immunity.

The dairy consumption market in China has continued to expand. Last year, the national raw milk production volume reached 40.69 million metric tons, up 7.8 percent year-on-year, marking growth for five years in a row, according to the National Bureau of Statistics.

In 2022, China had 622 dairy-producing enterprises above a designated size, and their total sales revenue of main businesses came in at 471.73 billion yuan ($66.3 billion), edging up 1.1 percent on a yearly basis, the NBS said.

Out of some 4,000 surveyed respondents in 20 cities across the nation, 78.4 percent said they would check the labels of dairy products while making purchases. Rich nutrition, high-quality source region of milk, low sugar, low fat, zero additives, and organic certification have all become important factors when Chinese consumers choose dairy products, the report found.

In addition, over half of the interviewees supplement their protein and energy by drinking milk after exercising, and functional dairy products related to exercising have received greater public attention, the report said.

"We will continue to integrate the concept of sustainable development into the entire chain of product research and development, and make more efforts to popularize scientific facts about dairy products in China," said Chen Ge, president of FrieslandCampina China.

Chinese adults have been recommended to consume 500 grams of milk or equivalent dairy products daily, according to the latest Chinese Dietary Guidelines.

However, Chinese residents consume relatively low volumes of dairy products compared with some major dairy-consuming countries, and China's annual dairy consumption volume is less than one-third of the global average, according to the China Dairy Industry Association.

Last year, major Chinese dairy producer Yili Group, based in the Inner Mongolia autonomous region, achieved sales revenue of 123.2 billion yuan, up 11.37 percent year-on-year. During the period, its net profit reached 9.43 billion yuan, growing 8.34 percent year-on-year. According to the company's latest annual report, both sales and net profit hit record highs.

Thank You!

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