MONTHLY REPORT

TRADE SERVICING

– WUSATA

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Monthly Trade Servicing Report

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

Executive Summary

With the China International Import Expo (CIIE) scheduled to be held on November 5-10 in Shanghai, it is one of, if not the most significant trade events in China which may help provide insight into the prospect of imported foods, including those from the United States, in the upcoming year. The CIIE, which was launched by Chinese President Xi Jinping in 2018, will see the 2023 edition mark the first full return to in-person exhibition since COVID-19 in 2020. Although the Chinese economy has since gone off the strong trajectory it was on pre-COVID, and it is unlikely to return to it in the foreseeable future, China is still a powerhouse of a market for overseas exporters, and one that can still offer great potential. With more than 60 countries and more than half of the world's top 500 companies participating, plus the presence of several U.S. agricultural producers and suppliers, the CIIE makes an interesting platform to gauge the interest level of domestic buyers for purchasing food and agriculture. Meanwhile, the upcoming Food Hotel China trade exhibition is also another event which may offer similar insight.

Market Intelligence Update

Time to comply: China issues guide food firms to meet 'excessive packaging' rules

The Chinese government has published guide for food firms trying to meet its new excessive packaging regulations, urging industry players to ensure they are fully compliant in the next six months.

China has been steadily working from a policy perspective to combat what has been dubbed the 'excessive packaging' phenomenon locally for several years, starting with regulations to restrict the use of excessive material in packaged food and cosmetic products in 2021, and strict bans on the packaging material for festive foods in 2022.

Most recently, fresh foods and agricultural produce as well as foods purchased via e-commerce have come under the limelight with a new set of guidelines issued earlier this year in September, as was promised by the government late last year.

The new standard was drafted by the local Ministry of Agriculture and Rural Affairs (MARA) and announced by the State Administration for Market Regulation (SAMR), and will come into force on from net bags to liners, giving local food firms a six-month transition period to make all necessary changes.

“This standard will provide a legal basis and backing to guide the strengthening of whole supply chain management when it comes to the excessive packaging of commodities,” SAMR stated via a formal statement.

“This will be the standards by which all businesses producing and managing fresh agrifood products need to adhere to, to ensure that the packaging they use is appropriate, rational and standardised according to market supervision.

The impacts of this new standard are expected to reach all the way down the supply chain, given that fresh agrifood items are at the core of all packaged food production and the standard covers all the five major agrifood categories.

“The five major categories covered by this standard are vegetables (including edible fungi), fruits, livestock and poultry meats, aquatic products and eggs,” the agency added.

“Technical indicators and measurements have been provided to help food businesses determine whether their products are over-packaged with excessive material; and both SAMR and MARA will be working with the relevant departments to supervise and enforce this moving forward.”

Given the major impact this change is expected to have on the local food and beverage sector, SAMR followed up the announcement of the new standard with a guidance document to clarify major predicted queries.

“The first thing to emphasise is that all agrifood products will need to meet these mandatory standards under law, and any not in compliance may not be produced, sold, imported or provided in China – [so] all products meant for domestic sale must comply [no matter] the origin if imported,” it said.

“[Many queries arose as to the] packaging of the products if sold via e-commerce – after deliberation, it has been determined that due to the perishable characteristics of agrifoods, there is a need for additional packaging to protect and preserve these during the supply chain and delivery.

“As such, packaging related to protective functions during e-commerce logistics such as cooling, gas regulation, moisture prevention and other freshness preservation will be considered as ‘logistics packaging’ and not ‘sales packaging’, hence not considered under this standard.”

SAMR has provided three specific technical indicators for firms to determine whether their products are overpackaged, the first of which is that an upper limit of 10% to 25% packaging void rate (essentially the volume of empty space) has been mandated according to the product category and packaging weight.

The second is that vegetables and eggs are allowed no more than three layers of packaging, and fruits, meat and seafood products no more than four layer of packaging.

“In calculating the number of packaging layers, firms should note that any net bag/sleeve used to contain the product is counted as one layer, and a package made from the stacking of two different materials is also counted as one layer,” SAMR added.

“It may also be useful to consider that the use of simply ropes, labels, liners, fillers, buffers or tightly-attached shrink film is not considered a separate layer.”

The third indicator provided is that the ratio of packaging cost to the sales price of the actual agrifood products must not exceed 20% for general items; and 15% for strawberries, cherries, bayberries, loquats, meat, seafood and eggs with a sales price of over CNY100 (US$13.70) per sales unit.

“All ‘sales packaging’ from net bags to liners shall be included in the packaging cost, but ‘logistics packaging’ can be excluded,” the agency added.

All agrifood products produced or imported before the date of enforcement can continue to be sold until the end of shelf life.

China’s Growth Beats Forecasts as Consumer Spending Strengthens
China’s economy found a foothold in the third quarter as the government stepped up support to boost growth and consumer spending picked up, while the property market remained a drag.

Gross domestic product increased 4.9% in the July-September period from a year prior, data released by the National Bureau of Statistics showed Wednesday (Oct 18). That was stronger than the median forecast among economists of a 4.5% expansion. Compared to the second quarter, GDP grew 1.3%, better than expectations.

Economic activity has shown some signs of stabilization in recent weeks as government support began to take hold. Factory activity has gradually picked up, a drop in exports is slowing and household consumption is recovering. That’s provided hope that China can achieve a government growth target of about 5% for the year.

Other sectors aren’t holding up as well: The property sector remains a significant drag as home sales continue falling and a credit squeeze among developers widens — with the clock ticking for Country Garden Holdings Co. to avert its first public dollar bond default. Consumer spending during this month's Golden Week holiday period wasn't as robust as the government had hoped, and deflation risks are persistent.

On a year-on-year basis, growth was expected to soften in the third quarter from the 6.3% pickup in the April-to-June period. That's largely due to a more favorable base of comparison, since the period ended September last year was after the lockdown in Shanghai lifted.

Even so, weakness within the economy is likely keeping Chinese leaders on watch for whether to roll out more support in a bid to keep the recovery on track.

Authorities are considering issuing more sovereign bonds this year to spend on infrastructure, Bloomberg News reported last week, as well as mulling ways to shore up stock market confidence. Economists also expect China to further cut interest rates and banks' reserve requirement ratio this year.

Nestlé is closing an infant formula factory as China's birth rate plunges
Nestlé plans to close one of its plants that make baby formula, citing a sharp drop in China's birth rate, in a fresh example of the far-reaching implications of the country's demographic crisis.

The world's largest food company said Wednesday that it would shut its Wyeth Nutrition infant formula factory in Askeaton, a town in Ireland, by the first quarter of 2026 unless a buyer could be found. The plant makes infant formula products exclusively for export to markets in Asia.

The announcement provides new insight into how the decline in China's population could affect Western firms that sell goods and services in the country. An aging population is already weighing on China's economic growth, and policymakers are worried that a shrinking workforce could threaten economic and social stability in the long term.

"The number of newborn babies in China has declined sharply from some 18 million per year in 2016 to fewer than 9 million projected in 2023," Nestlé said in a statement. "The market, which had previously been reliant on imported infant formula products, is also seeing rapid growth in locally produced products."

A Nestlé research and development center at the plant will be closed a year earlier. Work at both facilities will be shifted to existing factories in China and Switzerland.

The planned closures place 542 jobs at risk and Nestlé said it would begin a "consultation process" with employees. "In parallel, during this consultation we remain open to approaches from a credible buyer," the company added.

Nestlé's worldwide sales have been hurt this year by rising prices for its products, which include Nescafé coffee and KitKat chocolate bars.

Sales growth in the first nine months of the year, reported by the company Thursday, missed analysts' expectations, sending its shares more than 2% down.

Sales grew 7.8% compared with a year prior on a like-for-like or "organic" basis, which removes the impact of acquisitions, exchange rate movements and other changes. Prices rose 8.4%.

"[Sales] growth was driven by pricing as we continued to navigate historic inflation levels," CEO Mark Schneider said in a statement.

On a simpler measure, total sales fell 0.4% to 68.8 billion Swiss francs ($76.6 billion).

Separately, Nestlé said it had temporarily shut a factory in Israel as a "precaution" but that the plant was now operating again.