MONTHLY REPORT

TRADE SERVICING

– WUSATA

August 2022

Monthly Trade Servicing Report

Market: China & HK **Submitted by**: China In-market Representative **Month & Year:** August 2022

Executive Summary

Through a series of meetings and communications with traders from various regions in China through August, it can be summarized that the prospect for U.S. agriculture and food products are mixed at the moment. Key challenges are coming from several areas: first, many importers are now only looking to work with exporters whose products have been registered in the GACC (Chinese Customs), and it is becoming increasingly difficult to recommend new suppliers if they are not export-ready. Meanwhile, sporadic upticks in Covid cases around China have made testing on imports more stringent, with U.S. products receiving extra attention, partly due to the rising political tension between the two countries recently.

On a positive note, demand for U.S. products is still fairly strong, with recent U.S. agricultural-related events and activities still receiving strong turnout from local buyers, indicating U.S. products are still well-received and there are advantages for products such as meat, dairy, pet food and alcohol beverages. Many traders also expressed regret that the situation isn't more conducive to trading as they would like to do business with U.S. suppliers if there aren't so many barriers. Thus, the outlook for U.S. agriculture and food exports to China can be viewed as mixed, but optimistic.

Market Intelligence Update

China's suspension of beef imports from 2nd US firm shouldn't be over-interpreted: expert

Chinese authorities on Thursday (August 11) suspended beef imports from a second US firm after a shipment was found to contain ractopamine, a feed additive banned in many countries including China.

Experts said that the move was taken out of consideration for the health of Chinese people, and should not be over-interpreted amid rising tension between China and the US.

Starting on Thursday, the General Administration of Customs (GAC) suspended the declaration of meat products shipped by US-based firm King Meat Service Inc, as ractopamine was detected in its beef exported to China, the customs said in a statement on its website.

The GAC said that it has informed the US Department of Agriculture (USDA) of the decision.

China halted beef imports from another US producer called AA Meat Products in June for the same reason. The suspension began on June 15, according to a separate GAC statement on July 26.

Some foreign media outlets tried to link the move to rising tension between China and the US. However, Li Yong, deputy chairman of the Expert Committee of the China Association of International Trade, said there should be no over-interpretation of the GAC's decision.

"The move is taken to meet the customs' inspection and quarantine standards in order to ensure the health of Chinese people," he told the Global Times on Thursday.

In the US, ractopamine is approved for use in pigs and beef cattle, but it is widely banned in many countries, including China and members of the EU.

According to data from the Foreign Agricultural Service of the USDA, China was the third-largest market for US beef and beef products in 2021, importing a total of $1.59 billion of beef from the US.

China's suspension of beef imports from the US firm on Thursday came as China-US tensions are escalating amid a series of US moves against China.

On Tuesday, US President Joe Biden signed into law the so-called CHIPS and Science Act, which aims to impede and squeeze China's semiconductor production.

He Weiwen, a senior research fellow at the Chongyang Institute for Financial Studies at Renmin University, said that China firmly objects to the US' political move in severing global industry and supply chains, and China will not flinch and will focus on improving its own science and technological capability.

China suspends 2,000 food products from Taiwan

China has blocked imports from hundreds of Taiwanese food producers and temporarily suspended exports of natural sand to the country in what Taipei perceives as the opening shot in a campaign to punish it economically for a visit by US House Speaker Nancy Pelosi.

Since Monday night, when US and Taiwanese officials confirmed that Pelosi would travel to Taiwan to meet President Tsai Ing-wen on Wednesday, the China Customs Administration has suspended imports of more than 2,000 of about 3,200 food products from Taiwan.

Beijing has a long history of punishing other countries for behaviour it dislikes by cutting them off from its market and has made extensive use of such levers against Taiwan. But analysts and government officials said the move was a huge expansion of such economic warfare.

“In the past, China hit single products from the primary sector such as specific fruit or fish — that way, they kept the overall macroeconomic impact on Taiwan limited but could target regions where the Democratic Progressive party is strong,” said Chiu Chui-cheng, deputy chair of the Mainland Affairs Council, Taiwan’s cabinet-level China policy body.

“But now they are broadening this immensely as they are targeting processed foods, that gives them enormous extortion powers,” Chiu said. “This is probably only the beginning. We are certain that they will further step up their economic coercion measures.”

The imports Beijing has suspended now cover 35 categories including fish and seafood, edible oils, citrus fruits and biscuits and cakes, hitting publicly listed companies such as instant noodle and soy sauce producer Ve Wong and Chi Mei, which makes frozen foods.

China’s customs administration made the import suspension public on its website by displaying “imports suspended” for those Taiwanese companies it said had failed to complete registration under new rules.

In early 2021 China banned Taiwanese pineapples, a move that the Tsai government tackled with a viral campaign marketing the fruit as “freedom pineapples” and “democracy pineapples”, helping to open alternative export markets.

Beijing has also blocked imports of wax apples and custard apples, and this year added grouper to the blacklist.

While China has long been an important export market for agricultural and fisheries products from Taiwan, those shipments total just $200mn a year — a fraction of Taiwan’s overall exports to China.

Taiwan imported 5.7mn metric tons of sand and gravel in 2020, with more than 90 per cent coming from China. Natural sand made up 8 per cent of the total, according to government statistics. The country has endured sand shortages in times of brisk economic growth, as it has sought to limit sand mining in its rivers to limit damage to the fragile environment.

China's online grocers fight for survival in overcrowded market
After expanding fivefold in as many years, China's market for online grocery deliveries is at a crossroads as it faces a debilitating price war and worker shortage.

The fall of Missfresh, a pioneer in online grocery delivery, shows just how competitive the market has become. This month, the Beijing Consumer Association ordered Missfresh to appropriately handle complaints and announce a plan to refund its customers. The startup, once valued at $3 billion, had recently come under fire for failing to return fees charged through its app.

Founded in 2014, Missfresh rapidly expanded by establishing an extensive network of warehouses to allow for quick deliveries. It has attracted several rounds of investments from Tencent Holdings since 2015 and listed American depositary shares on Nasdaq in 2021. It served 17 cities across China as of September.

Still, the startup has failed to chart its path to profitability. Despite logging a 24% increase in revenue on the year to 5.5 billion yuan ($813 million) in the first nine months of 2021, its net loss more than doubled to 3.3 billion yuan. Promotional costs, including discounts to attract new customers, increased by around 80%.

Missfresh never released its full-year results for 2021. But it announced in late July that it would stop offering same-day deliveries, one of its biggest draws, leading many of its customers to seek refunds.

Missfresh is far from alone in its struggles. Food delivery app Meituan branched out into groceries in 2020, adopting a group-buying model where neighbors band together to place bulk orders. The approach was expected to be more cost-efficient than individual deliveries. But Meituan booked a 38.3 billion yuan operating loss across its new operations, which include group-buying, in 2021, wiping out the roughly 20 billion yuan profit it made from its mainstay food delivery business.

Demand for online grocery deliveries has only grown in China since 2020 as restaurants shut down and people stayed home over the spread of the coronavirus. The market expanded 18% in 2021 to 311.7 billion yuan, according to iiMedia Research.

Throngs of startups and existing retailers have rushed into the growing field. Between 1,000 and 4,000 new online grocery companies were established each year from 2015 to 2021, according to company database QCC.com. Over 14,000 were believed to be in operation as of early August.

But growing competition has forced many players to slash prices to win market share, even as labor costs skyrocket from a shortage of delivery drivers. About 90% of online grocery delivery services are operating at a loss, Chinese media report. The number of newcomers began to fall last year.

Alibaba unit Freshippo, known as Hema in Chinese, has emerged as one of the few winners in the field. The supermarket chain's physical stores double as delivery hubs, and it allows customers to check the quality of groceries in person. It helps bolster brand recognition as well.

Since opening its first store in Shanghai in 2016, Freshippo has expanded its network mainly in large cities. It operated over 270 stores as of the end of March. It counts 19.05 million app users, around 20% more than the next-largest player, according to QCC.com.

Freshippo is also working to bolster its supply chains. It signed an agreement in July to buy 300 million yuan worth of organic produce like spinach and lettuce from a farm in Yunnan, local media report. It plans to partner with 1,000 such locations by 2025 to offer unique and high-quality products. The company has yet to grow into a major revenue source for Alibaba. Still, customers rate it highly.

➢ *Activities & Achievement*

This month’s activity is mainly related to the Pet Food Virtual Trade Mission, trader contact for Mainland China and Hong Kong markets.

Thank You!

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