



# MONTHLY REPORT

TRADE SERVICING

– WUSATA



February 2022

# Monthly Trade Servicing Report

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

## ***Executive Summary***

On February 24, 2022, GACC made eight additions to the list of items falling within the scope of Decree 248. U.S. exporters are encouraged to pay attention to the additions which include frozen potatoes, frozen corn, frozen fruit, and supplementary foods for infants and young children.

While GACC has said that it does not want to interrupt trade in previous communications, the agency has not published any clarifications on how Decree 248 requirements apply to products affected by these changes.

FAS China was informed by the GACC that importers experiencing difficulties clearing shipments of newly added commodities should speak with GACC port officials to resolve the issue. While GACC has not updated the Single Window website to allow companies to register facilities producing newly added items, companies will need to comply with China's Decree 248 labeling requirements.

On the other side of the Chinese border, surging Covid cases are currently crippling Hong Kong, with local transport and retail stores cutting back services, many restaurants and eateries have closed shop, and the Hong Kong government is implementing stricter pandemic precautionary restrictions, further limiting air freight capacity and likely driving up logistics costs by 40% entering March. The overall situation in Hong Kong is expected to remain this way until May, thus U.S. exporters are suggested to exercise patience when it comes to their businesses with Hong Kong buyers.

## ***Market Intelligence Update***

### **US pet food exports increased significantly in 2021**

Recent data from the U.S. Department of Commerce show that U.S. pet food exports increased significantly from 2020 (US\$1.72 billion) to 2021 (US\$2.05 billion). Canada, Mexico, China, Japan and South Korea were among the top five export markets.

Every year since 2015 (US\$1.28 billion), the pet food exports have increased with the US\$2.05 billion in 2021 being the highest export levels since around 1970, according to the data from the U.S. Department of Commerce.

Specifically to pet food, exports have increased 19% in value and Mexico represents 18% of the increase alone.

When looking at products such as feed additives, premixes, distillers dried grains with solubles, soybean meal, alfalfa and hay products, animal meals and pet food, the animal industry exports have grown 22% in 2021 compared to in 2020.

China exports had seen an increase of over 41% alone. Back in 2017, China pet food exports were around US\$6.54 million and have increased to US\$72.48 million in 2021. As February 14 marked the two-year anniversary of the U.S.-China Phase One Trade Agreement, China is US\$17.8 billion below the commitment.

“You know, it is really clear that the Chinese haven’t met their commitment in phase one,” said Sarah Bianchi, Deputy U.S. Trade Representative, at an event hosted by the Washington International Trade Association. “That’s something we’re trying to address... It’s not our goal to escalate here. But certainly we’re looking at all the tools we have in our toolbox to make sure they’re held accountable.”

The large increase of pet food exports can be a bit misleading. Exports that previously went to Hong Kong are now diverted to China due to the phase one agreement. Another influence effecting the growth is the number of tariffs China has put on feed and pet food imports from the U.S.

### **Yum China adds machines, not workers, as it expands store network**

Yum China’s network of KFC and Pizza Hut outlets has kept growing throughout the Covid-19 pandemic, even as the size of its workforce has remained steady, the group’s chief executive said.

“We increased our stores, but without increasing the total number of staff,” said Joey Watt on a call with analysts and investors on February 9, highlighting Yum China’s investments in artificial intelligence and digital technologies to support operations and training.

Many stores now feature touch screen panels where customers place orders. In several Chinese cities, KFC robots serve up soft ice-cream cones. Elsewhere, takeaway orders can be picked up from digital lockers without contact with staff.

Over the same period, the number of outlets climbed 56 per cent, reaching 11,788 as of December with the addition of a net 1,282 outlets in 2021. Meanwhile, between 2016 and 2021, annual net profits nearly doubled to \$990mn, though last year’s figure included a one-off gain from a joint venture in the city of Hangzhou.

In announcing its annual results, Yum China said it planned to open another net 1,000 to 1,200 stores this year across its brands, which include Taco Bell, local hot pot chains Little Sheep and Huang Ji Huang, and coffee shops COFFii & JOY and Lavazza.

Of its projected annual capital expenditures of \$800mn to \$1bn, about half would be spent on new stores, but Watt emphasized they were individually less costly than before despite being higher tech. In 2016, she noted, the company opened 575 outlets on an overall capital budget of \$436mn. Last year there were 1,806 openings on spending of \$689mn.

While construction continued apace last year, Covid did take a toll on Yum's sales. Revenues for stores open at least a year fell 11 per cent in the October-December quarter from the same period a year before.

More than 500 outlets were closed for dine-in or completely last month amid Omicron outbreaks. Chief financial officer Andy Yeung said that sales were lower during the Lunar new year holiday compared with 2021 and that the situation "remains volatile", but did not disclose figures.

Most new stores in the country are being opened by Yum China itself, but Watt said it would continue to look to franchisees in remote areas such as Tibet and for strategic channels such as highway rest stops.

With franchise stores, there are a "lot of challenges in terms of quality of service that we care most about", Watt said, before adding that improved automation and technology had given her "better comfort" in assuring the service quality of such partners. Franchise outlets now represent about 15 per cent of Yum China's store portfolio.

### **China's New 5-Year Plan is a Blueprint for the Future of Meat**

China's Ministry of Agriculture and Rural Affairs has set the lab-grown meat industry abuzz with the release of its official five-year agricultural plan. For the first time, China included cultivated meats and other "future foods" like plant-based eggs as part of its blueprint for food security going forward.

Grown from animal stem cells in a bioreactor and nourished on a nutrient broth, cultivated meats are a relatively new technology that promises to upend traditional animal agriculture by replacing slaughterhouses with laboratories. But while alternative meat companies have made immense strides in replicating the taste and texture of conventionally raised pork, beef, and chicken, barriers to large scale development and distribution remain. China's embrace of the technology could upend that metric by encouraging investment

and providing a market.

China, the world's biggest source of greenhouse gas emissions, is under pressure to take stronger actions to address its role in global warming. Animal agriculture could be a good place to start. Livestock raised for food accounts for up to 14.5% of global emissions according to the U.N. Food and Agriculture Organization. China's livestock was responsible for nearly 29% of the country's direct and indirect agriculture emissions in 2014, the latest year for which official figures are available.

The U.N.'s International Panel on Climate Change is calling for a reduction in global meat consumption to help reduce climate-warming gasses. Yet global demand for meat is set to nearly double by 2050, according to the World Resources Institute, particularly in nations with a growing middle class, like China. Per capita meat consumption has tripled since the late 1980s in China, and today the country consumes 28% of the world's meat, including half of all pork.

By promoting cultivated meat alternatives, China could reduce greenhouse gas emissions from raising livestock (or importing meat), while ensuring that it maintains food security—a vital concern, particularly after the 2019 and 2020 African swine fever outbreaks that saw domestic pork production plummet in China. “As the world grapples with the twin challenges of skyrocketing protein demand and diminishing natural resources, a rapid shift towards plant-based and cultivated meat is a critical element of how we increase food security, mitigate environmental degradation, and alleviate global poverty,” says Mirte Gosker, the Asia acting managing director for the alternative meat promotion organization Good Food Institute. “By including game-changing food technologies like cultivated meat, [China's] national leaders are saying publicly what others around the world have long hoped: that China intends to go all-in on building the future of food.”

That's not just good for China, it's also good for the cultivated meat industry. China has yet to grant regulatory approval for the sale of cultivated meat (so far, Singapore is the only country in the world that has), but that could soon change as pressure mounts to achieve the five-year plan. Market approval would see increased private investment in local cultivated meat start-ups, like Joes Future Food, which has already raised nearly \$11 million to start lab-grown pork production. Meanwhile, the sheer size of China's potential market could spark additional investment in global brands that are already scaling up.

➤ ***Activities & Achievement***

This month's activity is mainly related to trader contact for Mainland China and Hong Kong markets and ATO liaison.

# Thank You!

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

