



FOOD MILES/SUSTAINABILITY MARKET INTELLIGENCE

January 2009 Quarterly Report

The growing importance of sustainability as a market driver in some of New Zealand's food and beverage export markets has led the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise to prepare a quarterly report for business people highlighting trends and issues in key markets.

CHINA

IN SUM:

- Food safety continues to be the dominant sustainability issue in China.
- More sophisticated consumer groups are being detected – people who want products that deliver 'more' than basic nutrition.
- A US report on food consumption trends and influences among Shanghai's youth draws interesting conclusions for exporters.
- Recent figures suggest that between 2000 and 2006, China moved from being 45th largest organic farmer in the world, to second largest.
- One quarter of China's population is now described as overweight or obese and the market for weight-loss products is burgeoning.
- A report from the UK's oldest independent wine merchant predicts that China will be the world's leading wine producer in 50 years.
- Wal-Mart is rolling out a series of sustainable sourcing initiatives across its 20,000 Chinese suppliers (and eventually globally), covering environmental and labour practices and energy efficiency.

CONSUMER TRENDS

Food safety

Food safety continues to be the dominant sustainability issue in China. A news summary for 2008 by news agency Xinhua identified "food safety problems" and "food safety legislation" as 'hot words' for the year.

A recent survey, conducted online in late 2008 by market research company Ipsos and Chinese business magazine *Global Entrepreneur*, polled 1,000 consumers aged 20-50 from ten Tier 1 and 2 cities, including Beijing, Shanghai, Guangzhou, Dalian and Wuhan, about their feelings towards multinational brands in the wake of the melamine-tainted milk scandal. While most respondents (53 percent) had not changed their views on multinational brands, and some (37 percent) said they trusted these brands more than before the scandal, 10 percent said they trusted multinational brands less than before and would aim to avoid them.

A survey by the IBM Institute for Business Value on 'full-value traceability', conducted in December 2008 after the melamine-tainted milk scandal, found that of the 300 participants, 84 percent reported growing concerns about food safety over the past two years, compared with 50 percent of US consumers and 47 percent of UK consumers. When asked about their biggest concern when making food purchasing decisions, participants overwhelmingly responded that safety and quality topped were the main factors. Most (65 percent) respondents felt that willingness to pay for more environmentally sustainable food had increased in the past two years. The IBM report asserts that rebuilding the credibility of food safety standards and the assurance schemes that underpin them is the key to restoring consumer confidence. It promotes farm-to-fork traceability as the way to accomplish this.

The Omni Consumer

The IBM report also highlights the rise of what it terms the "Omni Consumer" – a new generation of well-informed purchasers in the increasingly wealthy and expanding middle class. Hallmarks of the Omni Consumer are an ability to actively or passively tune out product claims or messages; buy from a wider range of product lines; and use tools such as the internet to gather product information prior to purchase.

The Omni Consumer seeks products that deliver "more" such as functional foods that deliver health and wellness benefits. IBM notes that compared to Western counterparts, brand loyalty does not yet have a stronghold on Chinese consumers, who are more likely to buy higher-value products and services based on factors such as perceived sophistication and trendiness, as well as convenience.

Key sustainability trends

Market research company Jigsaw International has identified five sustainability trends to watch in the Chinese market:

1. food safety;
2. affordability;
3. weight-loss;
4. beauty (with a focus on the skin); and
5. traditional Chinese medicine.

The jade movement

Jigsaw International has also published a report on environmentalism and green products as part of a quarterly tracking study of 1,000 Chinese 15-35 year olds in five cities. The report describes the "jade movement" – environmentalism for young people in China – so named because it is "clean, green, premium, and uniquely Chinese".

The report identifies a fundamental difference between Chinese and Western views on what environmentalism means: for Chinese people, it means "modern and developed", "well-organised and well-planned," which is very different to the Western "back to nature" concept. The report notes that there is no clear definition of "green" products. When questioned about their various perceptions of green products, 77 percent of participants thought that green products were "healthy and nutritious"; 76 percent thought that green products were "innovative and high-tech"; 68 percent thought they were "trustworthy"; and 53 percent thought they were "high quality". Interestingly, 31

percent thought that green products had “less attractive packaging” perhaps implying that stereotypical green product packaging (i.e. that speaks to its green credentials, brown, home-style, earthy etc) might not be as well-received in the Chinese market, which prefers packaging to appear “modern.”

Consumption trends of Shanghai youth

In November 2008 the USDA Foreign Agricultural Service published a market development report on China that focused on “changing perceptions in food consumption among Shanghai’s youth”. The report looked at the food consumption and spending trends of Shanghai’s residents in the 18-34 age bracket. This group makes up 24 percent of Shanghai’s population (3.34 million), and represents the fastest growing income group in China. The report discusses key consumption trends and influences, and provides associated advice on marketing strategies for food and beverage products.

The report finds that this group easily identify with brands, and are more likely than the “older generation” to consult a wide range of information sources when purchasing food, including online and mass media sources. Despite aspiring to a unique identity for themselves, members of this group are also nationalistic and goods that have been able to leverage this sentiment (for example, green-tea flavoured toothpaste) have achieved enormous success. Similarly, foods which claim to have medicinal or beautifying properties are purchased by the trendiest of Shanghai’s young consumers.

Conclusions for exporters include:

- Tapping in to the “Chinese-style” food market by creating products using foreign ingredients. These are often regarded by Chinese youth as superior in nutrition and sanitation;
- Understanding the way in which simple products are used differently in China (for example, pumpkin is a common dessert flavour; red wine is thought to be good for the skin);
- Paying attention to the growing potential for health drinks and ready-to-eat and ready-to-drink products;
- Emphasising nutritional attributes wherever possible. Chinese concepts about health and nutrition should also be capitalised on; and
- Increased use of online retail sites, especially organic and specialty food sites, to market products.

See www.fas.usda.gov/itp/china/CH8817shanghaiyouthmarket.pdf for the full report.

Rural tourism

Worth noting is the rise in rural tourism or “nongjiale”, which translates as “farming family fun”. Such tourism includes trips to farming areas to pick fruit and vegetables, and suggests that people are becoming more interested not only in briefly escaping their busy urban lives, but also in seeing where some of their food actually comes from.

Impact of the global financial crisis on the middle class

It is a marketing mantra in China that the middle class (variously defined) is the biggest potential consumer group. News and marketing reports have highlighted the characteristics of this expanding group, which has the relative luxury of being able to care about more than just food safety and affordability. Recent reports have noted that the global financial crisis and low performance of China's stock exchanges have meant that a number of middle-class investors have lost money and thus do not have as much discretionary income. What this seems to mean in practice, however, is that big-ticket purchases are delayed, while spending patterns on items such as food and beverage products continue as before.

PRIVATE SECTOR ACTIVITY

Organics

Recent figures from the *International Federation of Organic Agricultural Movements Yearbook*, suggest that between 2000 and 2006, China moved from 45th in the world for the amount of land under organic management, to second. Additionally, in 2006 China reportedly added 12 percent to the world's total of organically farmed land.

A recent report from the *Shanghai Daily*, titled "Organic Foods a Growing Trend," noted that there are now more than 30 organic farms in Shanghai, compared with just five three years ago. The article gives the example of retailer Carrefour Shanghai, noting that sales of organic vegetables are trending upwards each year. In Carrefour's 19 local outlets, the 2008 sales volume of organic vegetables was 5-7 percent of all vegetables, equating to 22 percent of sales by value.

Counterfeit food and beverage products

Counterfeit claims regarding food and beverage products remains an ongoing issue. Reports suggest that up to 70 percent of alcoholic beverages on the Chinese market is of dubious provenance. In 2008, Zespri successfully prosecuted a local Chinese company for intellectual property infringement. The company, Nantong Xishu, had been selling kiwifruit with a sun logo similar to Zespri's logo. Zespri also alleged that the product's brand name "Znishio", when pronounced in Chinese, was similar to "Zespri". This victory, while not insignificant (foreign companies don't often succeed in pursuing intellectual property infringement by a Chinese company in China), does not appear to have made a big dent in the counterfeit kiwifruit market: "Zepris" labelled kiwifruit have been recently sighted, as well as another brand ("Nuseshipin"), which has an almost identical sun logo to the Zespri logo.

Weight-loss products

According to the December 2008 edition of *China Economic Review*, 25 percent of China's population are overweight or obese, up from 13 percent in 1992. Consequently, the market for weight-loss products is also expanding, with the slimming product market worth US\$699 million in 2007 (up 74 percent from 2002). During 2007, areas of growth shifted from weight-loss teas and supplements to meal-replacement products (which posted sales of US\$9.8 million, up 28 percent year-on-year). Market

research firm Euromonitor predicts that the weight-loss sector will see compounded annual growth of 4 percent over the next five years, with the main growth driver continuing to be meal replacements. US-based nutrition business Herbalife is one of the key foreign players in the China weight-loss market, offering meal-replacement drinks. The cost of a one-month supply is roughly six times more expensive than for a similar Chinese-made product.

Picking up on this burgeoning market, in September 2008 Weight Watchers opened two centres in Shanghai, with plans to expand throughout China. According to CEO Matthew Mouw, China has the second-fastest rising rate of obesity (Mexico has the fastest), with an associated rise in related health problems such as Type 2 diabetes, fatty liver disease and heart disease.

Wine production

A report issued in May 2008 by UK-based wine merchant Berry Bros. & Rudd predicts that in 50 years, China will be the world's leading wine producer. The report noted that with favourable soil, low labour costs, and soaring demand for wine, China has "all the essential ingredients to make fine wine to rival the best of Bordeaux." Grace Vineyards, a Shanxi winery, is already retailing its 'Chairman's Reserve', a Bordeaux-style blend, for over US\$60 per bottle.

China is currently the world's sixth-largest producer of wine, with around 400 vineyards. As the Chinese populace becomes more wine-savvy, domestic wine producers are moving to raise quality by bringing in foreign wine consultants. There are no indications yet that Chinese wine producers are adopting sustainable practices for marketing or other reasons, but the developing market for quality (and expensive) wines is an encouraging sign of consumer interest in differentiated products. It is worth noting that wine that enters China is subject not only to tariffs at the border but also to various internal sales taxes, putting the amount of tax on each bottle of wine at about 44 percent.

Carbon footprinting

No references to carbon footprinting have been identified in Chinese media reports or commentaries.

Wal-Mart

In late October 2008, Wal-Mart announced a series of new sustainability initiatives to be launched in China in January 2009 before being rolled out across all global suppliers to Wal-Mart by 2012. The Global Responsible Sourcing Initiative requires Wal-Mart's suppliers to comply with local environmental and labour laws as well as with the company's own environmental and labour policies. Wal-Mart sources US\$9 billion worth of goods annually from China and its 20,000 suppliers in China will be audited to ensure that they comply with environmental and labour laws. The company will require all direct importers and all suppliers of private-label and non-branded products to provide the name and location of every factory that makes the products.

By 2012, Wal-Mart also wants the top 200 factories it sources from in China to improve energy efficiency by 20 percent. At that time, it will require all suppliers to source 95

percent of their goods from factories that receive the highest ratings for environmental and social practices.

In the food and beverage sector, and as a sub-set of its Global Responsible Sourcing Initiative, the company has launched a China Direct Farm Program, with a “strategic focus in the procurement, sourcing and agricultural development of more sustainable fresh food products like fruit and vegetables.” The programme will reportedly help Chinese farmers ensure that best practices are applied, with the stated aim of delivering more sustainable, safe products that allow farmers to retain more of the profits. By 2011, Wal-Mart aims to “benefit one million Chinese farmers through the Direct Farm Program.”

Chinese commentators have queried whether the initiative will be able to adequately address quality, safety and labour policy issues (including disputes).

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