

The Seafood Market in the Yangzi Delta Region

Canadian Consulate General, Shanghai

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Introduction

China is considered a large market for seafood because of its population of 1.2 billion people. Seafood is very popular in the coastal areas of China, including Beijing, Guangzhou and Shanghai, where people's incomes are among the highest in China. However, seafood consumption in the inland part of China is relatively low, mainly because of people's income and the inaccessibility to seafood.

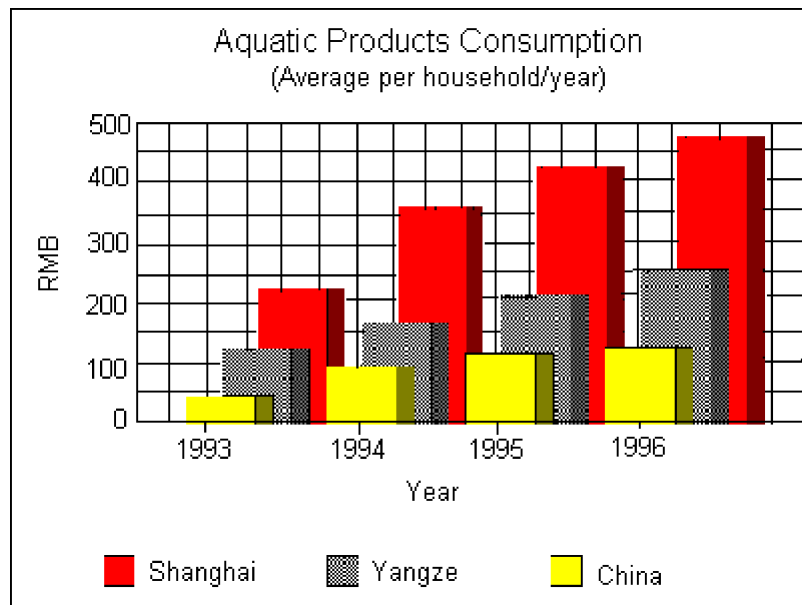
China's consumption of seafood has been increasing in the past several years for various reasons. First, economic development in China is creating wealth and offering people more money to indulge in seafood. Also, China's use of traditional fishing technology and equipment is not able to replenish the depleting fish and shrimp stocks along the coast of China. Thus, the local seafood harvest is not meeting demands of local consumers.

The Government encourages the importation of foreign technology to improve existing domestic production of seafood. According to Premier Li Peng, China needs to raise seafood production from 20 to 28 million metric tons, which is an increase of 40% by the year 2000, to meet consumption demand from the increasingly affluent population of local Chinese people. However, that may be hard to achieve as the depleting fish stocks along the coastal waters of China cannot keep up with the demand for seafood.

Consumer Behaviour

Most seafood is consumed by the affluent population in China, particularly in Beijing and coastal cities of Guangzhou and Shanghai. Chinese consumers, in the inland part of China, eat more freshwater products (raised in local waters, farmers rice fields and ponds) and domestic seafood which is caught in coastal sea waters.

In general, local consumers prefer live seafood. When live seafood is too expensive, frozen seafood is the next choice followed by canned or dried seafood products like a dried cuttlefish, which is a very popular Chinese snack.



Source: 1997 China National Statistics Yearbook

Foreign seafood is generally more expensive because of the importation costs. Despite higher prices, the young and/or middle income to affluent Chinese people are very keen on trying out foreign seafood, which taste different from domestic seafood products. However, the opportunity to try out new seafood is hindered by lack of knowledge about existing foreign seafood products in the local market. This is partly due to insufficient or non-existent of advertising and promotion by foreign companies.

Unlike the younger generations, the older generations of local Chinese people are very price-conscious and thus, price is the determining factor for their purchasing decisions. Furthermore, many of the older generations prefer to shop at traditional wet markets where there are fewer opportunities to know the origins of the seafood. Seafood products sold at these markets are fresh and alive in barrels of water. They are not packaged or labelled with information about the products geographic origin and nutritional value.

Import and Export

In 1996, China imported approximately USD\$ 597 million of aquatic products. A large proportion of these imports were processed in China because of existing low labour costs, and re-exported to other countries, mostly to Japan and Hong Kong. Export of aquatic products in 1996 was USD\$ 1.74 billion.

A variety of imports are desirable in China. They include: crabs, fin sole, frozen cuttlefish, geoduck, frozen or live lobster, herring, Hokkigai, mackerel, Pollock, pomfret, ribbon fish, salmon, seaweed, shrimps, squid, yellow croaker, king crab and other exotic seafood. Major players in the seafood import market include: Australia, Chile, Denmark, Ecuador, Iceland, India, Indonesia, Norway, Thailand and the United States.

Norway is the dominant foreign seafood exporter to China. They export mostly farmed salmon products to the local market. Norway uses aggressive marketing strategies and distributes their seafood products to China's high-end hotels, restaurants and supermarkets. These establishments cater to the affluent population and expatriate communities.

Although more Chinese people are getting to know Canadian salmon and other exotic seafood, Canadian seafood companies can do more to educate local consumers about the quality and delicious taste of their products. Participating and attending exhibitions and trade shows in China would help to introduce, advertise and promote Canadian seafood to local Chinese people.

Import Regulations

The importation of fish and shellfish are subject to different restrictions and inspections depending on the product and the degree of processing. For example, live products may be subject to scrutiny by the China Animal and Plant Quarantine Bureau, while canned products may not have to go through such procedures.

Prior to Chinese Customs Clearance one or all of the following bureau may have to inspect

import products at port of entry:

- The China Animal and Plant Quarantine officials inspect the imported product for sanitation and health.
- The China Commodity Inspection Bureau checks products for quality, weight, and quantity.
- The Health Inspection Bureau will test for visible and non-visible problem as well as labelling issues for imported processed products.

Once all inspections are cleared, seafood products will pass through Chinese Customs where products are subject to a tariff plus a value-added tax (VAT). Tariffs range from 0% for seafood seedlings to 20% for herring and cod. A value-added tax of 13% for fresh products and 17% for non-fresh products is placed on top of the import tariffs.

Barriers to Entry

- **Tariffs:** The prohibitive import duty, as mentioned above, on seafood dissuades many foreign companies from adhering to government regulations. Many importers will try to evade high tariffs by shipping their goods via Hong Kong to China without any documented records.

Consequently, official figures from the Chinese government regarding China's seafood imports are not accurate because some seafood imports enter China through grey channels.

This diversionary process will be used less as China continues to liberalize trade practices and reduce import tariffs, starting 1 October 1997, in hopes of being admitted into the World Trade Organization.

Critical Concerns

- **Payment:** This process can be a challenge. Payment conditions must be well negotiated, understood and mutually acceptable between the retailer and the foreign company before any trade transaction occurs.

There are three methods of payment available with local Chinese retailers for most food products. They are: Payment Upon Receipt (with US currency), Delay Of Payment (i.e. payment after 30 or 60 days of receipt), and Consignment.

For frozen seafood, local retailers prefer consignment as the method of payment when dealing with foreign companies in the local market for the first time. If products are well received by local consumers final details will be negotiated for a complete trade deal. At that time, an alternative payment arrangement may ensue. Payment is made in US currency at the Bank of China by telegraphic transfer (TT).

Unlike frozen seafood products, live seafood, i.e. geoduck, crabs or lobsters, are paid for in cash or telegraphic transfer before they are shipped overseas by foreign suppliers. So, there are no negotiations regarding methods of payment only the question of whether local companies possess foreign money required to purchase the products.

Many local companies do not have access to foreign currency. Companies like Sino-Canadian

Suzhou Atlantic Aquatic Ltd., solve this problem by paying suppliers with their own American dollars and are reimbursed with local money. Payments between Suzhou Atlantic and BC suppliers are typically made by wire transfer.

Telegraphic transfer or wire transfer is simple and inexpensive to set up at the Bank of China. Wire transfers are only used for trade transactions that are low in both value and quantity. A Letter of Credit is expensive to set up with the Bank of China and takes a long time to process. However, a Letter of Credit guarantees that the export company will be paid in a timely manner.

For most local and foreign seafood companies, wire transfer is the preferred method of payment for relatively small quantities of trade.

- **Consumer Education:** Considerable time and marketing efforts is needed to educate local Chinese consumers to appreciate and differentiate the quality of Canadian exotic seafood, i.e. geoduck, salmon and lobster.

For example, Canadian Atlantic lobster is different from the Australian lobster. Australian lobsters can be stored in a regular tank at 7 degrees Celsius whereas the Atlantic lobsters need to be in tanks at minus 2 degrees Celsius. These types of tanks are expensive and most retailers do not like to invest in such expensive storage facilities. So, Atlantic lobster exporters should consider this fact, and either offer to provide storage equipment and training or incentives to persuade retailers to use Atlantic lobsters.

Handling of Atlantic lobster is also different from Australian lobster. Special chef seminars, cooking promotions and advertisements on television, radios and newspapers should be provided to show potential customers easy techniques to de-shell the lobsters for meat, and methods to prepare the lobster meat.

Without being trained or shown how to prepare or eat Canadian lobster consumers may be disappointed with their first experience trying the seafood and decide not use Canadian lobsters again.

- **Distribution:** Seafood products usually move into China by rail, ship or trucks and are kept cool with ice. Unfortunately, due to poor nation-wide infrastructure, refrigerated equipment and seafood's high mortality rate, distribution is limited to coastal cities like Guangzhou and Shanghai.

Poor storage sometimes results in frozen seafood being left out for hours before being put in freezers at supermarkets. This reduces the quality of seafood tremendously. Also, retailers do not have mechanisms to monitor and track their shipment so, delivery of regular supplies is often unpredictable.

For more detailed information, please refer to our "Food Distribution Systems in the Yangzi Delta Region" report, available through the Canadian Consulate General, Shanghai.

Conclusion

In China, not many local people know about Canadian seafood. This is unfortunate because the China market has enormous potential.

Opportunities exists for Canadian seafood companies to enter the China market. Prior to entering the market, companies should consider strategies to advertise and promote their products, educate local retailers and consumers to store, prepare and eat the seafood. Attending trade exhibitions is very helpful in the promotion of seafood products and how it will be received in the local market.

Although there are trade restrictions and high tariffs in China, these trade barriers are gradually being addressed. For example, on 1 October 1997 the Chinese Government reduced most of the tariffs to liberalize trade with foreign countries. Slowly, other barriers will be dealt with accordingly so that, trade with China is more open and accessible. However, there are still many difficulties with the distribution system, and this remains the biggest problem facing all seafood importers.

Follow Up

The Canadian Consulate General's Agriculture and Agri-Food Office maintains ongoing relationships with local importers, wholesalers, agents and outlets. The office also organizes and participates in numerous promotional activities aimed at generating business for Canadian firms in this sector. Firms interested in taking advantage of these relationships and activities in their efforts to do business in this market would be well advised to stay in touch with us, as follows:

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