

MARKET OPPORTUNITY

CHINA



**FOOD SAFETY
TECHNOLOGIES
& SERVICES**

OVERVIEW

- China is the largest food producer in the world, with 1.4 billion consumers. Food safety incidents have received significant media attention and damaged consumer confidence, brand value and profitability for both local and foreign companies.
- The Chinese government has made food safety a top priority. Reforms are underway on food safety governance. The 2015 food safety law is the strictest in Chinese history, while enforcement, supervision and penalties are being strengthened. These developments are increasing the pressure on companies operating in China's food sector.
- China's food safety management, on average, is behind international best practices. While the dairy sector is more advanced than other sectors, it is mostly not up to EU standards. Food safety management relies more on passive testing of final products than proactive upstream prevention.
- China's highly fragmented production and supply chain, soil and water pollution, inadequate food safety culture, and widespread lack of technical expertise presents both opportunities and challenges for food safety related service and product providers.



In 2015 China's food industry production value reached

€1.66 trillion

By the end of 2016, the economic cost related to food safety was estimated to be **€676 million**.

Top Business Opportunities for EU Companies

- Food safety testing sector - Advanced testing equipment, technology, methods, training and management systems** are in high demand. Examples include cost effective or new rapid testing for chemical and antibiotics residue in milk and for animal diseases such as brucellosis. The food safety testing market is forecasted to reach €713 million in 2020 with a CAGR of 9.9% from 2016 to 2020¹.
- Food traceability** market size is estimated to be over €10 billion. The 2015 food safety law requires the government to develop an integrated food traceability system. Companies require **food traceability systems to build consumer trust**. There is demand for **traceability equipment, technology, software and know-how**.
- Food storage and transport** is moving from a basic to a value added service. The **cold chain** is still developing and has strong potential; the market was worth €21.4 billion in 2015 and is projected to reach between €47 billion to €63 billion by 2020². Key demands are advanced technology, operating standards, equipment, techniques, and information systems, (including traceability).

Market Characteristics

- Policy and consumer driven.** The government has made food safety a KPI for regional governors. Food safety is a key provision of the 13th Five-Year-Plan, a historic first.
- The Chinese food market is a buyer's market.** Hard price competition for food products, but consumers' disposable income and their willingness to pay a premium for safe food is increasing.
- Billions of RMB in investment** have been poured into China's food sector, especially, farm and food testing.
- Agricultural production** is highly fragmented. Soil and water contamination are severe in some locations, antibiotics and pesticide use is high and the level of technical expertise and skills of food workers is generally low.
- 60% of food safety incidents occur in food production and processing.** 75% of food safety incidents are caused by human practice³. Common issues relate to additives, food fraud, poor hygiene, expired material or sale of expired food, unlicensed production, disease management information asymmetry between producers and consumers, and abuse of fertilizer, antibiotics and pesticides.
- Chinese food companies are selective and cautious** in purchasing products or services for food safety because the immediate impact on profits is not guaranteed. Food safety improvements may not be noticed by consumers or could fail to command premium pricing.

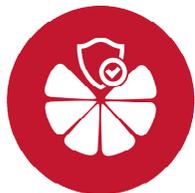


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Sources:

- Report of "Impact Analysis: China Food Safety Testing Market Regulations"
- China Cold Chain Logistics Industry Report, 2016-2020 & News
- China Food Safety Development Report 2016

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DRIVERS

- Social and political pressure to improve food safety
- More stringent food safety regulations
- Food scandals and rising awareness of food safety
- Increasing and changing food demand, particularly for safe food
- Growing consumption of animal products
- Globalisation of food supply chains
- Investment in new, large-scale farms and factories
- Increasing importance of domestic food brands

CHALLENGES

- Heavy soil and water pollution in some areas
- Generally low skills and competency of workforce in the food sector
- Overseas providers lack understanding on local production practices, culture and commercial environment, while Chinese food companies are selective and cautious in purchasing products or services for food safety
- Advanced products or services from overseas must be tailored for China's market environment
- Food companies are cautious about investing in food safety enhancement

Top Business Opportunities for EU Companies

Opportunities in other sectors	4.	Farming practices/systems are the weak link in China's upper food supply chain. In the Chinese dairy sector, leading players have built or imported modern equipment and facilities, but may be lacking in the areas of farm design, farm management systems, input management, tailor made standard or operating procedures, animal welfare, biosecurity and disease control, farm information systems, effluent disposal, and training to fully utilise advanced hardware. Both governments and corporations are interested in solutions to recover polluted farm land and water.
	5.	Chinese food producers are looking for any food supply chain safety technologies and systems (including tailor made programmes/standards) that can increase production efficiency, decrease waste, reduce human error, prevent food fraud or enhance food safety & quality. An example of such needs is the China's meat industry, where general production and supply chain practice can only produce chilled lamb with a shelf life of 7 days, compared to 70 days in more advanced markets such as New Zealand. There is also a need for technologies or systems for supplier management and crisis management and product recall are also in demand, although it can be challenging to convince companies of their economic value.
	6.	Food safety technologies, systems and standards for organic food are in high demand in China. The organic food market size in China has been estimated at €3.4 billion to €8.0 billion and has been growing at a CAGR of 15%. The shortage of organic food has been around 30% for several years.
	7.	Certification services for common standards such as ISO or Global GAP are highly competitive. All major international certification providers are present in China.
	8.	Smart food labelling technology that can tell consumers the authentication, status or temperature history of food may become the future of the food market of China.

Sample of industry players in China

