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**REDFERN ASSOCIATES**

THE CHINA SEAFOOD MARKET  
SECTOR OVERVIEW 2010

*New Zealand*  
**TRADE & ENTERPRISE** 

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Produced by **Redfern Associates**

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## THE CHINA SEAFOOD MARKET OVERVIEW

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## 1. MARKET OVERVIEW

China is one of the world's seafood superpowers. It is the largest consumer, importer, exporter and producer of seafood in the world, representing approximately 35% of total global production. China is also the largest producer of aquaculture products in the world, and the only country in the world where farmed fish production exceeds wild catch.

According to Chinese Ministry of Agriculture (MOA), China's annual aquatic production is approximately 60 million tonnes, and per capita consumption of aquatic products is approximately 12kg. Due to the large amount of seafood processed for re-export, some industry figures even point to a number as high as 26kg/capita in 2006. According to the National Statistics Bureau, Aquatic consumption per capital increased 130% in the 10 years from 1998 to 2008.

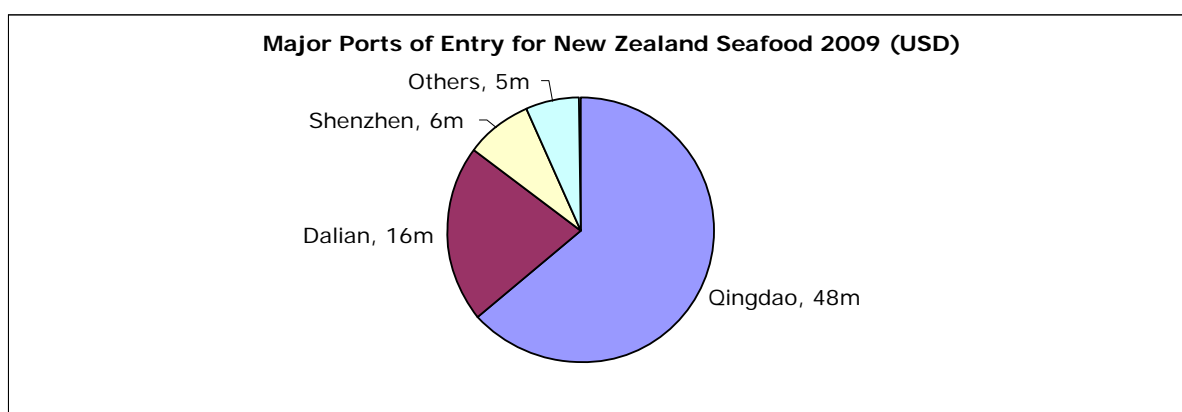
China is also a major player in the international seafood trade. Due to the country's steady economic growth, its exports of seafood are increasing every year. Based on World Trade Atlas (WTA) data, in 2009, China exported fish and seafood to the value of US\$6.81bn, a rise of 31% from US\$5.18bn in 2008. In the past 10 years, the steady growth in China's seafood exports has created a huge surplus in the seafood trade.

### CHINA'S SEAFOOD IMPORTS

Chinese imports of fish and seafood were valued at US\$3.60b in 2009, down from US\$3.65bn in 2008, according to WTA data. However, imports are expected to increase together with consumer purchasing power in 2010. Chinese seafood imports can be separated into three main categories:

1. Higher value seafood for domestic consumption e.g. live lobster and oysters.
2. Fishmeal to meet part of the need for animal and fish feed.
3. Seafood to be re-processed for exports e.g. hoki, roughy, dory and squid.

Russia is expected to continue to top the list of countries of origin for China's fish and seafood imports. It has headed the list for the past seven years consecutively, with the closest competitors - the United States, Norway and Japan - all lagging far behind. Shandong is the main seafood processing province in China, and the provincial capital Qingdao is the number one destination for seafood imported from New Zealand, as well as imported seafood in general.

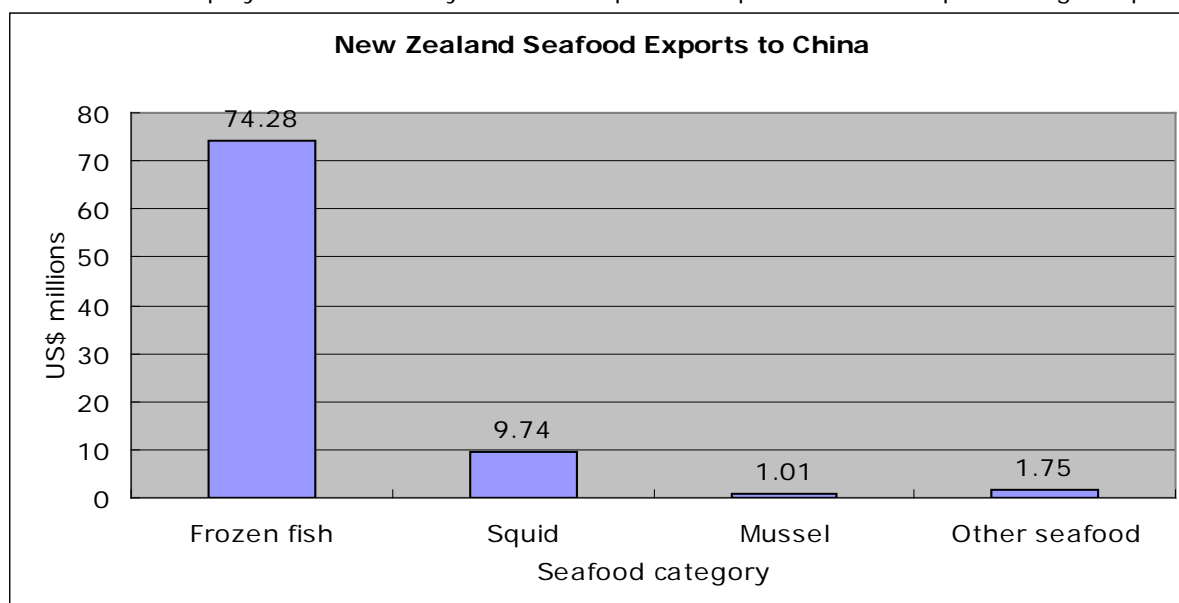


Source: WTA

### NEW ZEALAND SEAFOOD EXPORTS TO CHINA

New Zealand is ranked as China's tenth largest supplier of seafood, according to WTA data. In 2009, New Zealand exported US\$86.78m of fish and seafood to China. Industry sources estimate over 80% of New Zealand's seafood exports are destined for processing and re-export (the processing trade).

New Zealand's seafood companies have the opportunity to play an increasingly important role in engaging and influencing the placement, positioning, quality and pricing of their product in this market. They can enter China in a more integrated manner than before, investing in processing or distribution, and can play a role in the value chain rather than simply trading. A number of New Zealand seafood players have already established partnerships in China with processing companies.



Source: WTA

### CHINESE CONSUMER PREFERENCES

The Chinese consumer has a voracious appetite for seafood of all kinds, including live, frozen and further processed products. Seafood consumption in China is expected to reach 35.9kg/capita in 2020, according to the Food and Agriculture Organization (FAO). Consumption is rising in line with increasing purchasing power and a strong preference for seafood among Chinese consumers, the Glitnir China Seafood Industry Report states.

Live freshwater fish leads demand in inland city markets, while frozen and processed products are more common in northern regions. Live ocean catch is popular amongst the wealthy elite of China's booming east coast, and this demographic consumes a great proportion of New Zealand's lobsters.

Imported seafood is highly esteemed by Chinese consumers. Live seafood, especially lobster and abalone are symbols of luxury. Little branding of live seafood takes place in China, but there is an increasing awareness of country of origin and quality of product. Important associations include:

- **Canada:** Dungeness crab, oysters, lobster, and surf clams
- **Australia:** Rock lobster, crab, oyster, and abalone
- **New Zealand:** Rock lobster, mussel, and abalone

## HORECA - HOTELS, RESTAURANTS, CAFES

New Zealand's seafood presence in Chinese restaurants is best illustrated by Rock Lobster. High-end Chinese restaurants sell rock lobsters as a luxury product. Since Australia and New Zealand rock lobsters are homogenous, the Chinese consumer has been led to believe that all such lobster is from Australia. Therefore, live lobsters from New Zealand despite the actual high volumes in market, remain completely unknown at consumer level and thus are not been demanded by name.

By contrast, Australia, Japan and South Africa have representative product and establish brand images. The restaurants selected below are well known, high-end Chinese Seafood Chains in Shanghai city.

	Restaurant A	Restaurant B	Restaurant C	Restaurant D
<b>Lobster</b>	Australia	Australia USA	Australia	Australia
<b>Abalone</b>	Japan Middle East	Japan South Africa Middle East	Japan South Africa Middle East	Japan Australia
<b>Mussel</b>	China	China	China	China
<b>Clams</b>	China	China	Japan	Japan
<b>Oyster</b>	French	China USA	China Canada	Australia Canada
<b>Salmon</b>	Norway	Norway	Norway	Norway

Food safety has become an increasingly important issue in China: Due to higher living standards, consumers increasingly prefer environmentally safe, non-polluted foods. High-end food products of better quality and well-known brands have a growing market share. Meanwhile, with awareness of nutritional values increasing among consumers, green, nutritious and healthy products will be increasingly popular: this arguably creates unprecedented opportunities for New Zealand food exporters.

## CONCLUSION

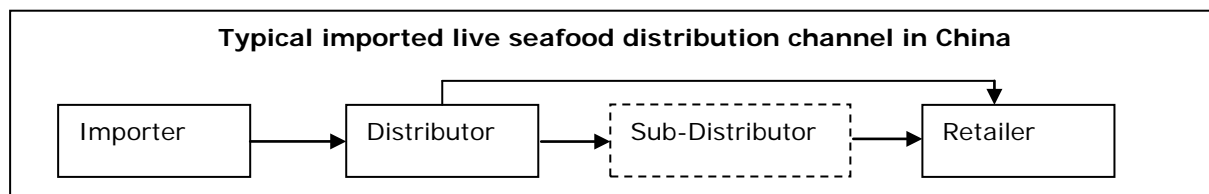
China's appetite for seafood is expected to show strong growth for the foreseeable future, as the booming economy continues to raise living standards and the middle class grows. New Zealand companies have the opportunity to play an important role in the growth of this sector.

## 2. MARKET CHANNELS

### 2.1 LIVE SEAFOOD

#### DISTRIBUTION PROCESS

There are generally four steps in China's distribution process: importation, distribution, sub-distribution and retail. In actuality, number of stages varies, but each step serves a function which is vital for the entire channel, adding value to the final product.



#### POINTS OF ENTRY AND DISTRIBUTION HUBS

- **Shenzhen:** Most live seafood imports to China arrive in Shenzhen. Located immediately north of Hong Kong, the traditional channel for through which seafood imports to China pass, importers in Shenzhen dominate most of the seafood import and distribution channels throughout the country. They have built networks in various major cities, including Shanghai and Beijing. Just under half of seafood imports entering Shenzhen are distributed directly through the city.
- **Guangzhou:** Due to the city's status as China's third largest air transport hub after Beijing and Shanghai, more than half of the seafood entering Shenzhen is sent to Guangzhou then distributed from there around China. Huangsha Seafood Wholesale Market, one of the largest seafood wholesale markets in China, is located in Guangzhou.
- **Shanghai** is another major consumer and distribution hub due to its location, infrastructure and status as a transport hub. It is also currently the most logical point of entry for direct seafood importation, especially for New Zealand products, given direct flight paths.

#### CHINA AND HONG KONG IMPORTS FROM THE WORLD

Currently, New Zealand's live seafood is mainly imported into China through the traditional channel of Hong Kong. According to Hong Kong Customs, in 2009 Hong Kong imported US\$53m of live lobster from New Zealand; in the same year, China only imported US\$0.07m, suggesting a significant proportion of Hong Kong's imports are destined to satisfy the demand of the mainland Chinese market.

2009 LOBSTER EXPORTS (USD MILLION)		
	China Import	Hong Kong Import
Australia	0.06	113
<b>New Zealand</b>	<b>0.07</b>	<b>53</b>
South Africa	2.7	30
U.S.	0.25	25
Mexico	0.28	5
Indonesia	2.5	8
Thailand	4.5	-

Yet according to The New Zealand Seafood Industry Council (and New Zealand Customs) the total lobster export figure for the same year was NZ\$180m and over 90% of which is destined for China. By contrast, some Canadian and Boston lobster, amongst others, is imported directly to mainland China.

## SEAFOOD MARKETS

Live seafood distribution in China is traditionally dominated by seafood markets. According to FAO, more than 340 live seafood markets exist across China. Fish brokers rent booths and trade as both wholesalers and retailers.

Such seafood markets are typically large in size and provide a varied range of seafood products. Important examples include:

- **Shenzhen Yantian Seafood Market:** It is estimated that 90% of imported live seafood enters China via this seafood market. All companies present in Yantian have tank facilities to store sizeable volumes of live seafood before re-packaging and freighting the product to other markets in China.
- **Guangzhou Huangsha Seafood Wholesale Market:** One of China's largest seafood markets, it handles both imported seafood and domestic products in all formats, i.e. live, chilled and frozen. The market was established in 1994 and has transaction area larger than 40,000 square meters. Imported seafood products are sourced from many countries including Canada, the U.S, Australia, New Zealand and ASEAN countries. The market also acts as the major hub for exports to other areas in China, especially southern China.
- **Shanghai Tong Chuan Seafood Market:** The market covers 26,000 square meters, with 700 booths and 100 shops, and is the largest in the city. 90% of leading live seafood importers and distributors have established their offices and booths with swimming facilities (tanks) and warehouses. Companies in this market deal with 17 countries and regions, including the United States, Japan, Norway, Thailand, Vietnam, Taiwan and Hong Kong.

## DISTRIBUTORS

Distributors and sub-distributors normally have a resident booth at seafood markets. Distributors and sub-distributors often assume the role of warehouse as well: At seafood markets like Tong Chuan, live product is stored by distributors on site in thousands of small swimming tanks. This is a very competitive but fractured industry with many small players.

The roles of distributors and sub-distributors have formed according to access to clients and traditional practices. Those able to purchase products directly, and import and distribute them, have acquired a monopolistic position. Those who have access to sales channels and good relationships with retailers, but are unable to obtain products from the top of value chain, act as middle man. They employ sub-distributors on a case-by-case basis between themselves and retailers.

## SUB-DISTRIBUTORS

Distributors sell products through sub-distributors, or directly to retail outlets, e.g. hotels, restaurants and supermarkets. Whether sub-distributors are employed is dependent on two main factors:

1. **Client relationships:** Retailers are reluctant to change long standing suppliers due to reputation and buyer relationships, which are normally personal and guanxi based.
2. **Payment Terms:** Sub-distributors remain in the value chain on the strength of their relationships with those above and below them. They are able to be more flexible in dealing with retailers and cash flowing clients needs where distributors generally require cash payment.

#### CLIENTS AND PURCHASING TERMS

- **Smaller volume buyers:** Often visit their supplier's booth, select their produce, pay cash and take it away in Styrofoam boxes.
- **Hotels, Restaurants and Cafes (HoReCa):** Orders are delivered directly, either on a daily basis or frequently throughout the week. Deliveries are aggregated and billed at the end of the month according to agreed terms: this is a key reason why many of the leading distributors prefer not to deal directly to the HoReCa industry.
- **Supermarkets and big retailers** have been introduced fairly recently to China and are becoming important outlets for retailing aquaculture products, both live and processed. The largest foreign supermarket chains operating in China at present are: Carrefour (France); Jusco (Japan); Metro (Germany); and Wal-Mart (USA).

Many local restaurants, which represent a large proportion of city dining seafood demand, continue to support the traditional channels and often buy live seafood from seafood market booths; larger chains take direct deliveries from importers. Most restaurants keep fish tanks that allow customers to choose their own seafood products. Hypermarkets such as Metro are developing into true wholesale distributors, often receiving product directly from importers, and on selling to restaurant chefs and small retail outlets.

#### EMERGING DISTRIBUTION CHANNELS

The development of high-end hospitality and food services; better logistics infrastructure; heightened concerns over food, health and safety; and increasingly sophisticated consumer demand have led to newer channels, including direct importers, high-end distributors and specialist channel sub-distributors.

## 2.2 FROZEN SEAFOOD

Chinese consumers traditionally prefer live and fresh seafood products, but this is changing: Research suggests that consumers are increasingly turning to processed products coupled with rise in refrigeration, although, demand for live seafood is still dominant.

Increasing demand for frozen and processed seafood provides an opportunity for New Zealand seafood companies to launch value added products and processed seafood in the China market for direct consumption, rather than re-exporting product to other markets after processing.

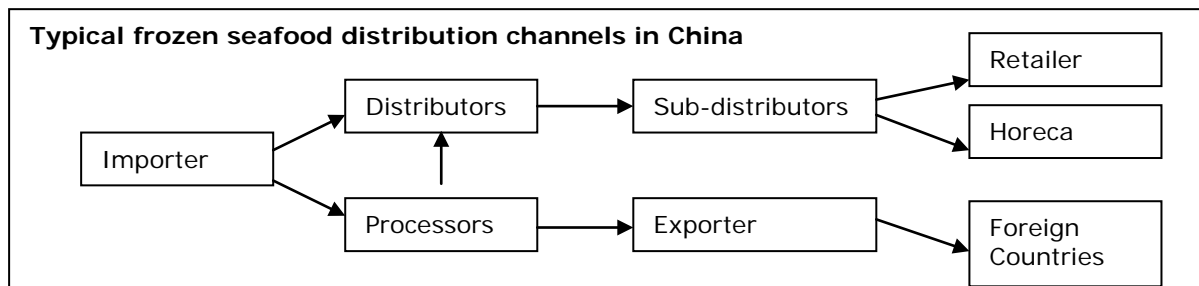
#### CHANGING PATTERNS OF CONSUMPTION

Preferences can generally be distinguished by geographical distribution, but dining habits and tastes might still differ within the same province depending on proximity to urban centres. In much of inland China, live seafood is scarce due to geographic isolation and underdeveloped cold chain and distribution systems. Therefore non-perishable seafood is more popular in provinces such as Inner Mongolia, Shanxi, Henan, Xinjiang and Tibet.

In major urban centres, traditional consumption patterns appear to be changing to suit the increasing pace of life: More families are turning to ready-to-cook, processed products. Processed products, including processed fish, shellfish, mollusks, shrimp and prawns, are therefore becoming increasingly popular in hypermarkets in large cities. Major competitors and products in this industry include, Frozen Alaska Pollock and cod (Russia), Fishmeal (Peru), Plaice and Pacific salmon (US)

## DISTRIBUTION CHANNELS IN CHINA

There are two major channels for imported frozen seafood in China:



According to local importers and distributors, there is little fundamental difference between live and frozen seafood channels: often there are simply more sub-distributor links in the frozen seafood supply chain due to longer shelf lives and larger geographic distribution coverage. Seafood markets remain the major supply avenue for frozen seafood, but this appears to be changing rapidly. The growing number and sophistication of retailers in China is increasing opportunities to promote branded items to the young and affluent, who increasingly to prefer shop at supermarkets.

## THE PROCESSING TRADE

It is estimated that as much as 60%-75% of frozen seafood imported to China is directed to processing facilities and is then re-exported (the processing trade). The dynamic aquatic processing trade slowed in 2009, mainly as a result of the economic crisis.

According to MOA, in the first half of 2009 processing trade accounted for 37% of the total export value of aquatic products, lower than the 40% estimated for the past few years, with the total export volume and value of processing trade declining by 9% and 3%, respectively.

It is difficult to estimate the true size of the China's processing trade because of statistical compilation problems and the drop in gross weight when raw material is turned into a finished product (eg fillets), and there is no official data to accurately distinguish the share of seafood imports destined for this avenue. According to exporters, hoki, roughy, dory and squid exported to China are almost all bound for processing and re-exporting, leaving lower value species like barracuda for consumption in the domestic market.

## NEW ZEALAND MUSSELS

New Zealand frozen half shell Greenshell Mussel™ are well known to Chinese consumers, especially in the HoReCa industry and 4-5 star hotels. However, they face competition from low-end locally-supplied mussels, blue mussels and other live shellfish. Many of these substitutions are perceived as being of higher quality and value due to superior marketing efforts.

Major mussel trading volumes still move via the traditional Hong Kong channel which denies exporters the advantages of dealing directly with mainland China under the Free Trade Agreement (FTA). As a member of the Asia-Pacific Economic Cooperation (APEC), China relies heavily on its many Asia-Pacific neighbours as sources of seafood. Yet New Zealand is number one in mussel exports when combining the total value of HK and PRC of almost US\$6m in 2009.

## CONCLUSION

Rising incomes, increased ownership of fridges and freezers, more exposure to western and international cuisine and a greater array of retail goods are combining to increase sales of frozen seafood in China. The consumer market for frozen seafood in China will continue to make great strides following the arrival of fast-food chains, western-style supermarkets, a greater awareness of frozen seafood and the emergence of a generation both willing and able to try new products.

### 3. VALUE CHAIN

#### 3.1 LIVE SEAFOOD

In order to gain valuable insights into seafood value-chains, it is important to focus not on the relative value of each segment, but rather on the operating margins in the overall value chains, and the level of transparency and information flow between market levels.

In the peak seasons, such as Chinese New Year or other National Day holidays, pricing is very high; while at times when demand is low, due to death and limitations in the quality of holding facilities, product is often sold at a loss. The table below details the live lobster value chain.

								1 USD= RMB	6.8
	NZ Direct Shanghai 2010 Channel 1		NZ Direct Shanghai 2010 Channel 2		Other Countries Direct Shanghai 2010		NZ Direct Shanghai 2012		
	USD	RMB	USD	RMB	USD	RMB	USD	RMB	
<b>Horeca Menu Price</b>	US\$191	¥ 1,300	US\$191	¥ 1,300	US\$191	¥ 1,300	US\$191	¥ 1,300	
Retail Margin	50%		50%		50%		50%		
<b>Sub-distributor whole sale price</b>	US\$96	¥ 650	-	-	-	-	-	-	
Sub-distributor margin	15%		-		-		-		
<b>Distributor whole sale price</b>	US\$81	¥ 550	US\$96	¥ 650	US\$96	¥ 650	US\$96	¥ 650	
Distributor Margin	14%		27%		21%		31%		
<b>Distributor Purchase Price</b>	US\$70	¥ 474	US\$70	¥ 474	US\$75	¥ 512	US\$66	¥ 449	
<b>Import and customs clearance fee</b>	7.00%		7.00%		7.00%		7.00%		
<b>VAT Rate</b>	13.00%		13.00%		13.00%		13.00%		
<b>Tariff Rate</b>	6.00%		6.00%		15.00%		0.00%		
<b>CIF Shanghai</b>	US\$55.00		US\$55.00		US\$55.00		US\$55.00		

Notes: All prices and margins are indicative only and subject to change according to the market

- All prices are in US dollar per kilogram
- Lobster grades from 800gms to 1.5 kg are most popular in China. A cost, insurance and freight CIF price in Shanghai of US\$55 is assumed for discussion purposes.
- Retail menu prices are an average of those collected from the mid- to high-end Shanghai markets in April, 2010. Distributor wholesale price is an average collected from local seafood markets.
- Channel 1 represents distributors selling lobster through sub-distributors, while Channel 2 is selling directly to retailers.

In Channel 1, distributors and sub-distributors split margins almost equally. For the distributor, a 14% margin extracts US\$11 added value. Given the larger volumes of a distributor versus a sub-distributor, a slightly lower margin can still result in the same or more net margin.

In Channel 2, when distributors sell lobsters directly to Horeca end, the margin can increase from 14% to 27% extracts US\$26 added value, where a difference of US\$15 when compared to Channel 1.

As shown in the table, under the same channel condition, New Zealand lobsters already have a margin advantage of 6% more than other countries, not mention in 2012 when the tariff is zero and where distributors' margins theoretically increase to 31%.

### 3.2 FROZEN SEAFOOD

Greenshell Mussel™ are representative of New Zealand frozen seafood in China and have therefore been chosen for discussion.

Frozen Mussels Value Chain Table								1 USD= RMB	6.8
	NZ Direct Shanghai 2010 Channel 1		NZ Direct Shanghai 2010 Channel 2		Other Countries Direct Shanghai 2010		NZ Direct Shanghai 2012		
	USD	RMB	USD	RMB	USD	RMB	USD	RMB	
<b>Horeca Menu Price</b>	US\$20.59	¥ 140	US\$20.59	¥ 140	US\$20.59	¥ 140	US\$20.59	¥ 140	
Retail Margin	50%		57%		57%		57%		
<b>Sub-distributor whole sale price</b>	US\$10.29	¥ 70	-	-	-	-	-	-	
Sub-distributor margin	36%		-		-		-		
<b>Distributor whole sale price</b>	US\$6.62	¥ 45	US\$8.82	¥ 60	US\$8.82	¥ 60	US\$8.82	¥ 60	
Distributor Margin	24%		43%		38%		46%		
<b>Distributor Purchase Price</b>	US\$5.05	¥ 34	US\$5.05	¥ 34	US\$5.43	¥ 37	US\$4.80	¥ 33	
<b>Import and customs clearance fee</b>	7.00%		7.00%		7.00%		7.00%		
<b>VAT Rate</b>	13.00%		13.00%		13.00%		13.00%		
<b>Tariff Rate</b>	5.60%		5.60%		14.00%		0.00%		
<b>CIF Shanghai</b>	US\$4.00		US\$4.00		US\$4.00		US\$4.00		

Notes: All prices and margins are indicative only and subject to change according to the market

- All prices are US dollar per kilogram. A CIF Shanghai price of US \$4 is assumed for discussion purpose.
- Retailers' prices are an average of those recently collected from Shanghai hypermarkets and supermarkets. Distributor wholesale price is an average collected from local seafood markets and frozen stores.
- Channel 1 represents distributors selling frozen mussels through sub-distributors, while Channel 2 is selling directly to retailers.

The table shows a difference between the current channel and that subject to FTA advantages. Distributors make a margin of 18%, and retailers 43%.

In Channel 1, distributors and sub-distributors split a total of 60% margin. Sub-distributors gain more margin than distributors because for frozen seafood, hypermarkets and supermarkets play a role of sub-distributors and they need to keep a certain margin to make profit.

In Channel 2, when distributors sell lobsters directly to Horeca end, prices are often lower than when via a sub-distributor, resulting in a margin increase of 24% to 43%, where a retailers' margin can also increase from 50% to 57%. Under the same channel conditions, New Zealand frozen mussels have tariff advantages, of 5% more than other countries. In 2012 when the tariff is zero and distributors' margins theoretically increase to 46%.

Seafood selling prices at the HoReCa end vary greatly, but industry rule of thumb is that the main item of any meal served cost no more than 50% of the menu price, though most restaurants aim at one third. The table also suggests the distribution of profits is skewed towards the retailer, as is the case for live seafood. The major costs are variable dependant on the quantities of products handled.

#### 4. CHINA-NZ FREE TRADE AGREEMENT

New Zealand became the first western country to secure a free trade pact with China in April, 2008. The FTA is estimated to be worth US\$350m annually to New Zealand exporters. It offers favoured nation status and one-up clauses which ensure upgrades to any higher levels attained by other nations in future. This is and will continue to be a great driver of economic transactions between the countries.

China is New Zealand's second largest export market and the world's fastest growing economy. For the 12 months to June 2009, New Zealand's exports were NZ\$3.38bn, up 38% on the same period last year. Chinese sales to New Zealand were approximately double that, at NZ\$6.66bn for the same period.

##### KEY FTA STIPULATIONS

- By 2012, 96% of all New Zealand-made goods exported to China will be tariff free
- Goods that arrive in China with a Country of Origin certificate will be processed within 48 hours by China Customs

##### TARIFFS UNDER THE FTA

The tariff reduction is now approximate to the advantages of the traditional channel: Importers are beginning to recognise the parity and demand direct importation to capitalise on freshness, branding and first-mover opportunities.

A value-added tax (VAT) is applied to all products entering the market from abroad. Though improved, the VAT plus the tariff still account for a considerable cost of the import. VAT is 13% on unprocessed, unpackaged agricultural products and 17% on processed, packaged food.

Product	HS Code	Base rate	2009	2010	2011	2012
Lobster, not frozen	03062190	15	9	6	3	Free
Abalone, frozen, dried, salted or in brine	03079910	10	6	4	2	Free
Mussel, frozen, dried, salted or in brine	03073900	14	8.4	5.6	2.8	Free
Frozen Fish e.g. Frozen Greenland halibut	03033110	10	6	4	2	Free
Scallops, frozen, dried, salted or in brine	03072900	14	8.4	5.6	2.8	Free
Oyster	03071090	14	8.4	5.6	2.8	Free

The total import tax rate is calculated as the formula below:

##### **Total Import Tax rate = Duty Rate + VAT + Duty Rate x VAT**

E.g. New Zealand mussels duty is 5.6% + VAT is 13% for a total Import Tax rate of 19.328%

The original tariff rate for Lobster (HS Code: 03062190) prior to the FTA was 15%. This is now down at 6% - a 9% advantage over New Zealand's major competitor, Australia. New Zealand exporters can expect to retain at least a marginal lead for next 4-5 years. However, this can only be exploited in conjunction with New Zealand certificates of origin in a compliant environment.

##### CONCLUSION

Direct importation has become a very real and attractive economic prospect due to the FTA as the market equalises. Approaching 2012, New Zealand will be able to go direct, matching or bettering the economics of the traditional channel and its competitors, while improving product state, freshness and quality.

## 5. IMPORTATION PROCESS

Seafood is one of most highly regulated imported food categories in China, especially for live product. Only a few of registered importing companies can legally handle live seafood importation in China. All are required to place deposit with China customs for pre-clearance.

The process normally begins upon arrival with the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (AQSIQ), and moves on to the Tariff office, and then Customs for clearance.

### DOCUMENTATION

The following documents need to be prepared for importation clearance:

1. Bill of Landing
2. Airway bill
3. Invoice
4. Sales contract
5. AQSIQ clearance sheet
6. Country of origin certificate
7. Other document as may be required by Customs
8. Certificates of Non-Manipulation/Non-Interference under New Zealand/China FTA (NB Certificates of Non-manipulation are required to receive the benefits of the FTA tariff preference.)

### INSPECTION AND QUARANTINE

Inspection and quarantine is handled by AQSIQ, which tests for pesticides, antibiotics, visible and non-visible problems at the port of entry, or at the importer's bonded warehouse. AQSIQ will also ensure correct labelling and, once approved, issue a Pass certificate.

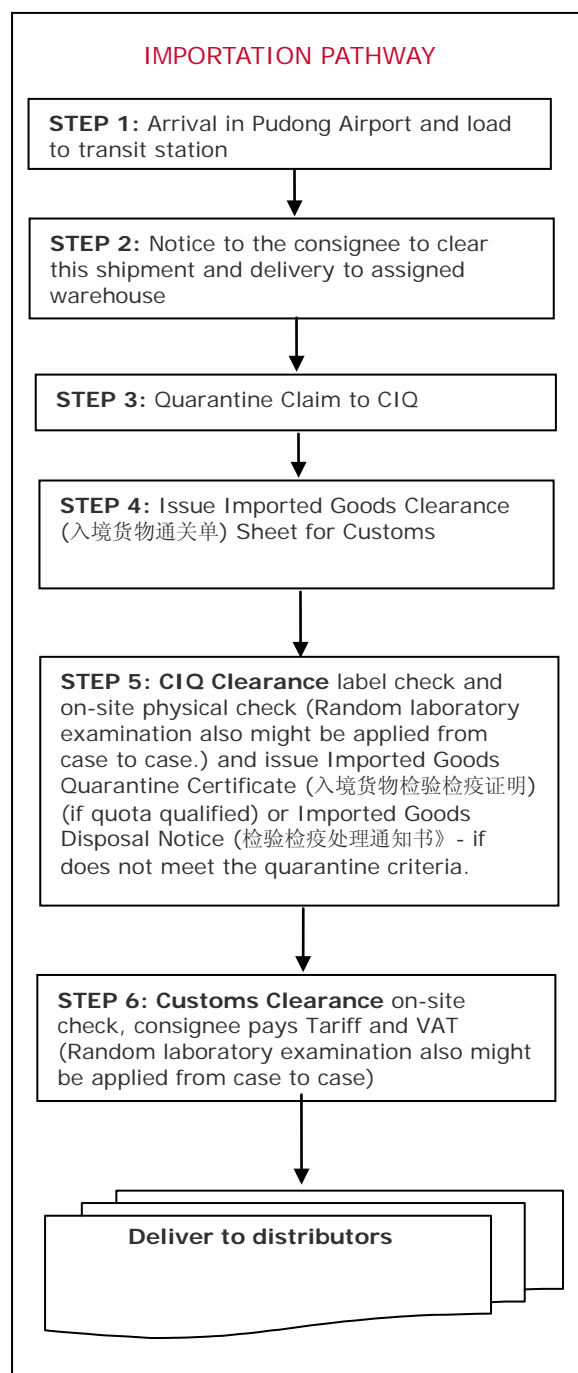
### CUSTOMS

The product is then inspected by Chinese Customs. This involves:

- Verification of the packing list, commercial invoices and shipping documents;
- Classification of the weight and quantity of goods
- Determination the amount of duty to be paid

Once all the correct documentation, duty and VAT payment is received, Customs releases the product to the importer.

Customs clearance is normally performed by local import agents. Tariff and VAT costs are borne by clients via agents, which charge a fixed service fee or percentage of the total value, or the air waybill.



## 6. REGULATORY, LABELLING AND LICENSING RESTRICTIONS

In recent years, the Chinese government has enforced regulations supervising standards and labelling for foods. It is critical for New Zealand exporters to understand the relevant rules if they are looking at a long-term position in China. There are numerous laws and regulations relating to imported food and beverage products in China, and these are updated or revised continuously. Moreover, there are also documentation requirements for New Zealand exporters to enjoy FTA tariff advantages.

The information provided here is for reference only: When negotiating supply contracts, and before beginning to export, companies are advised to consult closely with their importer or distributor.

### CERTIFICATES OF ORIGIN

To benefit from the Free Trade Agreement, you need to:

- Determine whether your goods qualify for access under the agreement
- Obtain a certificate of origin to verify your goods are legitimately made in New Zealand.

The New Zealand and China Customs administrations have signed an exchange of letters that rectifies a number of issues with the certificate of origin format under the Free Trade Agreement (FTA). These changes, which came into effect on 1 July 2009, should assist the entry of New Zealand goods into China.

### CERTIFICATES OF NON-MANIPULATION

In January 2010, the New Zealand Customs Service met with a delegation from China Customs to discuss implementation of the New Zealand-China Free-Trade Agreement (FTA). China Customs shared their transshipment guidelines with New Zealand. The key points are:

- Goods that transit through third countries should not undergo any other operation in that country other than treatment necessary to keep them in good condition
- If the goods are being stored in transit in a third country, they should stay under the administration and supervision of Customs and not be stored for longer than six months
- If the goods transit a third country, China Customs may request other relevant documents to confirm that the goods still meet the rules of origin. These documents include:
  - A valid certificate of origin (or declaration if allowed for under the FTA).
  - Other commercial documents, such as the commercial invoice or shipping documents or bill of lading.
  - If the goods transit through either Hong Kong or Macau, the importer will need to supply to China Customs documents issued by China Inspection Company Limited (Hong Kong) or CCIC Macau Company Limited

If these relevant documents are not provided, China Customs may conduct an inspection. Exporters, who are unable to provide relevant documents should ensure that the seal of the container is intact, and seal and container numbers match the information on the bill of lading.

- China Inspection Company Limited (CIC) (Hong Kong) can issue Certificates of Non-Manipulation for goods transhipped through Hong Kong to China. Please refer to <http://www.cichk.com.hk/index-e.htm>
- China Inspection Company Limited (CIC) (Macau) can issue Certificates of Non-Manipulation for goods transhipped through Macau to China. Please refer to the website [http://www.macau-ccic.com/E\\_about.htm](http://www.macau-ccic.com/E_about.htm)
- Singapore Customs can issue Certificates of Non-Manipulation for goods transhipped through Singapore to China. Please refer to the website <http://www.customs.gov.sg/leftnav/trad/certificates+of+origin.htm>

### IMPORT LICENSES

An import license is required for live seafood, but not for frozen seafood.

Currently, full import licenses are only available to large state-owned and domestic private companies. Private Chinese companies must meet certain criteria (import levels, annual revenue, and number of employees) before qualifying for an import license. Full import licenses allow companies to sell directly to the public; act as an agent for smaller Chinese or foreign distributors who do not possess a license; import goods for internal manufacturing; and import materials for manufacturing.

The applicant should lodge the application to China Inspection and Quarantine (CIQ), through which it will be delivered to AQSIQ for assessment. The result of application will be made known through CIQ.

### IMPORTANT INFORMATION

- Validity: 6 months since the date of issue
- Cost: No extra cost for each application but the approved company is charged an annual fee
- Time frame: standard application procedure takes two weeks to one month

### REQUIRED DOCUMENTS

- Qualification of legal representative of applicant (copy)
- Production/processing/storage agreement with the companies certified by AQSIQ for imported products, i.e. meat, gut, casein, aquatic products, etc
- Country of Origin certificate (there is no limit on Country of Origin as long as the supply plant has passed through the inspection from Chinese government authority)
- Total quantity and value to be imported (there is no limit on import quantity and value; however the applicant should seek to fully utilise the quantity approved. Otherwise, subsequent applications may be difficult)
- For the second application by the same applicant, the previous import license (including Verification Sheet) can be cancelled after verification.
- Since December 11, 2008, AQSIQ published on its website the "Explanations on Amendments to Rules of Inspection and Quarantine on Entering Edible Aquatic Species." The amendments request the exporting country to add detailed inspection and quarantine information to the export health certificate. However, NZFSA hasn't agreed to sign the health certificates with a clause the Chinese require. The seafood certificate template currently in use does not include live seafood (e.g. live lobster, live clams, and live oysters). New Zealand has recently submitted to AQSIQ a new certificate template for live seafood. AQSIQ are now in the process of assessing the submission.

### CHINESE LABELLING REGULATIONS

In April 2006 responsibility for the inspection of imported food product labels was transferred from China's General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) to provincial level China Inspection and Quality (CIQ) offices at the port of entry. Prior to a packaged product being imported to or distributed in China, labelling verification must be sought from CIQ, a process that takes one to two weeks. This process is normally handled in conjunction with the importer or distributor, due to language issues and the need for on-the-ground liaison with CIQ. When going through this procedure, exporters should carefully consider the value of specifying in their contract with the importer or distributor whether they will retain ownership of the label after approval. This will make it easier to work with other distributors in the future should the need arise.

APPENDIX - CHINA MAP



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