



Griffith Agribusiness

Vietnam Mango Export Opportunities in Hong Kong and Shanghai

Project: Partnering for Smallholder Inclusive Market Opportunities in the Mekong
AGB-2012-057

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Introduction

Background

The overall aim of AGB 2012 057 is to identify pro-poor market development opportunities for fruit & vegetables in Vietnam & improving understanding of the rapidly changing market, consumer dynamics & trade flows between China, Vietnam & surrounding MKR countries.

Case Study Aims

Identify opportunities for Vietnam mango exports, fresh & processed by:

- Understanding market & demand in China
- Providing insights into regional mango trade dynamics
- Acknowledging opportunities for market development & export growth specifically in the markets of Hong Kong & Shanghai

Research Design & Method

A combination of published research, telephone & semi-structured interviews were undertaken with key stakeholders in Hong Kong, Shenzhen & Shanghai in March & April 2015 for each target market.

The study reviewed & reports on:

- Trade data
- Socio-demographic & market characteristics
- Market Segmentation
- Retail grocery, food service & food manufacturing/processing
- Product trends & consumer preferences
- Import trends & sources of supply
- Ports of entry & transportation networks
- Market entry & biosecurity issues



Research Contributors

Hong Kong & Shenzhen

- Dairy Farm Group, *Retailer, Importer*
- Good View Development Group, *Importer, Distributor, Food Service & Processing provider*
- Wing Kee Produce, *Importer, Distributor*
- DCH Logistics Co, *Importer, SC Manger*
- Eternal Asia, *Importer, Broker ASP, SC Manager*



Dairy Farm



Shanghai, China

- Shanghai Huizhan Fruit & Vegetable Market
- Shanghai Yu Hua Fruit Co, *Importer, Broker ASP*
- Fruit Ease, OHENG Co, *Importer, Exporter, Distributor*
- Shanghai Yin Rin Trading Co, *Importer, Broker ASP*
- Favco, *Importer, Exporter, Broker ASP, Whole/Dist*
- Shangri-la Hotel, *Food Service Provider*

FruitEase
水果通



御华
Yu Hua



SHANGRI-LA

HOTELS and RESORTS

Definitions:

Distributor/wholesaler - Buys to resell to retailers/other, may have a relationship with suppliers

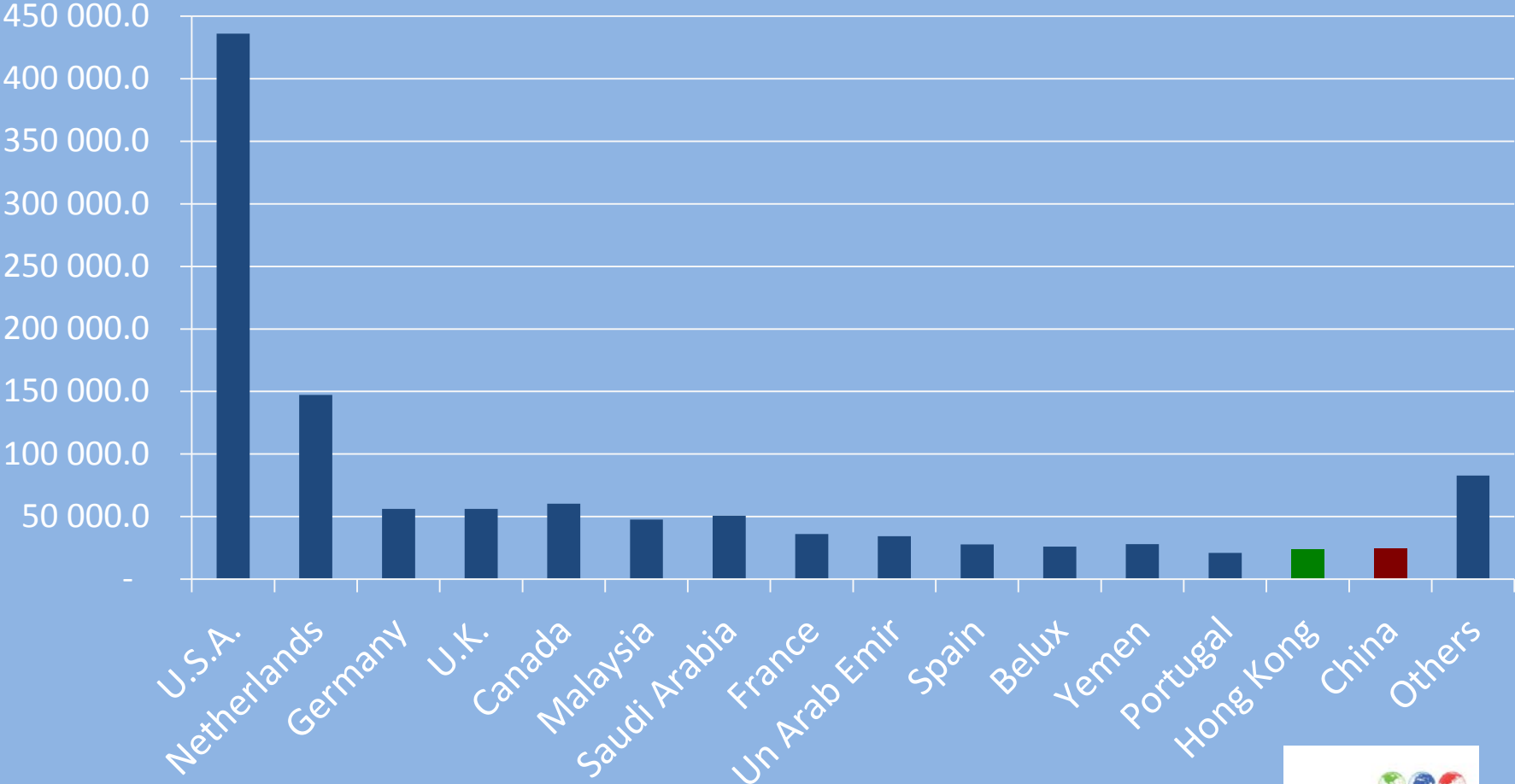
Broker, ASP - Broker at selling/shipping point buys on behalf of Wholesaler/Distributor or Retailer

SC Manager - Sources, ships, collects, delivers & sells along the chain for a company

The position of Hong Kong and Mainland China in the Regional and Global Mango Trade

Mainland China and Hong Kong are important markets from a regional perspective

Mango imports by country (2013)



Mango Imports into Hong Kong

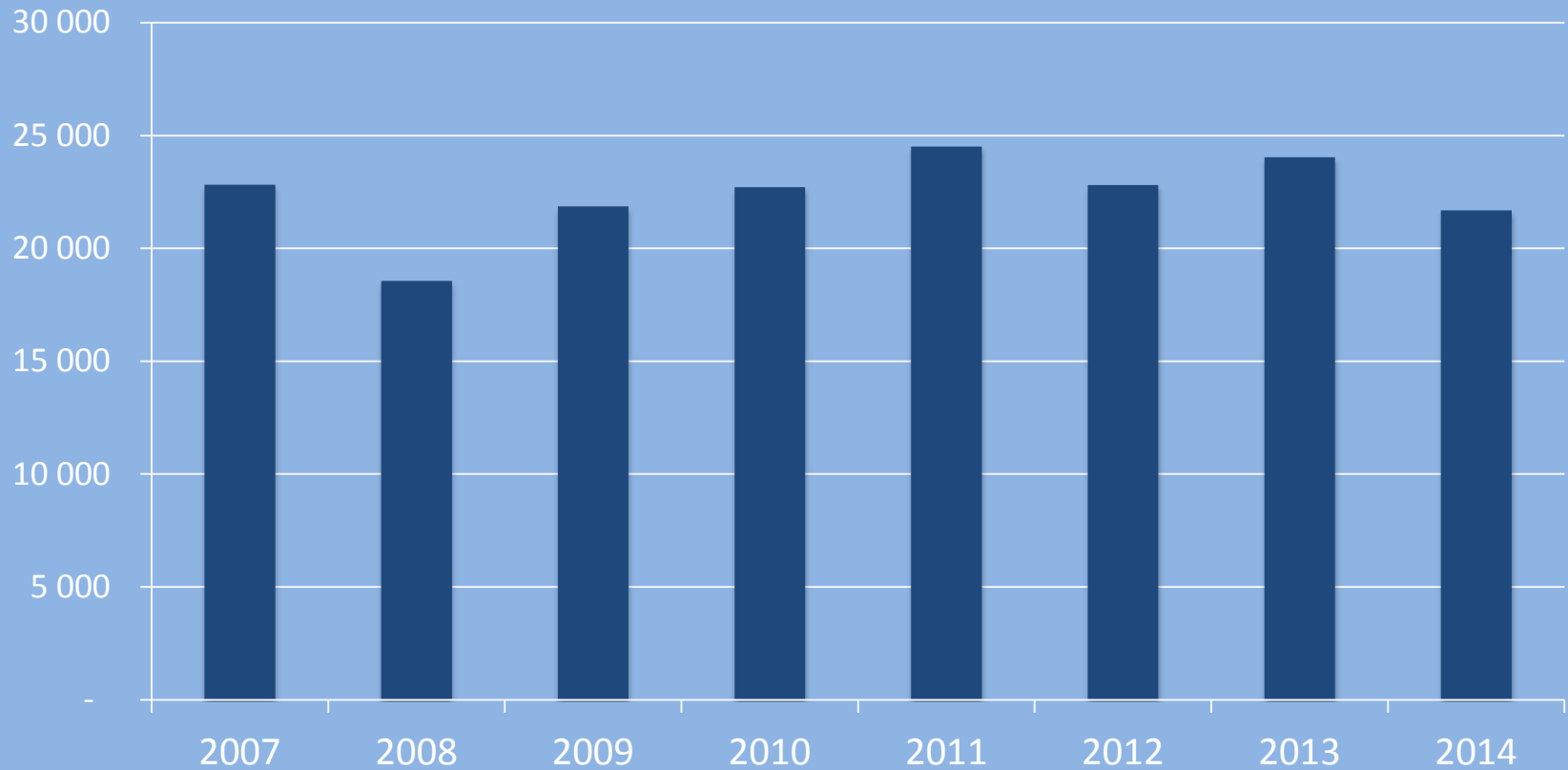
Why is Hong Kong used as a trans-shipment point for mangoes going to Mainland China?

- Free-trade port (0% import tariff on fruits)
- Streamlined customs procedures
- Ready availability of cold storage
- Marketing networks in the mainland
- Absence of phytosanitary barriers to trade!

Note: Grey trade channels are used in order to circumvent Chinese phytosanitary regulations. This trade is documented but unrecorded.

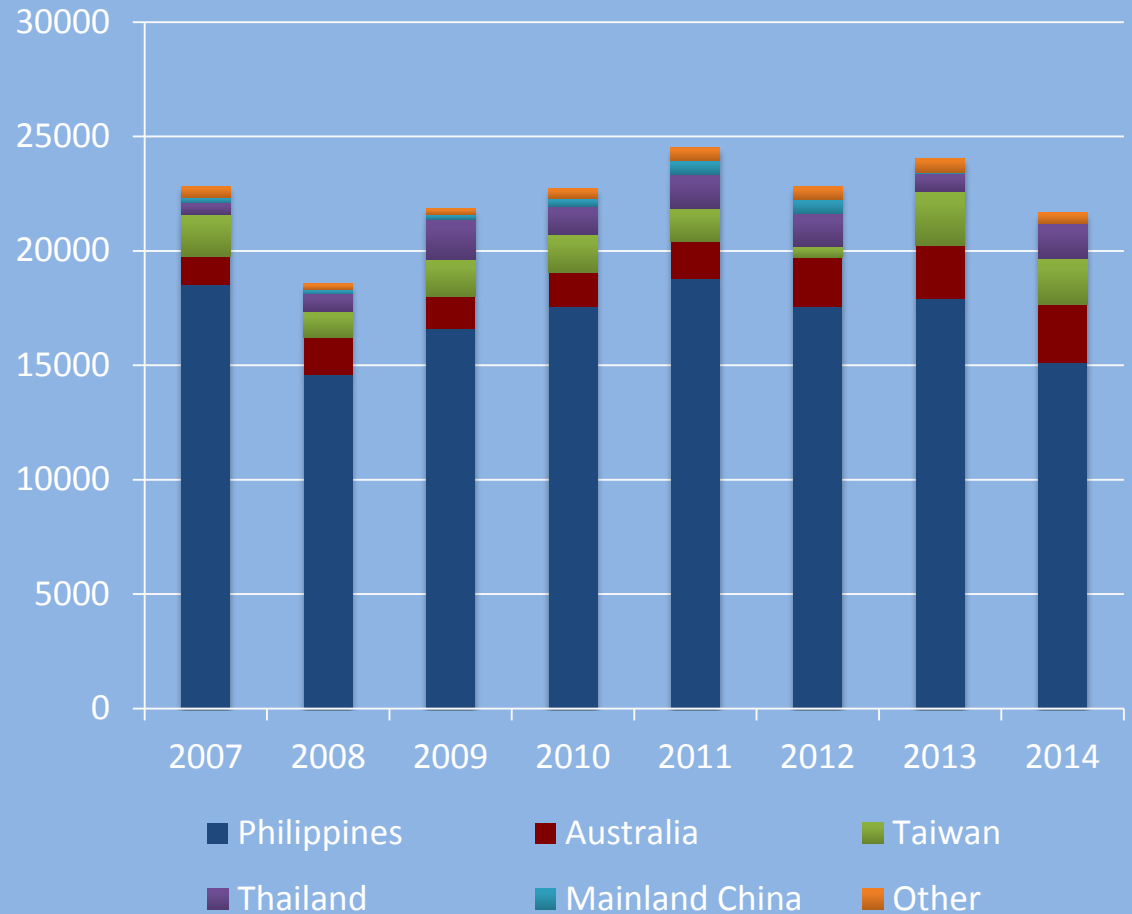
The Hong Kong market is growing in value but not in volume

Mango imports into Hong Kong (tonnes), 2007-14



Countries of origin

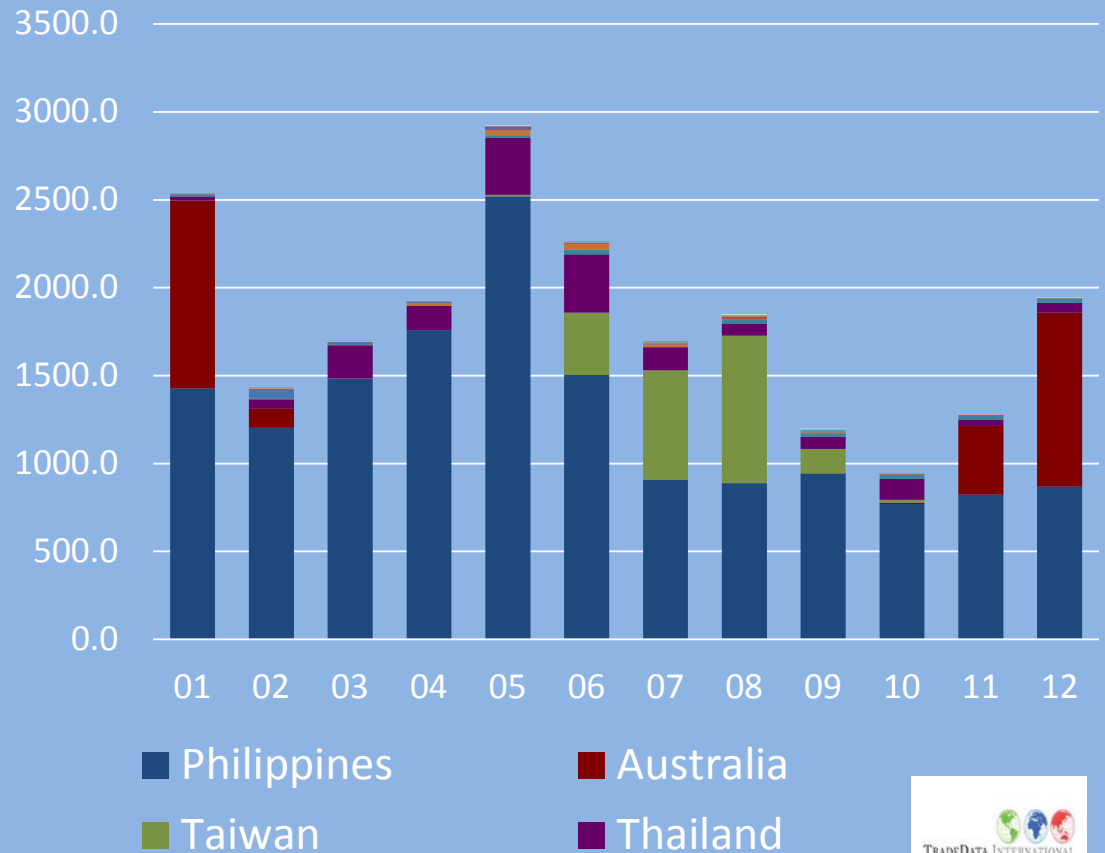
- Philippines accounts for 70% or more of imports
- Australia, Taiwan and Thailand account for nearly 30% of imports



Seasonal patterns

- **Supply factors:**
seasonality in regional exports
- **Demand factors:**
high demand during Christmas and Chinese New Year

Monthly imports of mango (tonnes), 2014



Implications for Vietnam:

There is limited potential for development of a significant export trade in mangoes to Hong Kong

- Hong Kong does not present as growing in volume but is increasing in value.
- There is strong competition from the Philippines and (to a lesser extent) Thailand during Vietnam's peak export season, from April to June
- China is not enforcing phytosanitary regulations when importing mangoes from Vietnam

but there may be opportunities for development of some export trade

- R2E2 mango (Khanh Hoa) variety provides a promising focal point for market entry.
- The marketability of other varieties (e.g. Cat Chu and Cat Hoa Loc) needs to be tested with bakeries and consumers.
- Further development of off-season production in Vietnam would improve export development prospects.

Trade Analysis

Mango Imports into Mainland China

Import regulations

- Only 9 countries have legal access to the Chinese market:
 - ✓ Australia, India, Myanmar, Pakistan, Peru, Philippines, Taiwan, Thailand, and Vietnam
- Market access is governed by phytosanitary protocols
- Orchards, packing houses and post-harvest treatment facilities must be approved by the relevant national and Chinese agencies
- China may decide to send inspectors to the country of origin during the export season, with exporters bearing the cost

Import regulations

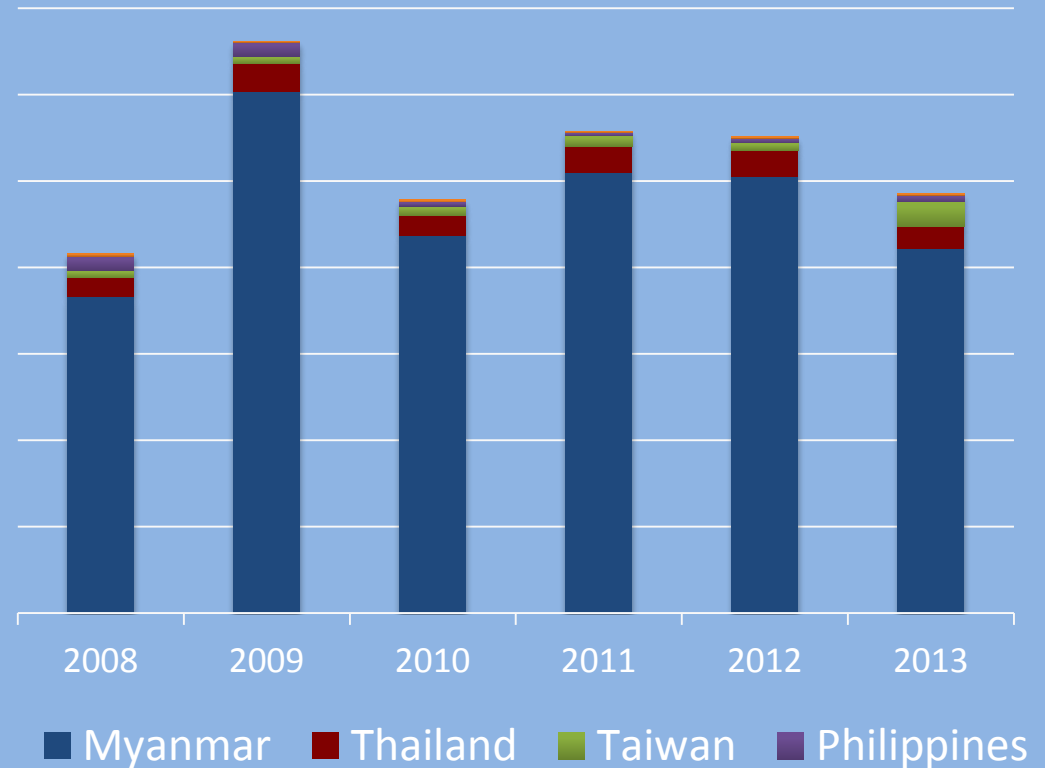
- Only certain authorized companies can import fruit
- An Entry Animal and Plant Quarantine License is required for every import consignment
- Quarantine and customs clearance may take 3 to 5 days
- Laboratory testing may delay the release of a consignment by 3 to 10 days

But there are always exceptions to the rules!

- It appears import regulations are only being applied to mangoes exported directly to Mainland China by sea or air
- Fruit coming in from Hong Kong or across the border from Myanmar and Vietnam does not comply with these regulations
- Cross-border imports from Myanmar go through official channels (recorded by customs)
- Cross-border imports from Vietnam (incl. Cambodian mangoes) can be defined as grey trade (documented but not recorded)

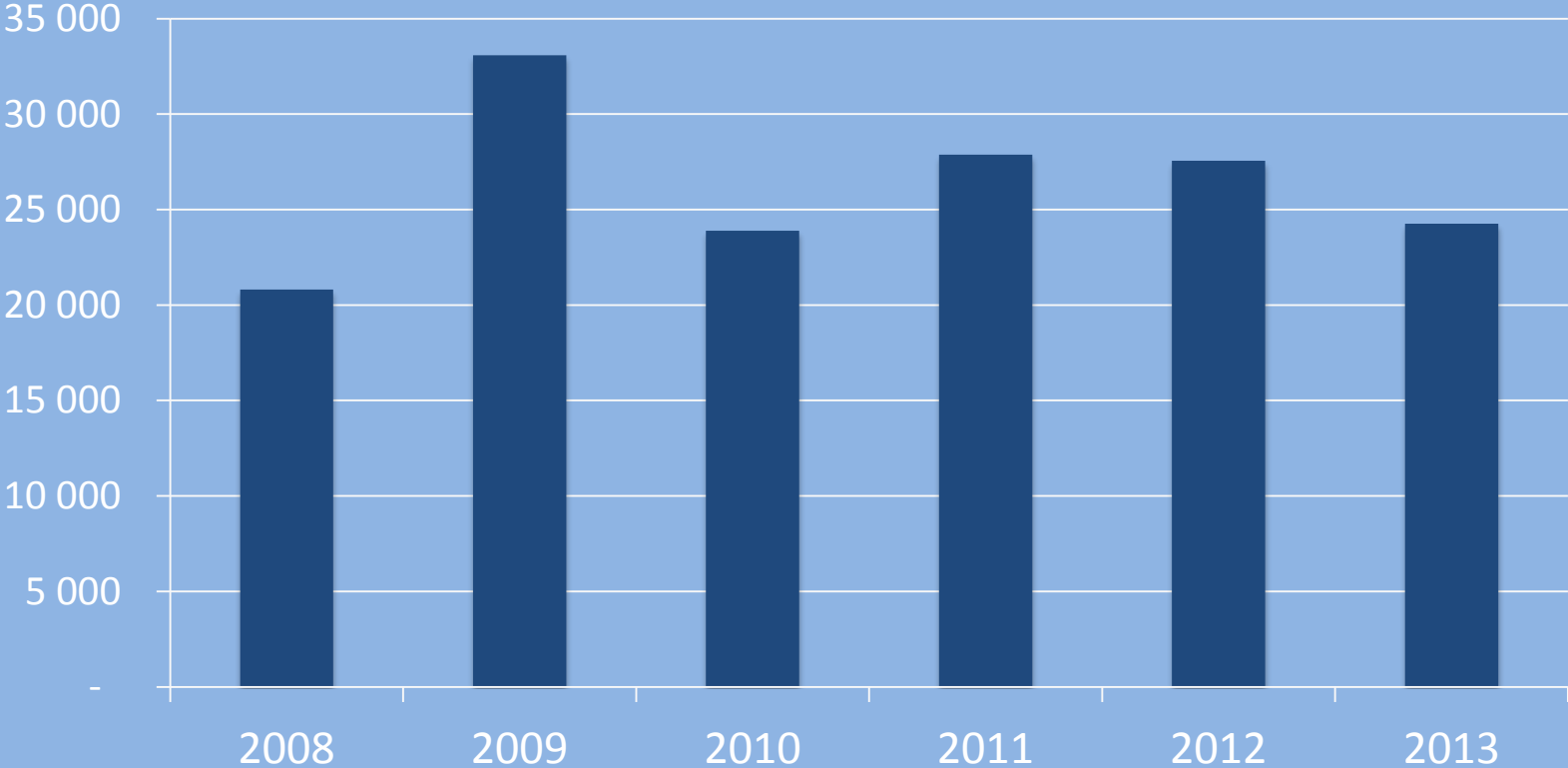
Countries of origin

- Myanmar accounts for 80 to 85% of official imports
- Unofficial imports from Hong Kong, Vietnam and Cambodia are unknown



unsurprisingly, there has been no upward trend in official mango imports into Mainland China

Official mango imports into Mainland China (tonnes), 2014



Why aren't Chinese imports growing?

- **Supply factors**

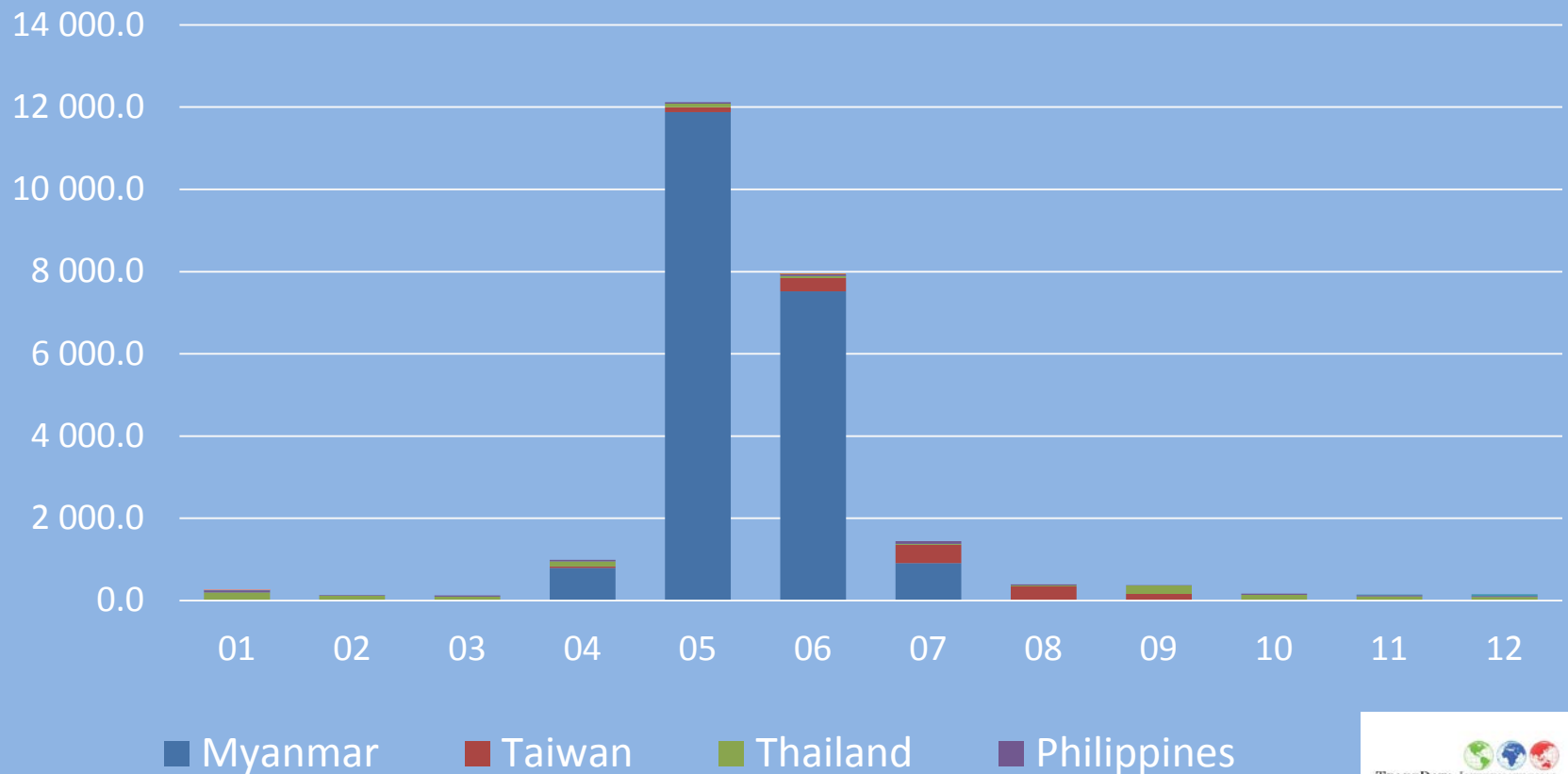
- ✓ Growth in domestic production
- ✓ Overlapping seasons in China and southeast Asia (March to June)
- ✓ Phytosanitary barriers

- **Demand factors**

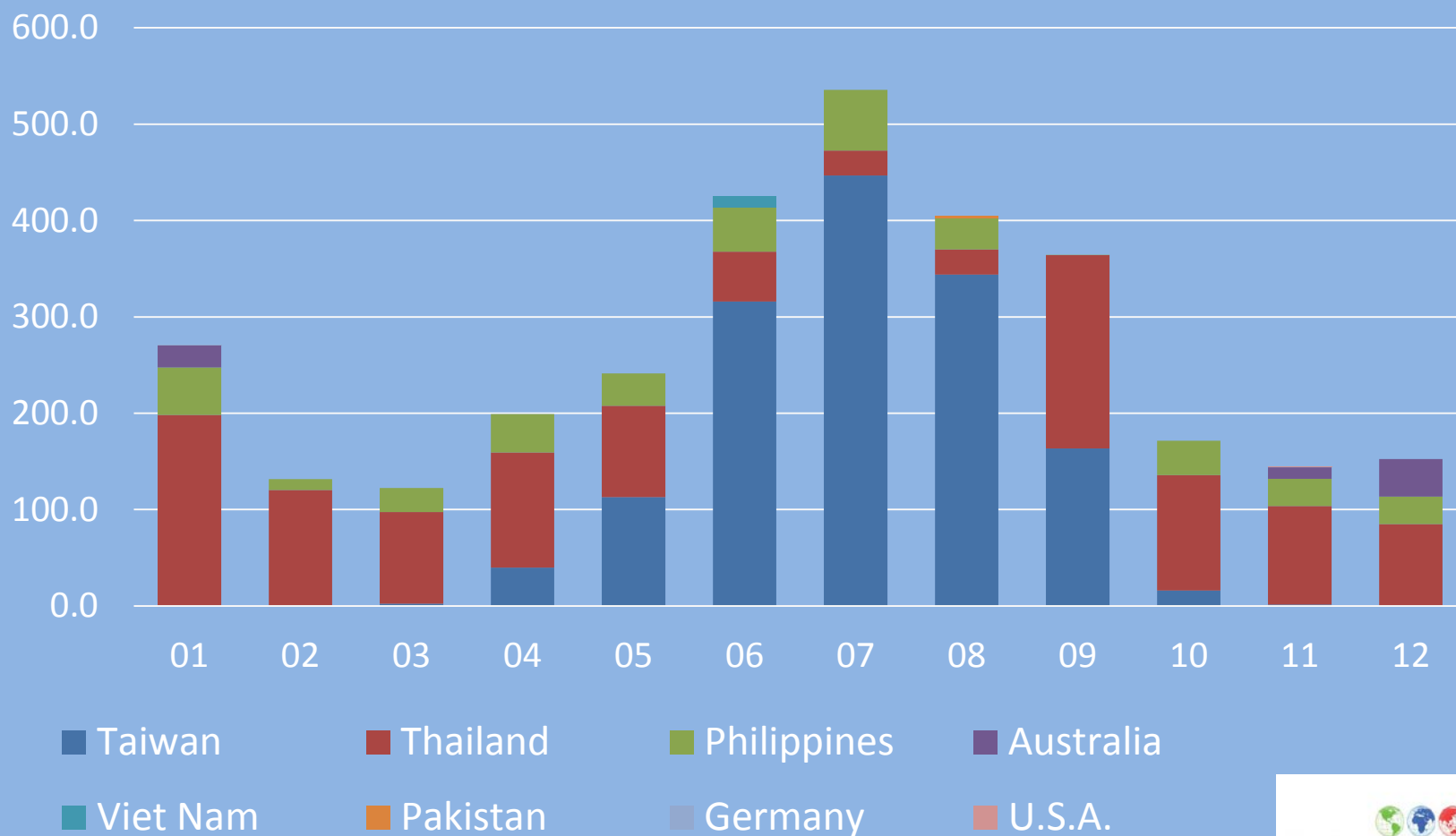
- ✓ Low income-elasticity of demand (< 0.3)

Imports are very seasonal: coincide with the harvest season in Myanmar (and China!)

Official mango imports into Mainland China (tonnes) by month, 2013

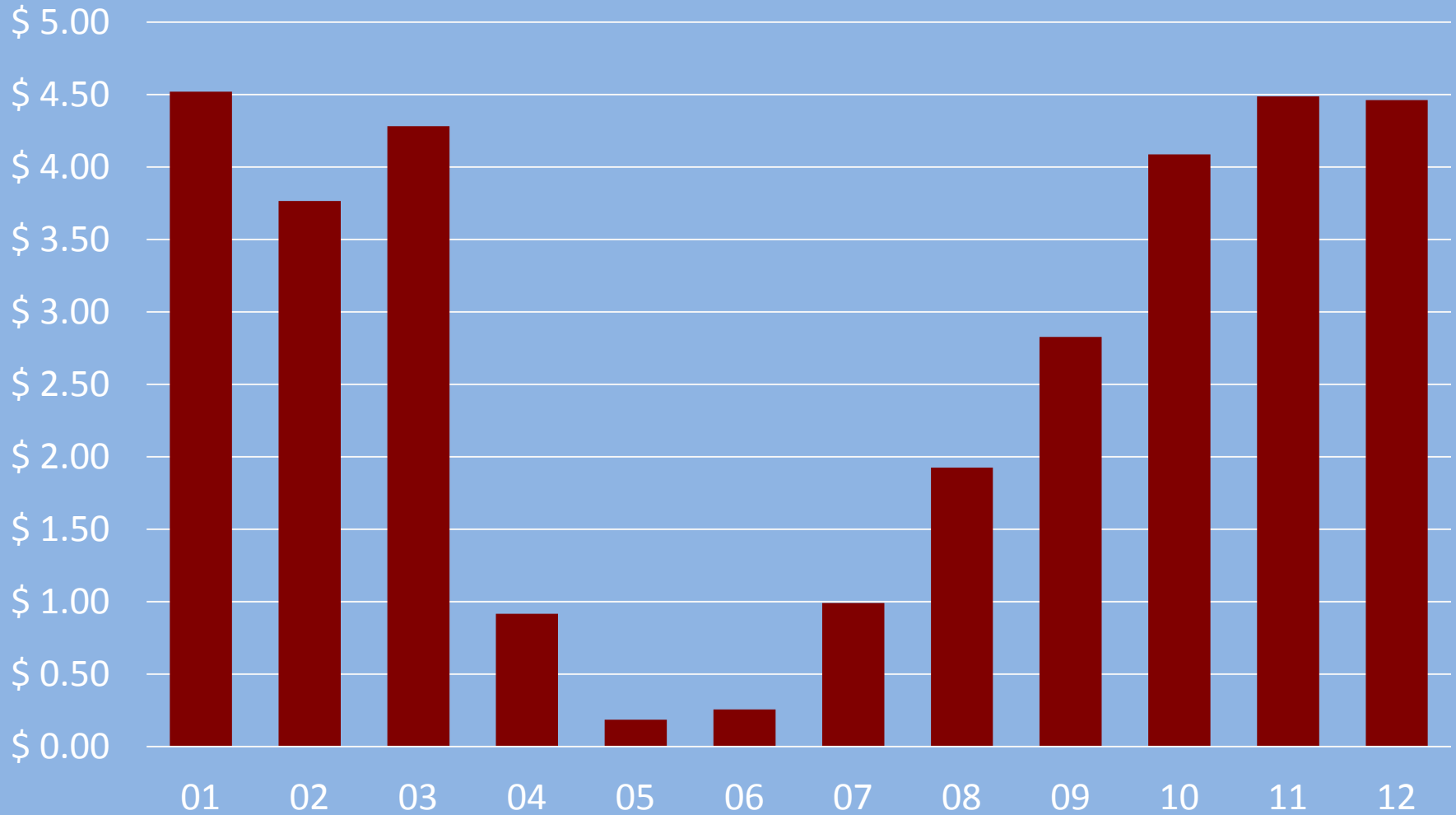


Official mango imports into Mainland China (tonnes) by month, excluding Myanmar, 2013



Average monthly CIF price for imported mangoes, 2013

\$US/Kg



Implications for Vietnam

- Cross-border informal exports from Vietnam are tolerated, but could be halted if Chinese authorities decide to enforce quarantine regulations
- There are opportunities for developing an export trade by sea or air, both during the peak and off seasons, especially for R2E2 mango
- High fruit costs at arrival will limit the extent of this trade



Hong Kong & Shenzhen, China

Market Facts

| Hong Kong | 2005 | 2015 (Q3) |
|--|-----------|-----------|
| Population | 6,898,686 | 7,141,106 |
| Population density (people/km ²) | 6,531* | 6,690 |
| GDP Real Growth Rate (%) | 7.9 | 2.3 ^ |
| GDP Per Capita, PPP, (US\$) | 39,941 | 52,552 ^ |

Location of Housing

(% population, 2014)

- > Hong Kong Island 17.2
- > Kowloon 30.3
- > New Territories 52.5

Note: *2006 estimates ^ 2015 estimates
 Sources: Censatd Hong Kong, 2015;
 World Bank Data Bank (2015)



Market Segments, Hong Kong

- ✓ Retail Grocery (duopoly, supermarkets, mini marts, specialty)
 - 2013 \$10.75b up 5.4% on 2012
- ✓ Food Service (restaurant receipts)
 - 2013 \$12.4b up 3.5% on 2012
- ✓ Food Processing (bakery, confectionery)
 - value unknown

Overall lead food import country,
USA with \$4b in 2013

- Importers act as Brokers ASP, wholesalers & distributors
- Some direct import by retailers (Wellcome, ParknShop)

Hong Kong Food Retail Stores, Hong Kong & Macau Aug 2013

| Company | Brand/s | Stores | Type of purchasing agent |
|---|---|---|---|
| Dairy Farm Group - largest grocery operator - a range of brands for different market segments - Hong Kong ownership | Wellcome/Superstore | 240 + | Importers ASP Brokers Wholesalers Direct |
| | Market Place by Jason Olivers Delicatessen ThreeSixty | 23 1 1 | |
| AS Watson Group - targeting higher income consumers - offers Chinese & imported products - Hong Kong ownership | 711 | 920+ | |
| | ParknShop ParknShop Superstore Taste Fusion International Great Food Hall Gourmet Food Hall | 175 + 49 10 14 22 1 1 | Importers ASP Brokers Wholesalers Direct |
| SOGO - Ownership, Japan | SOGO Supermarket | 2 | Importers Wholesalers |
| | Food Halls | | |
| City Super - Ownership, Hong Kong | City Super | 4 | Importers Wholesalers |
| | | | |
| CR Vanguard - Ownership, China | Vanguard | 100 + | Importers ASP Brokers Wholesalers |
| | VanGo | 70 + | |
| Da Chon Hong Food Co - Ownership, Hong Kong | DCH Food Mart | 80 + | Importers ASP Brokers |
| | DCH Food Mart Deluxe | | |
| Li & Fung Group - Under license, Hong Kong | Circle K | 320 + | Importers Wholesalers |



Food Service & Food Processing

Food service is dominated by hotels & restaurants

- Over 244 hotels with 72,721 rooms in greater HK
- Over 163,000 registered restaurants
- Requiring fresh & semi processed product
- Thai and Philippine mangoes are favoured by operators in this sector

Food processing

- Baking, confectionary & ingredient suppliers & processors
- In 2013, over 13,900 businesses engaged in bakery, cakes, confectionery & other food preparation (receipts presented)
- Philippine mango is favoured by operators in this sector, by taste, size & price



Hong Kong Consumer Insights

- › **Shop daily & rely on public transport** for their purchase of foods
- › Some of the **most concerned consumers** in Asia when it comes to **food safety, hygiene & health related** food & beverages, after Japan
- › Strong preference for **purchasing from modern retail outlets**
- › **Organic foods** are gaining popularity
- › **High quality eating experience expectations** - related to retail & food service
- › **Fruit packaging & market presentation** – influence on purchase occasion
- › **Strong knowledge of & how to consume tropical fruit & mangoes**
- › **Sustainably prepared & packaged food products**, labelled accordingly

Reported Consumer Preferences for Mango in Hong Kong:

- › Good quality, blemish free, small size,
- › Not too sweet &
- › Skin colour – orange, yellow & red tones



Role of imports in Hong Kong

Domestic reliance on imports

- 95% import of food supply

Supporting Infrastructure

Shipping Port

- Victoria Harbour, gateway to southern China
- Double taxation relief – incl. Vietnam

Air Freight

- One of the busiest cargo airports
- Access to Pearl River Delta distribution

Road Access

- Sophisticated train network
- Between HK & mainland China
- 4 key tunnels

Strategic regional agri-food re-exporter

- Macau, mainland China & South east Asia
- Predicted growth in imports & re-exports



Source:

Hong Kong Merchandise Trade Statistics Imports, 2015;
and www.ird.gov.hk/eng/pol/dta.htm

Bio Security & Market Access

Fresh Food imports

Market access for mangoes – **Yes**

Phytosanitary certification required – **No**

- Permitted entry without certification
- No tariffs or duties payable on import or quotas or surcharges
- Trade documentation in English

Minimal & semi processed food imports

- Minimal requirements & attractive to trade
- Emerging opportunities for private label branding
- Market is trend & quality driven, price is not always the determinant

Regulatory requirements (#Chp 132) for processed foods:

- Nutrition labeling
- Health certification

Shanghai, China



Market Facts

- Shanghai is one of the most important & strategically located trade centres in Asia
- International exposure, high living standards & high purchasing power
- Familiarity with tropical imported fruits, such as mangoes



| 2015 (Q3) | China | Shanghai |
|--|---------------|---------------------|
| Population | 1,367,485,388 | 23,741,000 |
| Population density (people/km ²) | 145 | 3,800 |
| GDP Real Growth Rate (%) | 1.8 | 2.0* |
| GDP Per Capita, PPP, (US\$) | 12,609 | 26,896 [^] |

Notes: [^]2014 estimate, *2005 estimates

Sources: World Bank Data Bank, 2015; Shanghai National Economic and Social Development Statistics Bulletin, 2014; National Bureau of Statistics of China, 2015.

Market Segments, China

- ✓ **Retail Grocery** (hypermarkets, supermarkets, mini marts, specialty)
 - 2011 \$1.85tr (¥ 12.5 tr) up 16.3% yoy
- ✓ **Food Service** (restaurant receipts)
 - Value unknown
- ✓ **Food Processing** (bakery, confectionery)
 - Value unknown

Overall lead import country for food items, USA \$4b in 2013

Retail: Segment growth & developments

- › **Online-only retailers** that provide foods, catering, home appliances online;
- › **Multi-channel retailers** that have traditional stores & offer online shopping services;
- › **Third party e-commerce platforms – emerging** for imported fruits customer and consumer direct online services that help SMEs, such as FieldsChina.com and Yiguo.com.

Rise on online / e-commerce platforms for imported fruit in China



The screenshot shows the Yiguo.com website interface. The header includes the logo '易果生鲜 yiguo.com 全球精选', the location 'Shanghai', and contact information '中文/EN 400-000-7788'. Navigation links include 'All Categories', 'Recharge', 'Login', 'Register', and 'Check Out'. The main content area features a large image of 'New Zealand Red Jazz Apples' with a '次日配送 热卖' (Next-day delivery, Hot sale) badge. The product title is 'New Zealand Red Jazz Apple'. Below the title, there are package options: '(Yiguo package)', '(Yiguo package)', and '(small package)'. The price is listed as '¥96.00' for 24 apples per box, with a '原价: ¥158.00' (Original price: ¥158.00). There is an 'Add to Favorite' link and a quantity selector set to '1'. A green 'Add to Cart' button is prominent. Below the product image, there are social media sharing options for Weibo, QQ Space, Weibo, and Renren. A table of product details is visible:

| | | | | | |
|-----------------|-----------------------------------|----------|-------------|---------------|------------|
| Available | Shanghai, Beijing, 天津, 杭州, 苏州, 昆山 | Delivery | Stock | in stock | |
| Origin | 新西兰 | Brand | 易果 | No. | 11135 |
| Settlement time | 20:00 | Status | refrigerate | Delivery Date | 2015-07-17 |
| Share to | 新浪微博 QQ空间 腾讯微博 人人网 | | | | |

Example: Yiguo.com - Shanghai based & serves 50 cities

- Distribution through regional imported wholesale markets across China
- Focus on connecting with consumers online & offline
- Nutrition lectures, cooking demonstrations, recipes sharing
- Communications – website, aps and text messages

Shanghai Consumer Insights

Imported Food Trends

- Strong level of desire to **consume on the go**; busy & mobile population
- Exposure to & recognition of foreign & imported foods
- Brands are heavily linked to purchase design

Complex purchase preferences other than price

- convenient location
- a prominent brand
- high variety of quality foods

Preferred Mango Attributes

- Highest quality & visually attractive
- Appearance: blemish free, slightly soft to touch
- Fruit size: Small
- Flavour: Not too sweet
- Skin colour: orange, & red tones “blush” (noted as most important attribute)



Major Imported Fruit Distribution Centers

4 major markets servicing North, Central & South China

- Shenyang
- Beijing
- Shanghai
- Guangzhou



Imported Fruit Distribution Region – Yangtze Delta

Each distribution center serves a geographical area

Shanghai Huizhan Market serves the largest region

Yangtze Delta

- Area: 210,000 km²
- Population: 159 million

Distribution areas

- Shanghai
- Jiangsu Province
- Zhejiang Province



Major Wholesale Fruit Markets

Yangtze Delta region

Largest economic circle in China

20% GDP

1 Import & Export Value

1 Gross retail sales

Serves 7 regional areas of

- Hangzhou
- Jiaxing
- Nanjing
- Ningbo
- Wuxi
- Jinhua
- Wenzhou



Bio Security & Market Access for mangoes Shanghai / China

Fresh food imports

Approved countries for mango imports, as at 1 January, 2015 are:

- Australia, India, Myanmar, Pakistan, Philippines, Taiwan, Thailand, Vietnam

Phytosanitary certification is required

Semi processed fruit imports

Specialty packaging & extended shelf life is desired

Processed food imports

Similar to HK, minimal standard regulatory requirements

Private label and contract packaging is emerging

Opportunities for seasonal & longer term agreements (3 yrs +)

Conclusion



Insights & Opportunities – Hong Kong

| What we know | What we don't know |
|---|---|
| A leading market, with an increasing demand for fresh foods & beverages including tropical fruits & mangoes | Statistics show the market as a performer Household consumption unknown and re-exported quantities are not clear |
| Consumers seek food products with an emphasis on 'healthy' & 'safe', Price is not always a driver for purchase decisions | Form, variety, usage occasion & safety definitions are not fully understood including in-home and out of home consumption |
| The market is 'quality' and 'trend' driven | Consumer definition of quality, along with purchase drivers and barriers not clear |
| Mangoes are a known fruit & familiar | Retailer buying criteria & product specification |
| Consumers buy over 55% of their fruit from modern retailers | Customer (retailers, food service) preferences by market segment unclear |
| Competitors for mango imports are Thailand, Philippines & to some extent China | Competitor strategy framework |
| Food processing & food ingredient use for mangoes are in high demand | Key buyer profiles & operating platform are not fully understood |
| Buyers & agents make purchasing decisions for domestic consumption & for transshipments into regional China & parts of Asia | Product characteristics required are not fully understood, i.e. variety, size, fresh versus processed |

Insights & Opportunities – Shanghai

| What we know | What we don't know |
|---|--|
| Promising market, with an increasing demand for tropical fruits & mangoes | Implications of changing consumer trends relative to mango consumption |
| Strong consumers preferences for imported high quality fruits | The growing middle class' preferences for imported fruits |
| The market is 'brand' and 'country of origin' driven, higher prices can be equated to quality | Magnitude of the demand for higher-priced fruits – fresh & processed |
| Mangoes are a known fruit & Chinese consumers are familiar | China's future share in domestic mango produce & consumption is not understood |
| Customer (retailers) purchase decisions are aligned to brand image and their target consumer perceptions (geographical location & demographics) | Share of basket for that consumers purchase from modern retailers |
| Competitors for mango imports are Thailand, Philippines & Australia (counter seasonal) | Competitor (retailers, food service) preferences by market segment |
| Buyers & agents make purchasing decisions for domestic consumption & for transhipments across regional China | Demand for fresh, processed & food ingredients use for mangoes |
| Import approved status for mango | Cost, time and documentation requirements are not yet fully understood |

Next steps...

- **Select** an exemplar market to develop
- **Identify** key players & influencers
- **Examine** mango quality definitions – consumers & customers
- **Investigate** volume & value drivers
- **Characterise** value chain structures – fresh & processed
- **Understand** trends/directions/outlook
- **Acknowledge** pressure points & implications



Griffith Agribusiness

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