



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 7/9/2004

GAIN Report Number: CH4816

China, Peoples Republic of

Agricultural Situation

Retail and Food Distribution Development in China

2004

Approved by:

Ross Kreamer
U.S. Consulate

Prepared by:

Ralph Bean

Report Highlights:

Shanghai recently hosted an international conference on the development of modern food retail in China and its impact on food distribution and marketing. This heavily oversubscribed event was a tremendous success, and will likely lead to a followup conference. Policy recommendations were offered in support of strengthening links between farmers and the retail sector.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2]
[CH]

International Conference on Supermarkets and Agricultural Development

Modern food retail is growing at a breakneck pace in China, with many major international chains now having a presence on the mainland. Key players in the Chinese market include national giants Lianhua and Hualian, and foreign invested joint ventures from Carrefour, Wal-Mart, Metro, Lotus and Park 'n Shop. The city of Shanghai has been the center for much of this development. Not only is Shanghai home to three of China's five largest domestic food retail chains (Lianhua, Hualian and Nonggongshang), but it has also been at the cutting edge for new trends. Most recently, the city has seen a tremendous boom in convenience stores, and is now home to nearly half the convenience stores in mainland China.

Thus, it was entirely appropriate that Shanghai host a symposium on the impact of modern food retail development. The purpose of the symposium, which ran from May 24-25, was to explore the rapid development in China of modern-format retail outlets such as hypermarkets and supermarket chains, and its implications for food safety, production, imports and distribution. The organizers of the event consulted with ATO/Shanghai throughout the planning period, seeking input and ideas to ensure a successful event. Fred Gale of USDA's Economic Research Service (ERS) presented a paper at the symposium, and ERS contributed funding to the activity. Two of the keynote speakers also consulted with ATO Shanghai's Deputy Director for review and comments on their papers and presentations. The forum was massively oversubscribed with large numbers of people being turned away. The overwhelming success of the conference has led to active interest in hosting a follow-up event in the near future.

Major Foreign-Invested Hypermarket Companies in China			
Retailer	Ownership	Number of Outlets 2002/current	Annual Sales (billion rmb)
Carrefour	Sino-French	32/41	12.9 ¹
Wal-Mart	Sino-U.S.	25/31	NA
Metro	Sino-German	16/18	5.3 ²
PriceMart	Sino-U.S.	26/NA	NA
Lotus	Sino-Thai	5/NA	NA
Trustmart	Sino-Taiwan	40/76	NA
RT Mart	Sino-Taiwan	14/NA	NA
1) ATO/Shanghai estimate; 2) China Chain store Franchise Association statistics			

Supermarkets and Agricultural Development

The forum covered a wide range of topics related to retail development, including the current state of retail development in China, food distribution, food safety and the globalization of food retail. Presenters included top Chinese and U.S. academics, Chinese government policy advisors, U.S. companies, Chinese and foreign retail chains and international investors. The tremendous interest in this event and the wide-ranging nature of the discussions demonstrate the need for more discussion. Topics discussed include the following:

The development of modern retail in China. Several speakers touched on this subject. Most focused on Shanghai as the most advanced city, but noted that modern retail formats, particularly supermarket chains, have spread across China. Although relatively little new ground was covered in terms of the structure and size of China's retail sector, presenters noted the substantial weaknesses in China's distribution chains.

Modern retail is changing the face of food marketing in China. Several speakers, including Fred Gale of USDA/ERS, noted that the rise of modern retail chains in China is changing the way that food is sourced, and creating new opportunities for imports. Poor internal logistics and handling capabilities within China, combined with demand for high volume and consistent quality on the part of retailers, have made imports a more viable option. Large retailers are also changing the balance of influence, transforming China from a supply-driven market (consumers buy whatever is available), to a demand driven one (suppliers produce what consumers want).

Policymakers take note. Donald Nugent, President of Graceland Fruit, admonished policymakers to pay attention to the changes being wrought, as the food business is changing at a breakneck pace. His remarks echoed those made earlier by Dr. Reardon, that policymakers need to be aware of the changes underway, and work to ensure that both retailers and suppliers are involved. These issues were much expanded in later presentations, most notably by Huang Jikun of the Chinese Center for Agricultural Policy, and by Walter Belik.

Managing relations between suppliers and retailers. The experience of other developing nations in dealing with supply chain issues is a topic of great interest for the Chinese food industry. One presenter (David Boselie) covered the experience of the TOPPS supermarket chain in Thailand and its efforts to develop a system of preferred providers. Another (Fernando Jorge Brom) covered Argentina's experience in negotiating a code of commercial practices to govern relations between food suppliers and retailers. Dr. Thomas Reardon discussed the history of food retail development in other countries, noting that the general pattern is remarkably consistent, and bear important lessons for developing economies. Dr. Reardon reinforced his points with specific examples from Latin America and Eastern Europe. Peter Timmer also provided an analysis of the implications of modern retail for food policy.

Managing distribution channels for Chinese producers. Continuing in the same vein as the previous presentations, two Chinese researchers from top agricultural policy institutes, Dr. Hu Dinghuan (Chinese Academy of Agricultural Sciences) and Professor Shen Minggao (Beijing University), discussed the problems that China faces as the demands of retail stores for quality, consistency and volume vastly outstrip the capabilities of traditional agricultural production and distribution systems. The key problem facing China is the extremely small scale of agricultural production, and the problems of consolidating production into meaningful quantities while ensuring quality. Various potential solutions were examined, with farmers' professional associations appearing to hold the greatest promise. Government-sponsored speakers, however, continued to press the official policy that retailers should take responsibility for organizing farmers and ensuring quality, but this notion seemed to find little support elsewhere.

Food safety and food handling. During his presentation, Dr. Reardon noted that private safety standards and preferred supplier arrangements are key emerging trends. This was reinforced by the David Boselie's description of Topps' effort to develop just such a system in Thailand, and by Dr. Rossignol's discussion of the food safety initiative. On the downside, a representative of China's Ministry of Agriculture noted in passing that food safety standards could effectively be used to limit imports. Several of the presentations on the second day went into greater detail on improvements and challenges in supply chain management.

Harmonization of international standards. Dr. Benoit Rossignol discussed the Global Food Safety Initiative, a project undertaken to reduce the thicket of redundant and often conflicting food safety measures that in themselves constitute barriers to trade, while improving consumer understanding and confidence in food safety standards. Globalization

has increased the need for standardization as the supply chain becomes increasingly complex. GFSI seeks to harmonize existing standards by benchmarking them. This requires recognition and cooperation between the different standards bodies.

Subtext

Although the forum was interesting primarily for the information presented, there was also an interesting line of subtext. The two highest-ranking speakers from the Chinese government, including the country's top advisor on rural policy, were pulled from the program at the last second. And while most of the presentations covered a wide range of territory and presented varying viewpoints, those provided by all Chinese government-related organizations, including the two retail chains (both government owned), were uncannily similar. In particular, all were careful to consider only the government's official policy that retail chains should take on the responsibility for organizing farmers and developing distribution systems and enforcing quality standards, despite the difficulties noted by other presenters. This likely reflects the government's unease with the idea of farmers' professional associations that seemed to be favored by most non-government presenters. The atmosphere changed considerably during Q & A, as the questioning was, on occasion, quite vigorous, with some speakers readily acknowledging weaknesses in their approaches.

A Resounding Success

It is difficult to overstate the success of this symposium. The event was so heavily overbooked that even ATO was limited to two tickets, and the Government of Mexico contacted FAS for assistance in getting tickets for their representatives. Every contact that ATO talked to felt that the forum was a success, but that there was still a great deal more territory left to be covered. The organizers are already discussing a follow-up event.