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# China, Peoples Republic of

# Seafood

# China's Current Market Situation for Imported Seafood

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Prepared by:
**Scott Reynolds**
**U.S. Consulate General, Shanghai**
Drafted by:
Peter Moustakerski, Jin Zhihong

**Report Highlights:**
China is a vast market for seafood products and consumption has been growing steadily over the past ten years. Fresh and live seafood imports have grown 50% since 1992 to reach over 1.5 million tons in 1997. But recent measures introduced by the government, aimed at tightening foreign exchange controls and customs inspection procedures, are making it difficult for Chinese importers to bring in seafood products from overseas legally and at competitive prices.

Includes PSD changes: No
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**Highlights:**

! Government crack-down on smuggling is affecting some of the seafood import channels
! Tighter customs and currency controls make duty-free seafood import quotas de facto unavailing for overseas export products
! Chinese importers are having a hard time securing foreign exchange to pay for their imports
! Seafood processors and re-exporters can still import duty-free according to their set import/export ratios
! Some overseas suppliers and Chinese importers are scaling down and concentrating on their most profitable products
! A few overseas suppliers are taking the hard gamble to sell product on consignment in order to keep business
! The only feasible solution importers see for now is to make a small part of the payment in China and the larger part overseas.

China is a vast market for seafood and its future potential is even greater. At present the seafood handling and processing industry is concentrated around several coastal cities: Dalian, Qingdao and Tianjin in the North, and Shanghai, Fuzhou and Guangzhou in the South. After arriving at the above mentioned ports, frozen seafood products are distributed mainly via China's railway and highway transportation network to various areas for sale. The distribution chain is as follows: the primary importers sell to local first-level wholesalers, who then transfer product to dealers, who in turn sell to retailers. The main retail venues for seafood in China are wet markets and food stores. In addition to frozen seafood, there is a smaller but substantial market for live seafood in China. Live seafood products are shipped by air and the main points of entry are Hong Kong, Shanghai and Beijing. Guangdong province is a major consumer of live seafood products that get shipped via truck from Hong Kong. Among the many live seafood products entering China are rock lobsters from Australia, dungeness crab and geoduck from Canada and oysters from New Zealand. Companies from these three countries are ahead of U.S. live seafood exporters and have managed to establish and develop a good market for their respective products.

In April 1998, the Chinese government introduced a set of measures aimed at cracking down on illegal importation and smuggling, particularly from the South of China. These measures are affecting a wide variety of products imported from abroad. Since a portion of the imported seafood products were being smuggled too, their 'duty-free' channels were naturally affected by the crack-down. But this portion is relatively small due to the existing self-catch, duty-free import quotas assigned to Chinese fishing vessels, which provide a 'legal' inlet for imported marine and aquaculture seafood products.

The most evident difficulty now facing almost all seafood importers and their overseas suppliers is the virtual futility of self-catch import quotas, caused by the tightening of customs and currency control. As part of the overall crack-down campaign against smuggling, customs houses are required to be much stricter in issuing customs clearance for duty-free seafood. Without the proper customs clearance and documentation the importer cannot free the bank letter of credit and pay the overseas supplier. On the other hand, since June 1998 the customs clearance system has been computerized and linked to the bank computer system, thus linking every duty-free shipment with its respective payment, making it very easy to control the origin of each shipment and impossible to make a payment for a shipment which is supposedly self-caught by a Chinese vessel. The importers also need to present a 'catching certificate' that is only legally available to the large specialized fishery companies that own the ocean fishing vessels. There are only a few of those companies in China and that makes control easier. Finally, the customs inspections have become much more thorough, forcing importers to re-package any imported seafood to make it look like freshly caught and frozen. All the above makes it very difficult for importers to make use of the duty-free quotas when importing seafood products from abroad.

Furthermore, since September 1998 the Chinese government has been exercising stricter control over foreign exchange transactions and the outflow of hard currency in particular. Bank policies concerning the opening of letters of credit by Chinese companies have changed, requiring larger initial deposits for L/C and a more thorough credit check for the state enterprises. This is making it more difficult for importers to obtain hard currency to pay for their imported goods. Currently the only companies that can legally pay in foreign currency using duty-free quotas for imported seafood are the same state owned fisheries that own the quotas. They are allowed to sell self-caught seafood to foreign buyers for hard currency and conversely can purchase seafood from abroad and import it duty-free, but its value cannot exceed the amounts in foreign exchange they collect for their self-caught sales. These amounts are relatively small each month and the quantities they can pay for are far smaller than what the quotas allow for. Without the duty-free quota system working for them, the alternative for seafood importers is to pay import duties. However, importers were only adding 10% on top of the shipment value to buy the duty-free quotas. Now just the import duty and VAT will add about 45%, making it impossible to maintain the inflow of overseas products into the Chinese market at the same acceptedly competitive price levels.

Seafood processors and re-exporters can still import duty-free seafood product which is regarded as their ‘raw material’. They have a certain ratio of imports and exports and their production is generally all required to be exported abroad. These enterprises do not always use up all their duty-free import allotment for raw materials, so they have a small allowance to import other seafood duty-free. This is a relatively narrow import channel and is still unaffected, but competition for it is greater.

As a result of the above developments, both import companies and overseas exporters are reacting to the new regulatory conjuncture in various ways, trying to preserve their existing import channels or looking for possible alternatives. Due to their decreased import capacity as a result of the tight customs and currency controls, some companies have chosen to cut their product variety and concentrate on the most profitable item in their portfolios, such as shrimp.

One supplier from South Asia admitted that, after much deliberation, he has decided to provide product on consignment to his most reliable importer in Hong Kong, because his Chinese distributors, despite having the RMB to pay and customers to sell to, are now incapable of making timely payments due to the foreign exchange controls. He is forced to make this very risky step in order to maintain his existing distribution channels in Mainland China. He is hoping the situation will resolve itself, either through easing of foreign exchange controls (as in previous years) or through the introduction of new less prohibitive import regulations and tariffs.

The only seemingly feasible solution for local importers is to declare a very low value (e.g. 20% of actual value), open a L/C through the Bank of China and pay some import duty, and then pay the larger balance to the supplier through a bank overseas. There are companies in Hong Kong offering this service already, whereby importers can pay them in RMB in Shenzhen and they pay overseas suppliers in hard currency from Hong Kong.

While local, private entrepreneurs give China’s Central leadership credit for effectively undertaking measures to stop illegal seafood imports, most maintain confidence that this difficult period will pass and that they will once again find loopholes in the system to meet the strong domestic demand for high-quality, imported seafood.