

February 2022



understanding CBEC in China

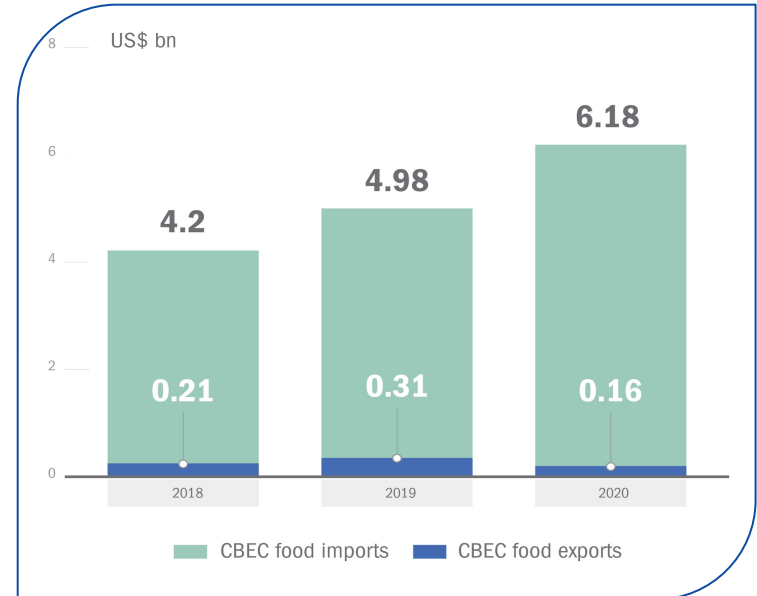
accessing online consumers

cross-border e-commerce a driving force in food trade

booming CBEC market

- largest CBEC market in the world, taking 26 percent of global market share
- food-related transactions growing at 44 percent between 2018 and 2020
- strategy to stimulate domestic demand and consumption
- policy efforts to create a 'healthy' business environment

CBEC import volumes for food-related products (2018-20)



source: MARA CBEC report 2021, Farmers' Daily

changing lifestyles: consumers moving online

driving forces

- COVID-19 inducing changes in shopping behaviour, reorienting consumers to online channels
- urbanisation and higher incomes leading to growing awareness of healthy, high-quality lifestyles
- digitisation shaping new consumption trends

growth areas



dairy products



mother and baby



health foods



fresh produce

CBEC a 'low-bar' entry to the PRC market

tariffs and taxes	<p>preferential import, VAT and consumption taxes</p> <ul style="list-style-type: none">• 6.3 percent for pet food, cooking oil, natural honey• 9.1 percent for mother and baby products, health supplements and packaged food and beverages• 17.9 percent for wine and sparkling wine (excluding current anti-dumping duties)
labelling	<ul style="list-style-type: none">• original packaging and labelling• only digital Chinese label required
customs clearance	<ul style="list-style-type: none">• simplified product registration and rapid import permit approvals• fast-tracked customs clearance

relevant regulations

E-commerce Law

from 2018, under revision since Aug 2021

positive list

last expanded in 2020

GAC decrees

bonded zones management measures;
import decrees 248/249 do not apply

comparing CBEC and conventional trade

product categories

- **CBEC:** limited by the positive list
- **general trade:** all allowable categories

product registration

- **CBEC:** simplified registration/ licensing; exceptions for food safety-sensitive products
- **general trade:** full registration/ licensing process; import decrees 248/249 introduce new hurdles

distribution channels

- **CBEC:** online only
- **general trade:** omnichannel

market access

- **CBEC:** restricted to CBEC bonded zones
- **general trade:** entry via all ports

positive list: governing market access

positive list

1. packaged foods
2. dairy and poultry products
3. infant food
4. preserved pork and beef products
5. fruits and fresh produce
6. fresh cold, frozen and preserved seafood products*
7. beverages and alcohol*

**added in last expansion round*

order limits

value caps

- value limit of C¥5,000 per order
- annual limit of C¥26,000

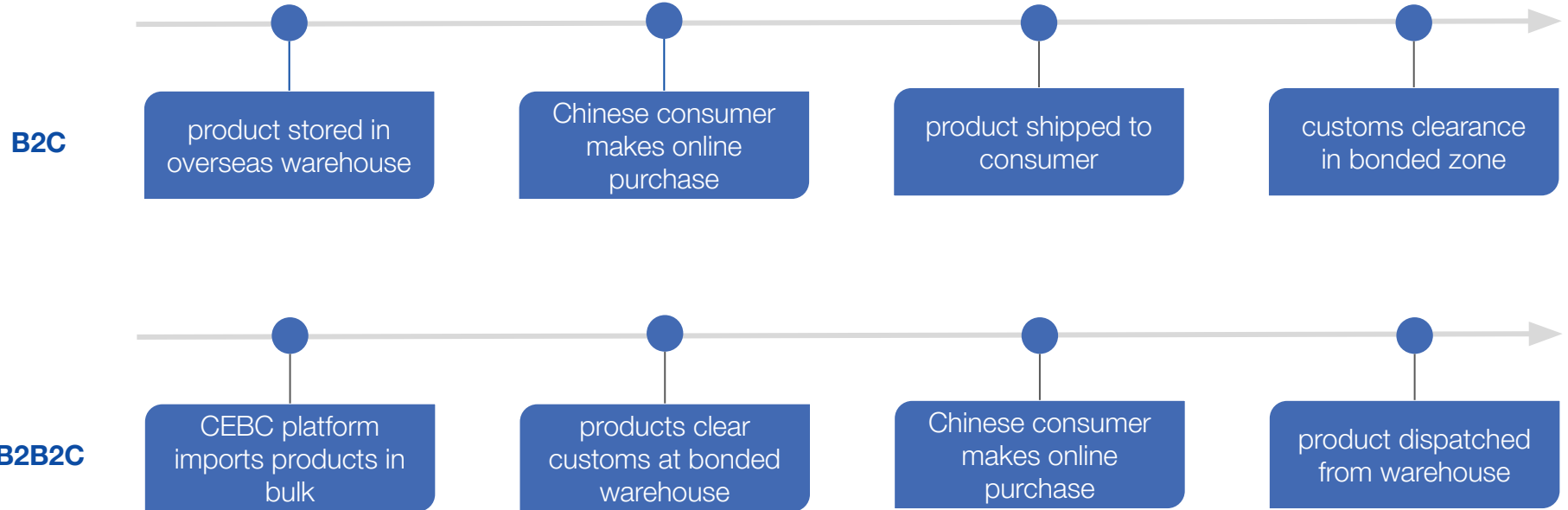
quantities

- rice, cereals, grain: 20kg per person/ year
- sugar, sweeteners: 2kg per person/ year

returns

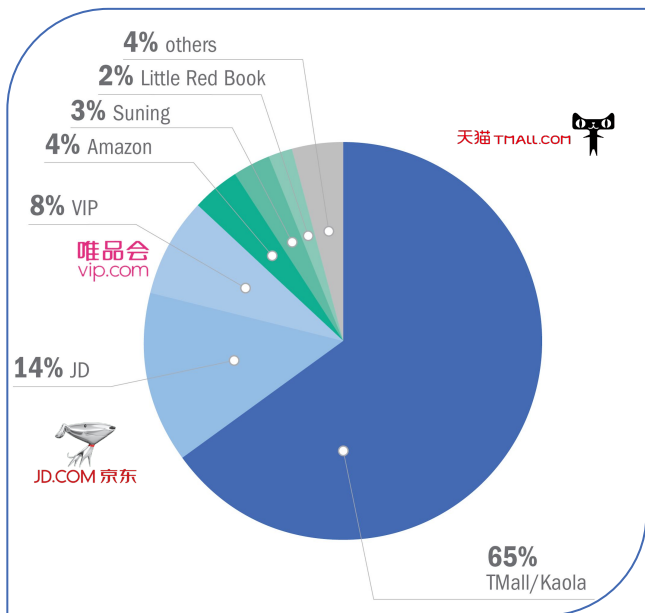
- CBEC companies to provide return services and establish a recall system
- returned goods to arrive within 30 days in bonded warehouse for second-time sale
- stocking of returned goods outside bonded areas not permitted

import routes: getting to the Chinese consumer



CBEC platforms facing tighter scrutiny

the big platforms



new anti-monopoly regulation

- new anti-monopoly guidelines rule out monopolistic practices such as forced exclusivity agreements
- merchants to benefit from better regulated market environment and lower fees
- merchants must watch out for stricter platform guidelines on food ingredients, returns and consumer data



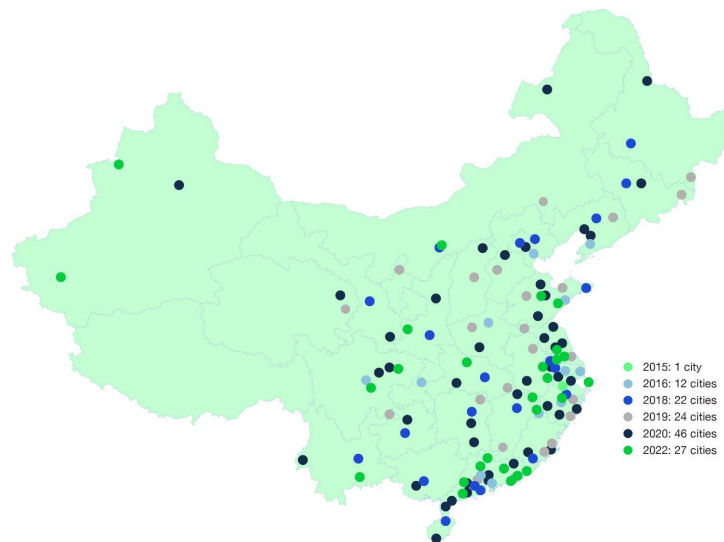
health supplement store on Tmall

CBEC reaching further inland

accessing the PRC market

- 2020: six rounds of CBEC pilot zones announced, totalling 132 nationwide
- top pilots include Guangzhou, Shenzhen, Shanghai, Hangzhou and Beijing
- Dongguan, Foshan and Shantou focused on food CBEC
- improved access to new markets and lower-tier cities, but cold chain logistics and 'last mile' express delivery still lagging

expanding CBEC import pilots, 2018–22



source: TradeInvest

food safety: more scrutiny to be expected

COVID-19: supply chain disruptions and traceability

- strict controls for chilled and frozen food imports since beginning of the pandemic
- repeated suspension of food exporters, causing supply chain disruptions
- food traceability systems for general trade now covering all provinces (e.g. Beijing Cold Chain)
- leading e-commerce firms are adopting blockchain technology to protect against food fraud on their platforms
- consumers expectations for 'farm to table' tracing on the rise



law enforcement official scans tracking code of imported frozen food

rights protection: brands and consumers winning

IPR: better protection for hard tech

- improved IP protection on CBEC platforms; offerings infringing on IP rights must be removed
- proposed amendments to *E-commerce Law* in 2021 to increase penalties for IPR infringement
- hard tech IPR to benefit most
- low-tech areas may suffer from more insidious forms of infringement such as selling similar designs and packaging

consumer rights

- more domestic consumption means better consumer rights protection
- anti-monopoly and personal data protection rules help consumers enforce their rights vis-à-vis CBEC platforms
- dedicated CBEC court set up in Hangzhou in July 2020; 70 percent of rulings in the consumer's favour
- most cases involve e-commerce platforms, not merchants

emerging business models

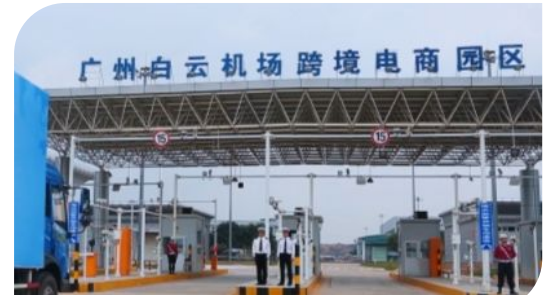
duty free trade

- Hainan to become a free trade port by 2035
- products will move duty free between Hainan and global partners; customs to be levied between island and mainland
- agriculture amongst Hainan's pillar industries; processed products with over 30 percent value added in Hainan can be sent duty free
- CBEC platforms flocking to Hainan to set up warehouses



preferential policies

- Guangzhou Baiyun Airport first CBEC bonded zone to specialise in fresh food and cold chain facilities
- fast-tracked customs procedure for imports from RCEP countries:
 - 24h-clearance
 - 6h-clearance for perishable goods



looking ahead: trends and opportunities

setting rules in global digital trade

two 5-year plans on e-commerce and foreign trade to promote CBEC and set global standards on digital trade

leading in digital technologies

brands seeking growth via live streaming and in partnership with KOLs; digital currencies to play bigger role

multilateral trade agreements

RCEP to further lower tariff barriers and boost domestic consumption; effects will be less visible in sectors already benefiting from tariff reductions under ChAFTA



influencer Viya sells dried fruit during a live stream

takeaways

healthy lifestyles

'brand Australia' to benefit from PRC consumers seeking higher quality and healthier options

new inland markets opening up

logistics and internet infrastructure unlock markets beyond top-tier cities

protecting suppliers and consumers

processes for IP protection and dispute resolution catching up

positive list growing

further expansion may see market access for more food and beverage categories

Hainan free trade port

favourable import policies to see goods move freely between Hainan and global partners by 2035

where to be careful

stricter food safety and COVID-19 regulations add compliance risks; data regulations toughening up

anticipate change