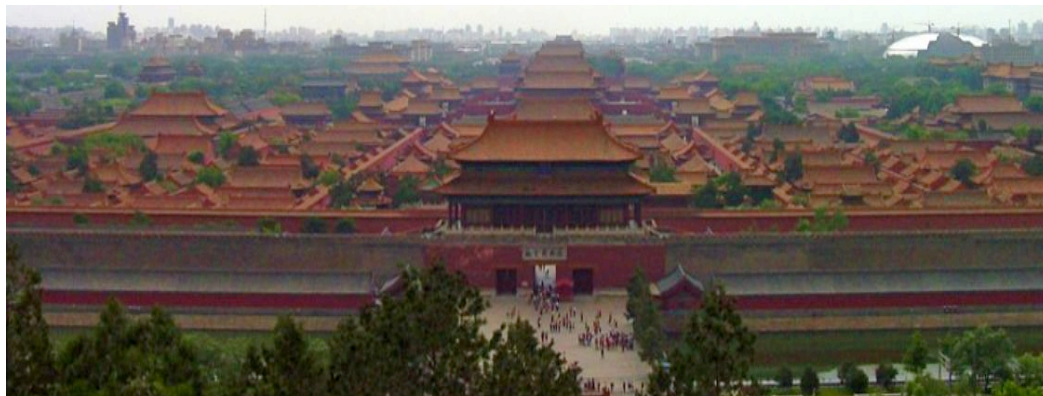


CHINA UPDATES

Your Trusted Source for Market Intel on China's Natural Health Product Industry



ISSUE 37
March 31, 2013

We Know the China Market. Need Help?

[Click here to connect with an expert on China focused manufacturing, sales, distribution and marketing.](#)



IN THIS ISSUE

Development of China's Health Products Industry

MOH Restricts Use of Aluminum

EU Urges Ban on Cosmetics Tested on Animals

China's E-Commerce Boom

Jury Out on Vitamin C Makers

MOH New Amendments To Ingredients

Miscalculations on China's Healthcare Industry

Development of China's Health Products Industry

China's health product industry has entered a golden age with its size reaching 1 trillion Yuan by 2020. In recent years, the amount of sales of health products in China showed a U-shaped pattern. In 2000, China's health food sales reached 50 billion Yuan. In 2001 and 2002, there was a sharp decline. In 2003, they bounced back soaring 50 percent over the previous year. In 2011, sales exceeded 200 billion Yuan increasing by a 15% annual growth rate. By 2015, the per capita consumption of health products will reach 300 Yuan with a total market capacity of 450 billion.

In 2011, the import and export volume of the health products in China amounted to US\$383 million, a year-on-year rise of 31.01%. The exports reached US\$ 105 million, with a year-on-year growth of 26.21%; the imports amounted to US\$278 million, with a year-on-year growth of 38.28%. Of all the health products, nutrients and vitamins taking rate has reached 55.7%.

China is currently in the transition stage from per capita GDP of US\$ 4,000 to US\$8,000, and the consumer health products are also gradually changing from optional to the necessities of life.

China Updates is a service provided by U.S.-China Health Products Association. The Newsletters are issued approximately three times a month. China Updates provides news on regulatory environment, new legislation, association activities and any information related to China's natural health products industry.



According to this estimate, from 2011 to 2015, the industry's compound annual growth rate could be up to 21%. The upgrade of consumption achieves the development of health products industry expansion, while the majority of Chinese people will become the main consumer groups of health products. (Source: *Entrepreneurs' Daily*).

Ministry of Health Further Restricts Aluminum

On March 15, 2013, of the Ministry of Health released the revised version of the Food Safety National Standards: Food Additives Standards. The new standards intended to further restrict the use of aluminum-containing food additives in order to reduce the health risks of excessive intake of dietary aluminum.

The newly revised food additives standards proposed to revoke the use of three kinds of aluminum-containing food additives, including removing potassium aluminum sulfate and ammonium aluminum sulfate used as swelling agent in fermented flour, as well as removing all use of aluminum-containing food additives in puffed food. The new standards will revoke the acidic sodium aluminum phosphate, sodium aluminosilicate, and aluminum starch octenylsuccinate as aluminum-containing food additives, and delete their usage provisions in the Standards. (Source: *Ministry of Health*)

E.U. Urges Ban on Cosmetics Tested on Animals

The European Union wants to persuade countries such as the United States and China to adopt its ban on the sale of new cosmetics tested on animals that came into force on Monday.

The ban, which follows years of campaigning by animal rights groups, applies to all new products and their ingredients sold in the 27-member union, regardless of where in the world the testing is carried out.

It was agreed a decade ago, but delayed several times to give Europe's cosmetics industry, worth an estimated 70 billion euros (\$91 billion) a year, time to devise alternative tests.

The Commission, the EU's executive body that oversees consumer policy, said the ban was in line with the view of many EU citizens that developing new cosmetics does not justify the need for animal testing, which they regard as cruel.

So little.  **So much.**

Powerful Phospholipid EPA & DHA

Excellent User Experience

Smaller Dose, Easy Digestion

 **AkerBioMarine™**
Antarctic

 **SUPERBA®** KRILL

www.superbakrill.com

It would try to convince trading partners in other parts of the world to follow Europe's example, and to share the costs involved in developing and validating alternative testing methods.

"The Commission will make this an integral part of the union's trade agenda and international cooperation," it said in a statement.

Industry body Cosmetics Europe, whose corporate members include L'Oreal and Johnson & Johnson, warned on Monday the ban would restrict the development of new products.

Existing products already tested on animals can still be sold.

BRAKE ON INNOVATION?

Within Europe, testing finished cosmetic products such as perfume, toothpaste and shampoo on animals has been banned since 2004.

However, until now the EU has allowed the sale of products tested on animals for certain specific risks in countries where no such ban exists, including the United States, Canada, Brazil and Russia. In some countries, including China, animal testing is mandatory for some cosmetic ingredients and products.

Cosmetics Europe said there was a lack of alternative tests for risks such as genetic mutation or reproductive toxicity, which will make it hard to develop new products. "If we want to introduce new ingredients in Europe it's going to be very difficult, because we don't have the tools available to address those endpoints," a spokesman for Cosmetics Europe said.

"The other part of the problem - and this does happen - is where there are questions over existing ingredients. If we can't reformulate, then products that contain those ingredients we will have no choice but to remove from the market," he added. The Commission said it would monitor the impact on the industry and continue to fund research into alternative non-animal testing methods.

Israel imposed a similar ban on animal-tested cosmetics at the start of the year, and campaigners said India and South Korea are considering following suit.

Animal rights campaigners said the EU ban showed that animal experiments were not needed to ensure consumer safety. "The European Union has taken a bold step and is showing the rest of the world what can be done," Eurogroup for Animals, an umbrella group for national animal welfare organizations said in a statement. *(Source: Reuters)*




China's E-Commerce Boom!

More Chinese consumers are shopping on line, the Internet Society of China said on Thursday.

Total online sales topped \$210.4 billion, up 64.7% from 2011 sales.

China's e-commerce accounted for 6.3% of total retail sales last year, Lu Wei, secretary-general of the society, said at a press conference in Beijing. Lu attributed the increase to the fast development of e-commerce in the country's industrial, agricultural, transportation and financial sectors, Xinhua news wire reported on Friday.

Some of China's biggest e-commerce stocks have suffered over the last year. One of the worst performers has been E-Commerce China Dangdang (DANG), down 42.44% over the last 12 months despite better market conditions for e-tailers. *(Source: Forbes).*

US Jury Says Vitamin C Makers Fixed Prices

Chinese vitamin C makers were ordered to pay \$162.3 million to U.S. customers for fixing export prices after a federal court jury in New York found their actions weren't compelled by the nation's government.

The jury of five women and two men in Brooklyn returned a verdict yesterday, finding that American dietary supplement firms which filed the antitrust lawsuit proved their case against the Chinese companies. Jurors deliberated for just half a day before reaching a decision to award \$54.1 million in damages, which were tripled to \$162.3 million under U.S. law.

"We are particularly proud of this victory for private antitrust enforcement against an international cartel," William Isaacson, an attorney for the plaintiffs, said in an e-mail after the verdict.

A lawyer for the defendants, Charles Critchlow, didn't immediately return a call seeking comment about whether they will appeal.

The case marks the first time Chinese companies have faced a trial on U.S. antitrust claims, according to James Serota, a lawyer for one of the companies named in the suit. The country's Ministry of Commerce told the court in a 2006 brief that it was "deeply interested" in the proceedings and that a verdict for the plaintiffs could "adversely affect implementation of China's trade policy."

Companies' Argument

Chinese firms in the case, including North China Pharmaceutical (600812) Co. and its Hebei, China-based unit Hebei Welcome Pharmaceutical Co., argued they couldn't be held liable for price-fixing in the \$500 million global vitamin C market because they were acting under the direction of regulators.

The firms alleged that they would be subject to punishment, including denial of permission to export, if they disobeyed government orders to adhere to volume and pricing restrictions.

In closing arguments March 13, Isaacson, an attorney with Boies, Schiller & Flexner LLP, told jurors that the Chinese vitamin makers were merely trying to shift the blame.

"They needed an excuse," Isaacson said. "They needed to point the finger."

The jury reached their decision surprisingly quickly for an antitrust case, said one litigator not involved in the matter, indicating that Chinese firms' allegations of government control "didn't fly."

'Clear-Cut Case'

"It was a clear-cut case to them and they didn't buy that defense at all," Jeffrey S. Jacobovitz, of Arnall Golden Gregory LLP, said in a phone interview.

In the lawsuit, filed by Animal Science Products Inc., a livestock-supplement firm based in Nacogdoches, Texas, and Ranis Co., a food company based in Elizabeth, New Jersey, a group of Chinese firms was accused of manipulating prices by constricting supplies. The firms provided about 80 percent of the bulk vitamin C in the U.S., according to plaintiffs. Prices rose as high as \$15 per kilogram (\$6.82 per pound) from about \$2.50 per kilogram during the scheme, plaintiffs alleged.

While more companies were sued, only North China and Hebei Welcome Pharmaceutical Co., remained in the case by the time of the verdict. Hong Kong-based China Pharmaceutical Group Ltd. (1093) and its Weisheng Pharmaceutical unit, which were also in the trial, reached a \$22.5 million settlement this week, according to an attorney for the companies.

Aland Jiangsu Nutraceutical Co. and Shenyang, China-based Northeast Pharmaceutical Group Co. settled before the trial.

‘An Example’

The case is “an example of the kinds of issues that China is increasingly running into through its economic globalization,” Jacques deLisle, a professor of law and political science at the University of Pennsylvania, said in a phone interview yesterday.

For many industries in China, the influence of government is still present even as businesses become privatized, making it difficult to tell whether a company is acting voluntarily, said deLisle, who is also director of the university’s Center for East Asian Studies.

“The line between public and private is just much murkier in China, in that many business entities are in various ways deeply entangled with the state,” he said.

In court yesterday, U.S. District Judge Brian Cogan praised the jurors for their attentiveness during the trial, which began Feb. 25, saying they demonstrated a “textbook example of how it should be done.”

The case is *In re Vitamin C Antitrust Litigation*, 1:06- md-01738, U.S. District Court, Eastern District of New York (Brooklyn). (Source: *Bloomberg*)



GMP Services
注册服务

To learn more about NSF cGMP Services, [click here](#)
Experts in auditing, consulting, training and testing

欲了解更多服务信息请点击
审核、咨询、培训和测试专家团队

Vitamin C Makers May Appeal

A North China Pharmaceutical booth at a trade show in Shanghai. The Chinese drugmaker and its subsidiary Hebei Welcome Pharmaceutical were fined \$162.3 million by a federal court in New York for price fixing of vitamin C. For China Daily

A New York jury last week found two Chinese companies liable for fixing prices of vitamin C sold in the United States, but the verdict doesn't necessarily end the unusual case or clear a path for resolving other competition-related disputes between the world's leading economic powers.

Seven jurors in US District Court in Brooklyn took less than a day of deliberation to decide that Hebei Welcome Pharmaceutical Co and its parent, North China Pharmaceutical Co, colluded to set prices and limit exports of raw vitamin C between December 2001 and December 2006, which is illegal under US antitrust laws because it stifles competition.

Immediately after Thursday's verdict, the judge in the case ordered Hebei Welcome and North China Pharmaceutical to pay \$162.3 million to the US plaintiffs in the case. They had sued to recover \$54.1 million, but US antitrust laws allow damages to be tripled.

The fine is the first of its kind against a Chinese pharmaceutical manufacturer. North China Pharmaceutical is one of the country's four biggest suppliers of vitamins.

On March 12, two days before the verdict, two other defendants that had gone to trial in the civil suit - Hong Kong-listed China Pharmaceutical Group Ltd and its Weisheng Pharmaceutical Co unit - reached a settlement in the case.

They agreed to pay the plaintiffs \$22.5 million, though China Pharmaceutical said in a statement it believes it and Weisheng "are not liable for the claims asserted and that they have good and valid defenses thereto". The companies settled, according to the statement, to "avoid the risk of an adverse jury verdict and treble-damage award" as well as further appeals.

"Given the circumstances, it was a bearable settlement, and obviously no one knows what a jury will do," said Daniel Mason, a San Francisco-based lawyer for Zelle, Hoffman, Voelbel & Mason LLP, who represented China Pharmaceutical Group and Weisheng Pharmaceutical.

The two companies will pay their settlement in two chunks over 18 months, Mason said.

The Brooklyn jury didn't accept the defense that all four Chinese companies had presented at the start of the trial. In their defense, all stated their own government, through China's Ministry of Commerce, "compelled and enforced" them to act as a cartel.

In support of the vitamin C makers' admission that they acted together, the Ministry of Commerce submitted a friend-of-the-court brief - a rare move by a foreign government in a civil case. The ministry said a verdict or fine would "improperly penalize" the vitamin companies for "the sovereign acts of their government and would adversely affect implementation of China's trade policy".

The trial, which began on Feb 25 and lasted three weeks, might not be the final word in the case. The lawsuit was filed in 2005 by two US companies and has since grown to about 150 plaintiffs, mostly food and beverage processors, nutritional-supplement distributors and other direct buyers at a time that Chinese firms dominated a \$500 million market for vitamin C in the US.

A 2002 written agreement by the Chinese companies to set prices and limit exports, the US plaintiffs claim, caused spot-traded prices of vitamin C to soar to as much as \$15 a kilogram by April 2003 from about \$2.50 per kg in 2001.

Xinhua News Agency reported on Sunday that North China Pharmaceutical would appeal the fine imposed on it and Hebei Welcome.

The ministry's written assertion was not allowed as evidence to be presented at trial, but the court did allow testimony from retired Ministry of Commerce official Qiao Haili, over the plaintiffs' objections.

Qiao, who formerly oversaw vitamin C exports for the ministry, took the stand on behalf of the two defendants and told jurors that the companies were required by Chinese law to adhere to agreed-on limits on price and output of their exports. If they didn't comply, their export licenses could have been revoked, Qiao said.

Whether it ends with last week's verdict or a ruling on appeal, the case probably won't alter the course of US-China commercial and trade relations, said Jacques de-Lisle, a law and political-science professor and director of the Center for East Asian Studies at the University of Pennsylvania.

"Vitamin C is an unusual product, and this was a market in which China had dominance," he said "It's probably more symptomatic than causal in terms of [frictions in] the commercial relationship."

For one thing, deLisle said, litigation risk is something that big players in any market, from any country, must factor in to their cost of doing business.

"One reason the sovereign-compulsion defense got complicated in this case is (that) what the Chinese companies were saying fell somewhere between two categories - one in which the foreign government is telling us, 'You must do X' and American antitrust law which says, 'Don't do X,'" he said. (Source: *ChinaDaily*)



MOH Makes Amendments to 12 Ingredients

Ministry of Health also specified its amendments to 10 food additives that have been enlarged in dosage and scope.

Besides the below nine, three food industry processing aids, i.e., carnauba wax, white mineral oil, and beeswax are enlarged in their usage scope. They can be used as release agents in puffed food processing. (Source: *MOH*)

Name	Function	Classification #	Max Dosage
Vitamin E	Antioxidant	01.01.03	0.2g / kg
Silicon Dioxide	Anti-Caking	1.08	15g / kg
Sodium Metabisulfite	Sodium Metabisulfite	06.03.02.01	.05g / kg
Vitamin B2	Nutrition Enhancer	14.03.02	1mg-3mg / kg
Vitamin D	Nutrition Enhancer	14.03.02	3 µg-15 µg /kg
Sorbic Acid	Preservative, Antioxidant, Stabilizer in wine	15.02	0.6g / L
Potassium Sorbate	Preservative, Antioxidant, Stabilizer in wine	15.02	0.6g / L
Sulfur	Bleaching, Perservative	16.07	.09g / kg
Vitamin A	Nutrition Enhancer Fermented Milk	01.02.02	600µg-1000 µg / kg

Miscalculations on China's Healthcare Market

Multinational companies' misperceptions about China's consumer healthcare market:

1. This market is small.

Fact: The market is large and is continuing to grow rapidly. McKinsey forecasts that it will increase at an annual rate of 12 percent, representing a total market potential of \$44 billion by 2017.

2. The market is focused on traditional Chinese medicine, which is all about roots and herbs.

Fact: There is significant room for TCM and Western products. Consumers' perceptions and use of TCM and Western medicine differ markedly. They perceive Western products as more effective and tend to use them in more advanced stages of an illness, while using TCM in the early stages.

3. The market is highly fragmented, and it is difficult for a new entrant to gain a significant foothold.

Fact: The top 10 companies command 30 to 40 percent of the market. It is highly dynamic, and newcomers have the chance to enter it.

4. Success is all about winning in the retail pharmacy sector.

Fact: The sector is important for on-the-counter products, especially TCM. Hospitals continue to be an important channel for Western over-the-counter drugs. Meanwhile, direct sales and modern trade outlets, such as supermarkets and convenience stores, play increasingly bigger roles. *(Source: China Daily)*

If you have China related news that you would like to share with the association for publication in its newsletter please contact us at:

news@uschinahpa.org

Copyright © 2013 U.S.-China Health Products Association. All rights reserved.