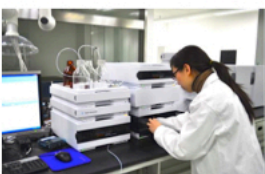


# CHINA UPDATES

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



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## IN THIS ISSUE

**Nanchong Launches Campaign to Better Regulate Health Product**

**CFDA Warns Consumers not to Buy Cheap Cosmetics Online**

**Ad Law Adds Regulation on Health Food Products**

**China's Dalian Wanda Group Plans E-Commerce Venture With Tencent, Baidu**

**SFBuy Bans Health Product and Milk Powder**

**Mental Health Needs are an Emergency**

**Health Insurance Gets State Council Approval**

**After China Meat Scandal, Troubles for OSI Reflect Broader Perils for Business**

## **Nanchong Launches Campaign to Better Regulate Health Product**

The local regulator of Nanchong, Sichuan province, is to launch a two-month campaign since September to better regulate the local market of health product.

The Nanchong FDA is to specifically crack down the illegal seminars held in the name to promote or sell health product. The health foods that claim to help diet control, fatigue-relieve or improve the quality of sleep will be the major target of this campaign.

Also, the wholesale market and stores that have problems in managing will also be targeted in this campaign.

Other major fields of this campaign include approval number checking, counterfeit health product and problems in accounting.

The regulators also warn the local market to better check the qualification of store managers before allowing them to operate in the market. (Source: Huaxi Metro Daily)

## **CFDA Warns Consumers not to Buy Cheap Cosmetics Online**

The national FDA managing systems shows that this year sees 8 major cases that involve illegal cosmetics production so far.

A case in Jiangsu on August 29 shows that the suspect opens an online store that sells big-name brands including Channel which he bought from Guangzhou at a very low price. A



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Channel lipstick is sold at the price of only 19 yuan, while the standard price in the market is 310 yuan. The investigators said the fake products have been sold to 20 provinces nationwide.

The investigators also said that in recent cases, many illegal sellers are selling counterfeit cosmetics at a very low price or even less than 1 yuan online, with products that are produced at illegal production houses. Some of these products are packaged into counterfeit big-name brands.

Therefore, CFDA hereby warns the consumers not to trust the so-called discount sales online or any false promotion of cosmetics online. These sellers always allure consumers by low price with substandard products.

Anyone who finds out selling in this kind should report to food and drug regulators in time. The regulators will launch investigation accordingly. (Source: CFDA)



### Ad Law Adds Regulation on Health Food Products

The latest draft of ad law adds regulations on fields including health food, medicare, education and training.

According to data of CFDA from 2012 to the first quarter of 2013, which cover 118 provincial TV channels, 171 city-level TV channels and 101 newspapers, over 90% of health food advertisement

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are false promotion.

To address this issue, the draft adds specific regulations on health food and medicare ads, requiring drugs, health food and medical equipment not claim to have a certain functions that are not scientifically proved.

The draft also forbids other advertisements to claim any healing function if the product is not drug or medical equipment. (Source: Xinhua)

### China's Dalian Wanda Group Plans E-Commerce Venture With Tencent, Baidu

China's Dalian Wanda Group Corp. plans to launch a five billion yuan (\$813 million) e-commerce joint venture with Internet companies Baidu Inc. and Tencent Holdings Ltd., according to people familiar with the pact, in a move to bridge China's online technology with Wanda's brick-and-mortar retail space.

The venture, which the companies will disclose as soon as Friday, will enable customers to use Baidu and Tencent's online maps and search to access Wanda's luxury hotels, shopping malls and movie theaters across China, according to one person familiar with the deal.

Wanda will own 70% of the venture, while Baidu and Tencent will each own 15%, another person

familiar with the deal said. The venture will look for new ways for customers to pay for offline goods through their mobile apps, that person said. Retailers world-wide have been looking for ways to maintain traffic to their physical stores as consumers migrate online to compare websites and hunt for the best deals.



Tencent, based in the southern city of Shenzhen, has a strong hold on the messaging market in China with its smartphone app WeChat, which has more than 355 million monthly active users, and its QQ chat service. Beijing-based Baidu, sometimes called the Google of China, dominates the country's search market.

The two companies and Alibaba Group Holding Ltd. are scrambling to capture the increasing number of Chinese who are using mobile devices such as smartphones to do things as diverse as transferring money to hailing taxis. At the end of last year, China had about 500 million mobile Internet users, according to official statistics, a rise of more than 80 million over a one-year period.

Wanda operates 83 shopping malls in China and is run by the country's richest man, Wang Jianlin, who has been on a shopping and building spree in recent years. In 2012, Wanda announced the \$2.6 billion acquisition of U.S. cinema chain AMC Entertainment Holdings Inc. In August, the group closed the acquisition of British yacht maker Sunseeker International Ltd.

Wanda also might use the venture for its

entertainment properties, one of the people said. Last year, Wanda broke ground on a 30 billion yuan to 50 billion yuan mega-entertainment center in the Chinese seaside city of Qingdao that will include a theme park, a film museum, a wax museum and a film studio. Mr. Wang has said the entertainment center, set to open in 2016, will be the world's largest. (Source: WSJ)

## SFBuy Bans Health Product and Milk Powder

SFbuy, the international delivery service under Shunfeng Express, is to undergo major updates on September 6, including banning a certain products in delivery and allowing RMB payment.

The international transfer service is to charge more but with more advantages in efficiency and stability, said a director with SFbuy.

But it also is to come up with a strict embargo list. The blacklist includes mobile phone, laptop, tablet, camera, watch, jewelry and wines. The consumers can only rely on the service to deliver products like clothes, food and cosmetics.

Milk powder and health product are to be included into the list as well. (Source: Hexun.com)

## Mental Health Needs are an Emergency

China has a complex history in the treatment of the mentally ill. In 1849, the first institution to treat the mentally ill in China was established by Western missionaries, and some principles instituted by one of them, Dr John G. Kerr, are still valid today. His principles are: mentally ill patients should not be blamed for their actions, they are not to be thrown into prisons but put in hospitals, and they should be treated as human beings, not animals. Western models of treatment, however, were gradually introduced in China only after the launching of reform and opening-up in the late 1970s.

China has a large number of mentally ill patients, to treat whom it does not have adequate services and enough trained personnel. A new "mental health

law" adopted recently does contain some important provisions for the benefit of patients. But it does not allow mentally ill patients the right to a legal hearing through a mental health tribunal or guarantee them legal representation, which has been criticized by health professionals and human rights organizations.

According to a study by The Lancet, about 173 million Chinese suffer from some form of mental health disorder. One hundred-fifty-eight million of them have never received professional help. Despite the high number of mentally ill patients, China averages only one psychiatrist for every 83,000 people - about one-twelfth the ratio in the United States and other industrialized countries. This led one psychiatrist to remark: "We are like pandas. There are only a few thousand of us."

The need for psychiatrists is growing. The Lancet study shows the incidence of mental disorders increased more than 50 percent between 2003 and 2008. Although some of the cases can be attributed to improved diagnosis, most are likely to be the result of more stress in their everyday life.

The stress, in fact, could be one of the causes for the increasing number of violent crimes. In 2010, China suffered a series of copycat attacks on kindergartens in which tens of children were stabbed to death, prompting Yin Li, vice minister of health, to declare that China would build 550 hospitals for the treatment of the mentally ill. (Source: China Daily)

## **Health Insurance Gets State Council Approval**

The central government decided in an executive meeting of the State Council on Wednesday that it is going to promote an insurance program to cover most of the medical costs of severe diseases for unemployed and rural people nationwide.

The meeting, presided over by Premier Li Keqiang, decided that the government should work with commercial health insurers, which will coordinate with basic insurance programs provided by the government, so that people can have more of their

medical costs reimbursed.

Six ministerial-level departments, including the National Development and Reform Commission and the former ministry of health, issued a circular in August 2012 asking provinces to complement the government's insurance programs for unemployed people and rural residents.

The government provides basic health insurance to reimburse some of the medical costs of unemployed urban residents and children in urban areas, and a "new rural cooperative medical system" for rural residents.

However, because the two insurance programs "have a relatively lower level of reimbursement", the central government decided to introduce a new kind of insurance program to further relieve the burden when unemployed or rural people need treatment for severe diseases, the circular said.

In January, the central government issued another circular, saying that provinces that had not yet tried the new program should start the trial by the end of June.

The basic medical insurance for unemployed urban residents and rural residents only covers about 50 percent of medical costs, said Tang Jun, a social policy researcher at the Chinese Academy of Social Sciences.

"However, (under the new insurance program) if those insured are diagnosed as having a severe disease, they can turn to commercial insurance agencies to have another 20 percent to 30 percent of medical costs reimbursed," he said.

A health official who spoke on condition of anonymity said a majority of provinces have tried the new insurance program.

The government selects commercial insurance agencies that can run the program the most efficiently, the official said.

At the executive meeting, the central government also decided to speed up the construction of

general hospitals, hospitals specializing in Traditional Chinese Medicine and rehabilitative institutions, and to build more rest homes in rural areas.

It also said it will push forward projects including one to prevent and treat air pollution and pollution of key rivers.

The government also will develop clean energy with great effort and start a number of projects including wind power, hydropower, photovoltaic power and nuclear power in coastal areas. (Source: China Daily)

### After China Meat Scandal, Troubles for OSI Reflect Broader Perils for Business

U.S.-based food processor OSI Group LLC spent more than two decades and \$750 million building a business in China that served McDonald's Corp. and other fast-food chains.

That all collapsed in July after a Chinese television report showed workers in the company's Shanghai plant allegedly making chicken nuggets and patties from expired meat. OSI's operations across China now are paralyzed, after state media excoriated the company and customers throughout the country cut ties.

Meanwhile, OSI has become a lesson in the perils faced by foreign companies in China, when their operations are under unprecedented scrutiny by regulators and state media and negative publicity can destroy a business almost overnight.

Reaction to the OSI broadcast by state-run Dragon TV on July 20 was swift and severe. Authorities closed the plant and ordered an investigation. The city's Communist Party chief was quoted by Xinhua, the official news agency, as saying "all companies that break the law will be punished by the law."

OSI Chairman Sheldon Lavin within days issued a statement saying that what happened at the plant "was terribly wrong, and I am appalled that it ever happened in the company that I own."

But the company's global customers weren't taking chances. Burger King Worldwide Inc. and the operators of the KFC and the 7-Eleven chains cut all ties with OSI's China operations. McDonald's halted orders from the Shanghai plant, then suspended OSI's supply to the hamburger chain's 2,000-plus restaurants across the country. McDonald's said last week that it is reconsidering its relationship with OSI in China altogether.



On Friday, a month after the initial TV revelations, Shanghai authorities announced the arrest of six China employees of OSI's Shanghai plant on accusations of selling expired products.

Authorities still haven't announced the results of tests conducted on meat from the plant. Several people briefed on the situation said the tests haven't revealed any safety problems. There have been no reports of illness from the incident.

Meanwhile, OSI's China plants effectively have ground to a halt, the people briefed on the situation said.



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An OSI spokesman said the company's 10 facilities in China are all open for business. The company declined to comment further.

OSI said Monday that it hired an outside company to oversee OSI's vegetable processing plant in the southern city of Guangzhou.

OSI is the latest in a growing list of foreign businesses falling afoul of regulators in China, in industries such as dairy, technology and pharmaceuticals.

Chinese regulators last month levied 1.24 billion yuan (\$202 million) in fines against 12 Japanese auto-part makers for alleged price manipulation. BMW AG, Volkswagen AG's Audi and Mercedes-Benz parent Daimler AG are awaiting possible punishment following similar probes. Microsoft Corp. and Qualcomm Inc. are being investigated for potential monopolistic activity.

BMW, Audi and Daimler responded to the investigations by cutting prices. Qualcomm has said it is cooperating with authorities; Microsoft has said that it abides by laws in China and is cooperating with investigators.

On Tuesday, the American Chamber of Commerce in China said the results of a survey of its members showed that 60% of respondents feel foreign business is less welcome in China than before, while 49% believe foreign firms are being singled out in recent campaigns against monopoly pricing and corruption.

In a statement, the business association said there is a risk that China "will permanently lose its luster as a desirable investment destination."

"Our concern is that if the investment environment deteriorates too far, important relationships and linkages between China and the rest of the world will be materially damaged," AmCham Chairman Gregory Gilligan said in the statement.

Some 61% of European companies that have operated in China for more a decade said doing business in the country is getting more difficult, according to a survey this year by the European

Chamber of Commerce.

Legal experts said OSI may have violated a regulation issued in March that made tampering with production dates and expiration dates illegal. But they said the fallout has been harsh, given the apparent lack of food-related sickness.

"The real question is why is such heavy-handed action being taken against any company?" said Lester Ross, a Beijing-based attorney with U.S. law firm WilmerHale.

Qin Gang, a spokesman for China's foreign ministry, said Tuesday that the antitrust probes "are aimed at protecting consumer rights and making sure market competition is open and fair" and called them "completely legal, transparent and fair."

"As usual, China welcomes foreign companies, but at the same time, foreign companies also need to abide by Chinese laws," he said.

Experts said Beijing could be sending a message to domestic companies by going after high-profile foreign businesses. "Officials are going out of their way to target the most visible companies," said Ben Cavender, a senior analyst at China Market Research Group.

The repercussions from the OSI incident has threatened sales at McDonald's, which considers China a key growth market, and KFC parent Yum Brands Inc., which generates more than half its sales in China.

The Dragon TV exposé opened with an anchor standing in front of a photo of a McDonald's Big Mac. "Occasionally we eat Western fast food because it's convenient and even more because these enterprises are all large, we think their standards are high," she said. Later scenes showed OSI Shanghai plant workers handling chicken that had passed its use-by date, picking ground meat off the floor and working on production lines with no gloves.

Dragon TV declined to comment on the source of its video footage.

McDonald's said last month in a Securities and Exchange Commission filing that its global comparable sales forecast for this year is at risk because of the issue.

The People's Daily, the voice of the Chinese Communist Party, highlighted articles on the Shanghai plant on social media using the hashtag "McDonald's and KFC's Shady Suppliers." The police department in Anhui province announced on its microblog that officers had seized expired products from KFC and McDonald's in three cities. Attached was a cartoon hamburger with flies coming from it.

Some Western executives in China have complained that their companies are blamed for industry shortcomings caused by poor regulation. They said they are held to a higher standard than their Chinese counterparts. (Source: WSJ)

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