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## **CFDA: Illegal Drug and Food Cases To Be Punished Heavily**

In face of the New Year's holiday and the upcoming Spring Festival, the state food and drug regulator held a meeting with local FDAs to emphasize the importance of strengthening regulation on food and drug during the holiday season.

The local regulators were asked to specifically check the restaurants, parks, supermarkets and other places in key areas for food safety. Special campaigns to inspect rural food markets should be continued during this period.

Companies that produce meat products, dairy products, wines, seasoning and beverage should also be highlighted in the inspection, as the above products were frequently reported by consumers during the holiday season as the illegal products were spotted.

The sales of health products were highlighted in the meeting as the regular and spot checks have already found quite a lot of problems concerning related products in daily inspections. The wholesale markets, chain stores and pharmacies are listed as the key areas where the local authorities were asked to specifically check for illegal health food, which claim to help control weight, ease fatigue and solve sleep problems. (Source: CFDA)

## **8 Officials Dismissed over Unsafe Pork Scandal**

Eight officials from east China's Jiangxi Province have been



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dismissed for negligence, over sales of pork from pigs that were sick, or had already died.

The move follows a recent China Central Television report revealing that potentially unsafe pork from Gao'an City entered markets in at least seven provinces.

Local police departments have investigated and punished the pig farms and slaughterhouses mentioned in the report, and launched an overall check into all farms and slaughterhouses in the city.

"The public security departments have already detained 12 suspects, destroyed an illegal slaughtering site, and sealed a slaughterhouse."

A joint work team from the Ministry of Agriculture and Ministry of Public Security has also arrived in the city to further investigate the case.

Gao'an is one of China's major pork producers with more than 2 million pigs slaughtered every year.(Source: Xinhua)

### **China's Health Product Market Expected to Grow by an Annual 10%**

Though still bothered by a chain of problems including illegal promotion, China's health product market is expected to grow by an annual increase of 10% in the next decade, according to China Health Care Association.

The Association also predicted that the local nutrition supplement market will overtake Japan in the next decade as the second largest nutrition supplement market in the world.

In 2012, the local market of nutrition supplement reached 100 billion yuan, which was powered by an increase of 22% compared to a year earlier. From 2010 to 2013, the net profit of By-Health, the leading local health product brand, was boosted by a 66% increase thanks to the booming market.

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E-commerce has been a hot topic for local health product vendors for the past few years. Though many local health product brands are planning to take good advantage of the e-commerce to give a leg up to their business, whether the health product consumers can adapt to the new way of shopping still poses as a big challenge to the vendors. The major consumer group of health food in China is of the age between 35 to 65 years old. (Source: People's Daily)

### **Minors Under the Age of 10 Banned from Endorsements in Advertising**

China's top legislature has stipulated that minors under the age of 10 should not be selected to endorse advertising to better protect the minors' physical and mental development.

The top legislature on Monday began reviewing a draft amendment to the 20-year-old Advertisement Law that will better protect minors from advertisements, this according to reports from Xinhua.

It also stipulated in the draft amendment that advertisements should not include content to induce minors to ask their parents to buy products or services and should not include content that

may cause minors to imitate unsafe behavior. Any minor endorsement for food and drug are also banned.

Additionally, it prohibits advertising in high schools, primary schools and kindergartens as well as direct or indirect ads on education-related materials, such as textbooks, stationery, school uniforms and school buses.



Several popular kid stars from reality TV show "Dad! Where Are We Going?" could be influenced, including Tiantian, son of Chinese supermodel Zhang Liang, Cindy daughter of former Olympic diving champion Tian Liang, Angela, daughter of director Wang Yuelun and host Li Xiang and Kimi, son of singer-actor Jimmy Lin.

The draft amendment also bans outdoor and window tobacco advertisements and the use of the army's flag, emblem and song in advertisements, in addition to the national flag, emblem and anthem. (Source: CRI)

## China's Health Food Market: Hard to Open the Door

With the largest consumer base in the world and an expanding economy, many international health supplement companies have focused on China.

However, recent policy changes by the Chinese government have made it more difficult for foreign

companies to thrive or even survive in the market.

Last year, the China Food and Drug Administration cut the number of permits it issues to foreign companies to sell health food products without proper registration. The registration of health food, required by the legal system, is seen as costly and a time-consuming course for most of the foreign companies in the industry.

And more government regulation is said to be on the way though no details have been publicly released.

The reduction cost a huge loss of those who register their products as food instead of the dietary supplements. The potential export loss for a US company to China's market could be \$19 million, according to the 2014 report of the US-China Health Product Association.

Some have hence been scared away, with their selling channels shut down.

The estimated 400 billion yuan (\$65 billion) market is expected to grow 11 percent annually by the year 2020, according to the recent survey of "Capturing a Share of China's Consumer Health Market: From Insight to Action" by the Boston Consulting Group released in February. Through last year, the value of the market created reached 110 billion yuan. Consumer estimates are in the range of 250 million to 300 million.

The only legal registration for the nutritional supplementary products in China is a license issued by China Food and Drug Administration, whose logo evokes a blue hat, so nicknamed "the blue hat".

Since the Administrative Measures on Registration of Health Foods was legislated and enforced in 1996, about 700 types of imported dietary supplement products have been successfully granted the "blue hats", while 13,000 Chinese food products won the same reward.

"The Measures has no bias pro or against the domestic or the imported brands of products. It is quite fair," said Gao Peng, general manager of Ankang consulting, at China International Nutrition and Health Summit 2014, Beijing, on November 3. "But we found fewer foreign companies come to register their products for a blue hat."

Only the domestic products can apply for the license through the provincial level administration.

The long procedure for registration involves more steps and proves costly.



"You can't imagine a big company owning 40 to 1,000 sorts of products go through the procedure of 2 to 3 years and pay the registration cost of 40,000 yuan as a package for one single product," said Deng Hua, president of DavidiaHealthtech based in San Diego, US.

Before the China Food and Drug Administration put the brakes on permits last year, foreign companies sold their health products in the category of food, not the supplementary category.

With bigger demand from the increasingly aging group of 60 years old or older that has already reached 14.9 percent of the entire Chinese population, according to the statistics given by the central authority in February 2014, no one will doubt China's market for anything related to the health concept. Not to mention the growing need of the newly born babies along with those in the group of the special needs.

The country of thousands of years of history in

traditional herbal medicine and food craves for everything either promoting longevity or raising the quality of life. However, when the concept of health food is familiar with the common people in the country, the dietary supplement which is common to residents in western countries such as the US and Canada, is out of the touch of understanding here.

"Basically Chinese people still tend to take the dietary supplement products as something functioning as medicine," said Dr. Wei Wendell, CEO of ChinaGate consulting company. "There is no category of the products in China. The new raw food material will be defined very soon."

Many dietary supplementary products have been put on the shelf in a pharmacy where over-the-counter has been sold for years.

"At least right now they still hold that the nutritional supplement equals medicine in China," said Jeff Growther, executive director of US-China Health Products Association.

The dietary habit of the country has been reflected in the food materials used in their traditional menu, for example, silky fowl boiled with yum, both of them in the eyes of a Chinese are not only food materials for good taste or flavor, but the medicinal ingredients have positive effects on the body. Meanwhile, Ginseng, a type of medical resource, has enjoyed its good reputation for thousands of years in China as food material you can cook in a dish in the belief that it may help improve the health.

At the same time, some common ingredients in a nutrition supplementary product are unfamiliar to Chinese people. As they don't recognize them, they don't buy the products.

"The consumers in the market lack the education of the essential concepts in the industry," said Zhou Jingshi, CEO of TSI Group.

The move by China's FDA at the end of last year has

put an end to US imports of dietary supplements as food. Many American companies used to sell their products through the online retailing channel, also a channel for the grey market. Without specialty health food store chains, many imported supplements go to direct sales, high-end supermarkets, shopping mall kiosks, health and beauty stores, pharmacies and internet.

(Source: China Daily)

## China's Food Safety is Still on the way to reduce the risk

China is striving to improve its dismal food safety situation, but there is still a long way to go before consumers in this huge economic power will feel safe about what they eat.

A police car patrols outside a Shanghai food processing company where systematic violations were suspected in a scandal involving sales of expired meat in July.

One notable trend concerning China's efforts to reduce food safety scandals is the introduction of mandatory insurance requirements for food makers.

The idea is to make sure food suppliers can pay for damage caused by problems with their products.

It is, however, unclear whether such a system will be an effective remedy for the persistent food safety problems in China.

Changsha, the capital of Hunan Province, has decided to introduce, on a trial basis, a compulsory insurance program for food makers, restaurants and distributors to cover the liabilities incurred by food safety incidents.

Their premium payments are pooled to pay

damages to consumers who have suffered health problems due to such factors as contaminants and harmful additives in food products they have supplied.

Under the program, victims of food contamination can receive up to 250,000 yuan (\$40,000) in damages for one incident. The insurance company will pay a maximum of 1.5 million yuan per insured company per year.

Some other local governments, including those of Hebei, Fujian and Zhejiang provinces, have started testing similar programs.

Grappling with the proliferation of food safety scandals, Beijing has repeatedly issued directives calling for stricter management of food hygiene.

In April, the State Council told local governments to take steps to prevent food businesses from using used oil and banned additives and to crack down on sales of out-of-date food products.

The State Council proposed the introduction of mandatory insurance for food suppliers as a means to provide relief to victims of food pollution.

In its statement about the proposal, the State Council expressed its intention to create a system that uses the "risk control capability" of insurance to deal with food safety problems.

Insurance certainly works to reduce accidents. Insured companies naturally step up their efforts to prevent accidents, which push up their premium payments. Insurance companies put pressure on their corporate customers to boost safety measures in order to keep down their payments of insurance money.

But such efforts on the part of businesses alone are



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unlikely to improve the food safety situation in China in any significant way.

When it was revealed in July that a meat processing company in Shanghai had sold expired beef and chicken, the city's food authority investigated the supplier on suspicion of systematic violations.

The new insurance program, of course, would not cover the liabilities of companies that have intentionally violated the food safety rules.

In such cases, while the companies that have violated the rules will be subject to criminal investigations, the victims may not receive sufficient relief because insurance payments will not be made under the proposed program.

That's worrisome, given China's history of food safety scandals involving intentional violations by suppliers. Examples include the use of a banned drug to induce growth of lean meat in pigs, and milk powder for babies tainted with melamine, a toxic industrial chemical.

The envisioned mandatory insurance program may help honest companies with their risk management. But the scheme is unlikely to do much to reduce scandals involving unscrupulous businesses. (Source: Nikkei)

### **Alibaba's Tmall Global Site Stumbles**

As it prepared for the world's largest-ever initial public offering of stock this year, Chinese e-commerce company Alibaba Group Holding Ltd. rolled out a shopping platform it billed as a "fast track into China" for foreign brands new to the mainland.

Ten months after its launch, the platform, Tmall Global, is failing to live up to this promise, say brands as well as consultants who track online shopping data, in what could be a black eye for China's best known Internet company.

Traffic on Tmall Global is a fraction of that on Alibaba's other marketplaces: The site ranks No. 311 out of about 3,500 in terms of popularity in China, while Alibaba's Taobao and mainland Tmall sites rank Nos. 2 and 5 respectively, according to data provider Alexa Internet.

Foreign brands on the platform say Alibaba restricts them from buying ads. Some shops are selling only a handful of products each month and are considering leaving the site.

A review of the site for The Wall Street Journal suggests about 70% of the stores are doing "almost no volume," said Jacob Cooke, chief executive of Web Presence in China, a digital marketing agency. "That platform is really going to damage [Alibaba's] reputation," he said.

Alibaba, which established the site in February, said it is committed to "helping international merchants succeed in bringing a presence to China through the platform," but added that it takes time for brands to grow traffic and build their reputation. Alibaba said it doesn't comment on third-party data.

The site's woes are a sign of the challenges Alibaba faces as it extends its shopping empire to more overseas brands. Alibaba's marketplaces dominate e-commerce in China, with the company's six-year-old mainland Tmall site controlling nearly half of China's business-to-consumer online sales and its biggest shopping site, a virtual bazaar named Taobao, grabbing a 95% share of online sales between Chinese consumers.

The company is pushing to bring more overseas brands to its sites. In its public-offering prospectus, Alibaba promotes Tmall Global as a way for foreign companies to "benefit from the exposure to the hundreds of millions of visitors" on its platforms, even without a mainland business license, a requirement for listing on Tmall proper. Between February and December, the new platform attracted nearly 5,400 brands.

commerce consultants.

In the past month, Xtend-Life's sales—through a shop run by New Zealand Post, the country's mail-delivery service—include 11 bottles of its Multi-Xtra multivitamins and a box of its Zupafood Greenz nutritional supplement.

The New Zealand Post Tmall Global shop records significant sales on promotional days such as Nov. 11, said Asia marketing director Vallen Han. "There are a number of issues right now," said Mr. Matthews. "Unless we can get them resolved, we may even have to consider pulling out."

Some brands have experienced early success. Costco Wholesale Corp., the second-largest U.S. retailer after Wal-Mart Stores Inc., had a "good outcome" on Tmall Global after a launch in October, Alibaba said. For instance, the retailer sells more than 15,000 tubs of mixed nuts and about 6,000 bottles of Cetaphil moisturizing lotion monthly, according to its Tmall site.

Costco declined to comment. In a written statement before the October launch, the company said it entered Chinese e-commerce because of "tremendous growth opportunities."

Alibaba said it has warehouses for Tmall Global merchants to ship goods into China in bulk, which could shorten delivery times and reduce shipping costs.

Web Presence in China's analysis for The Wall Street Journal shows that searches on Alibaba's Taobao and mainland Tmall platforms for 65 products, including goods as diverse as men's sweaters and printer toner, yield no Tmall Global stores in the top 110 search results, suggesting merchants on this site lack visibility. Alibaba said it made a "business decision" not to offer paid advertising to Tmall Global merchants now, but merchants can boost visibility by advertising on third-party sites that link back to the platform.

Alibaba is also working on ways to make it easier for shoppers to find Tmall Global merchants and their products, said a spokeswoman. Alibaba said it has also created business-development teams to help shops expand their e-commerce business and build their brands. The e-commerce company said it has tightened policies to "elevate the requirements and standards for entering Tmall Global."

Recently, Alibaba has been notifying people that listing on the platform is invitation-only, consultants said. Alibaba said the platform has always been invitation-only to "maintain quality and standards." (Source: WSJ)

China Updates is published weekly by the U.S. – China Health Products Association, a non-profit organization dedicated to the promotion of dietary supplements and nutritional ingredients. The association's major focus is the continued development of China's overall natural health product industry as well as offer business services to its global members.

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