



# CHINA UPDATES

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## INSIDE THIS ISSUE

**Anhui FDA Punishes Illegal Drug Site**

**U.S. Supplier in China Food Scare Takes Aim at Shanghai Regulator**

**Nanjing: Suspects Involved in Illegal Additives Detained**

**Tmall Global Grows Amid Stumble**

**Move Over Rice — The Potato is Taking Root**

**China's Travel Agents Cater to Demand for Medical Tourism**

**Amazon China Outlines Key Targets**

**U.S. Cancer Center Eyes More Clinical Cooperation with China**

**China's Vitamin C Price Fixing**



## **Anhui FDA Punishes Illegal Drug Site**

Based on reports from consumers, the local drug regulator shut down 21 drug sites that are selling substandard drugs.

Last December, the provincial FDA received consumers' reports that a number of drug sites including [www.ey28.com](http://www.ey28.com) are said to be selling illegal drugs in the name of Huayuan Pharmacy Co. Ltd. The regulators investigated into related sites.

After half an hour, the regulator spotted 21 sites that are illegally using the brand of Huayun Pharmacy Co. Ltd. and are without the qualification to trade online. These sites have been shut down by the authority.

Investigations show that the sites are exaggerating the effect of medicines, misleading consumers and overcharging them.

The authority also shut down another 3 sites, and exposed information of 43 sites that are found to play foul.

Consumers can check information of medical products from CFDA's official site. (Source: Zhongan online)

## **U.S. Supplier in China Food Scare Takes Aim at Shanghai Regulator**

U.S. food supplier OSI Group LLC, which came under fire in China last year over allegations it used out-of-date meat, has criticised the handling of the case by the local food regulator, a rare act in China where firms are usually careful not to openly challenge the authorities.



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OSI's Shanghai Husi Food Co Ltd plant came under the spotlight in July when an undercover Chinese media report showed workers using out-of-date meat and doctoring production dates.

The firm, which supplied international fast food chains including McDonald's Corp and Yum Brands Inc, launched a sweeping recall last summer that culminated on Sunday when it said it had destroyed the products.

The Shanghai Food and Drug Administration, which is still investigating Shanghai Husi over the matter, called the food destroyed on Sunday "questionable" in a routine statement, prompting the strong objections from OSI.

"Without having any test results or even having done any testing on the relevant products, and with the case still under investigation, to define the products our company has voluntarily recalled as "questionable" ... is totally without factual, scientific or legal foundation," Shanghai Husi said in a statement in Chinese on the OSI China website.



The statement said Chinese rules defined "questionable" food products as those which did not meet food safety standards or could be harmful for human health.

OSI's criticism escalated a rare war of words between a foreign company and Chinese regulators, who over the past year have closely scrutinized international firms in industries ranging from automobiles to high tech.

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Microsoft Corp, for instance, has expressed deference to Chinese anti-monopoly regulators looking into its software sales practices -- even while U.S. business lobbies have complained about their companies being unfairly targeted.

OSI's tussle with its Shanghai regulator also comes at a time when the central government in Beijing has acknowledged China's struggles to regulate tainted products.

China's top food watchdog said on Wednesday food and drug safety in the country was "grim" and pledged stronger oversight in the wake of a string of food scandals which have hit the reputations of brands including McDonald's, Yum and retailers Carrefour SA and Wal-Mart Stores Inc.

The Shanghai Husi scandal, which spread as far as Hong Kong and Japan, sparked a Chinese probe into the firm and dragged down Chinese sales at KFC-parent Yum and McDonald's. Both have since cut or suspended ties with Aurora, Illinois-based OSI. (Source:Reuters)

### **Nanjing: Suspects Involved in Illegal Additives Detained**

Regulators in Nanjing, Jiangsu province, detained suspects who added illegal elements in Viagra. It is the first that the local authorities prosecute suspects who add illegal additives in health food

for criminal liability.

22 suspects were detained for misleading consumers to buy the Viagra products they produced without getting official approvals for selling. The police also spotted over 20,000 pills of health products in the workshop.

The suspects are charged with 6 months to 10 months sentences and fines. (Source: Xinhua)

China Mobile Online Shopping Transactions Exceeded CNY 210 bn

The transaction size of China's online shopping via mobile ends has exceeded CNY 210 billion, as of the third quarter of 2014, learned from the annual meeting of China's Internet industry for 2015.

Internet Society of China Secretary-General Lu Wei said China's Internet in 2014 ushered in a new round of financing peak and the market size accelerated expanding. As of the third quarter of 2014, the transaction size of China's online shopping via mobile ends has exceeded CNY 210 billion, surging nearly three times over 2013.

Lu Wei believed the O2O application system continues to innovate and a O2O platform-based payment and data ecosystem is taking shape. In addition, the mobile Internet payment service has greatly developed in 2014. Experts predicted the transaction size of China's mobile e-commerce market will exceed CNY 104.6 billion in 2015 and mobile payments will gradually become a normal means of paying for online shopping. (Source: SinoCast)

### **Tmall Global Grows Amid Stumble**

The Alibaba's Tmall Global, which is touted by the company as a fast track for foreign brand to tap into China's market, grows despite the difficulties to deliver what it promised.

Traffic on Tmall Global is drawing much less than the other shopping platform helmed by Alibaba: The site ranks No. 311 out of about 3,500 in terms

of popularity in China, while Alibaba's Taobao and mainland Tmall sites, which are the two major go-to sites for the local online shoppers, rank Nos. 2 and 5 respectively, according to data provider Alexa Internet.

Fewer Chinese shoppers go to the site compared to popular e-commerce sites like Alibaba's taobao and JD.com. It is partly because products in Tmall Global cost more than it does in other platforms and it takes weeks before the product is delivered to the consumers, as they are often shipped from outside China. Usually it only takes no more than a week for a product to be delivered from Taobao or JD.com in mainland China.

Chinese consumers already have other options to buy products from overseas as an increasing number of vendors are taking products home from foreign countries and sell them to friends and relatives, before promoting them to a bigger number of customers via social media like Wechat. It usually cost less to buy products from these vendors and as they always store a certain number of products at home, the consumers can get the delivered products faster, though quality is not guaranteed.

Still, Tmall Global, billed as a dedicated bridge between Chinese online shoppers and overseas retailers, has seen its sales soar tenfold since being launched by Alibaba in February. It currently has about 5,400 foreign brands from 25 countries in Alibaba's Tmall Global platform. The company said more than 100 overseas brands, including some leading supermarkets, are planning to set up stores on the platform.

The platform has indeed generated winners. Costco, the Seattle-area retail giant, said it would expand more heavily into China after it sold \$3.5 million worth of goods over a 24-hour period with the help of Alibaba, according to media reports.

Sugar & Spice, a Taiwan-based candy maker, said in the Alibaba statement that it sold 34,000 packages of candies on this year's Singles' Day (November

11), and its sales revenue through Tmall Global is three times that on its own website.

According to Alibaba, the most popular goods on Tmall Global are food, cosmetics, and infant and baby products. Alibaba is working on ways to make it easier for shoppers to find Tmall Global merchants and their products, said a spokeswoman.

It is usually difficult for foreign businesses to promote their products in China, as the local regulators have set up barriers for foreign companies to launch advertisement on TV or other traditional mainstream media platform. 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.

Foreign brands usually need a partner on the ground to help build up its visibility in China via methods including social media and expos, which aim to reach more consumers and build contacts with local industry people and regulators. (Source: USCHPA)

## Move Over Rice — The Potato is Taking Root

Officials are quickly gaining an appetite for persuading Chinese consumers to eat more potatoes.



Economic planning authorities say the move is aimed at producing more food from the country's limited supplies of irrigation water now that grain imports are rising continuously.

The country's top economic planning body said on Thursday that a program to add potatoes to China's list of food staples will be expanded substantially.

Xu Shaoshi, minister of the National Development and Reform Commission, said potatoes will be mixed into bread, steamed buns and noodles to suit Chinese consumers' taste and habits.

The Ministry of Agriculture will ensure that potatoes comprise up to 30 percent of the materials for these products, Xu said.

"As many compound food products have already been made and tested, the potato will soon be Chinese people's newest staple food, after rice, wheat and corn," Xu said at a meeting in Beijing to discuss national grain distribution work.

According to information obtained from the meeting, the Ministry of Agriculture is planning for 50 percent of China's annual production of potatoes to be consumed as a staple food on the domestic market by 2020.

Raising consumption of potatoes will not compromise land already cultivated for wheat, rice and corn, officials said.

Hu Zengmin, an analyst at the China National Grain and Oils Information Center in Harbin, Heilongjiang province, said development of potatoes as a new food staple will help China to optimize its food resources and strengthen security of its future grain supply.

Hu said China has continued to import more international grain, in particular corn and wheat, in recent years.

This is because its rising grain output cannot catch up with increasing consumption and diversified food varieties, including two big grain users—the modernized food supply chain and livestock.

Sun Maojun, a researcher at the Institute of Food and Nutrition Development under the Ministry of Agriculture, said that besides guaranteeing China's food safety, making the potato a staple is also



crucial to protecting the diminishing water table in the drought-prone northern plain.

"Potatoes need much less water than grain, giving hope that the arid north has a sustainable future," Sun said. (Source: China Daily)

## China's Travel Agents Cater to Demand for Medical Tourism

Chinese tourists made 97 million foreign trips in 2013, up almost 20 percent from a year earlier. Their reasons for traveling are varied. Some want to experience new cultures; others want to stock up on designer handbags and shoes that are pricier at home under China's import tariffs on luxury goods. Another lure for overseas travel: better or more affordable medical care.

Top destinations include Hong Kong, South Korea, and Japan, while China's wealthy elite prefer Switzerland and the U.S. for medical tourism, according to a report from Hurun, a research firm tracking the spending habits of China's rich.

Some enterprising Chinese travel agencies are taking advantage of the trend. The China Jiangsu Network reported that Yangzhou Travel is now offering medical tourism packages to Japan that include five-star hotels, fine cuisine, and airfare. A staffer told the newswire that cancer-screening trips to Japan are popular, while genetics-testing trips to Canada are also in high demand.

A general manager at Hubei Spring International Travel Service told Hubei Daily that he now receives frequent inquiries about medical tourism to South Korea, which is known as a destination for plastic surgery. In 2012 more than 32,000 mainland Chinese visited Korea for cosmetic procedures, according to data from the Korea Health Industry Development Institute.

On a more somber note: China's drug authorities have still not granted approval for human papilloma virus (HPV) vaccines to be sold and distributed on the mainland, despite the proven link between HPV and cervical cancer, which kills an estimated 30,000 women yearly in China. The vaccines, however, are available in Hong Kong, luring women like Ms. Chin, who told Hubei Daily that she is planning to travel with her 11-year-old daughter to Hong Kong this summer so they can both receive vaccinations. (Source: businessweek)

## Amazon China Outlines Key Targets

Well-educated, younger consumers will be the main target group for Amazon China as it seeks to expand its foothold in the country, especially in tier II and tier III cities, the US internet giant has revealed.



In a recent briefing about consumer trends it had identified in 2014 and its predictions for online shopping in 2015, Amazon noted that 80% of online consumers in China are aged under 35 and more than 90% are educated to at least university level.

The company also said 40% have a monthly income of more than 5,000 yuan (about \$815) and that almost two-thirds (65%) of its total sales come from second and third-tier cities, IGD Retail Analysis reported.

As it seeks to build on this base, Amazon said it



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would improve its innovation and localisation in China, supported by increased investment in advertising, logistics and staff training.

Sales traffic derived from social media increased 35% last year, Amazon said, and this contributed to 81% overall sales growth. The peak shopping times for Chinese mobile shoppers were between 11am and 1pm, and 8pm to 11pm.

Turning to what it expected to be the top five "hotspots" of online shopping in China in 2015, Amazon identified smart digital devices, health products, fashion, overseas shopping and entertainment.

The number of smart digital devices sold on Amazon China increased 33 times in 2014, particularly smart bracelets, smart watches and smart Bluetooth devices.

With the country plagued by poor air quality, Chinese consumers boosted sales of air purifiers by 50% last year while monthly sales of masks increased a huge 336%.

Fashion is likely to continue its online popularity this year as the number of international fashion brands on its site increased almost a third (30%) in 2014 while sales of 55 exclusive international fashion brands grew 17 times.

Finally, the company expected Chinese consumers to conduct more of their online shopping directly from overseas, especially from the major cities like Shanghai and Guangzhou. Sales of new media and popular Chinese TV dramas also will feature highly this year. (Source:warc)

## **U.S. Cancer Center Eyes More Clinical Cooperation with China**

The University of Texas MD Anderson Cancer Center (MDACC), a top-ranking cancer research institute and hospital in the United States, said it is looking forward to more cooperation in clinical trials and treatment with Chinese partners.

Oliver Bogler, MDACC senior vice president for academic affairs, told Xinhua that collaborations with Chinese partners have been productive in several fields, such as cancer screening, liver cancer and lung cancer treatment, and the center is planning more cooperation in clinical trials and comparative studies with China.

"Cancer is a significant challenge to both China and the U.S," Bogler said, noting that every country has a unique spectrum of cancers depending on factors such as population and environment. Bogler said that with many good scientists, people's contributions and the government's commitment in fighting cancer, China offers "tremendous opportunities" to develop cancer research.

Bogler was recently in Beijing to receive the International Science and Technology Cooperation Award of the People's Republic of China. He was among eight winners for this year's award, which was presented by China's State Council Friday to foreign scientists and organizations for their work in science and technology cooperation with China.



According to Ta-Jen Liu, the MDACC's project director for global academic programs, the MDACC has several sister institutions in China, including the Sun Yat-sen University Cancer Center, the Chinese Academy of Medical Sciences Cancer Institute and Hospital, Tianjin Medical University Cancer Institute and Hospital, Fudan University Shanghai Cancer Center and the Sir YK Pao Centre for Cancer under the Chinese University of Hong

Kong. It has also signed memoranda of understanding to collaborate with other Chinese institutions.

Cooperation with these institutions is currently focused on training, education and patient care.

According to Liu, the MDACC is also open-minded on verified herbal medicines and other traditional Chinese medicines (TCMs).

"The MDACC views TCMs as an alternative means of cancer management. The department of integrative medicine at MDACC uses Qigong and acupuncture to help cancer patients manage quality of life and symptom control, especially for pain," he said.

However, he said the center remains prudent about using TCM for direct cancer treatment, as the efficacy of TCM is still difficult to accurately define.

Bogler said he believes immunotherapy, which focuses on therapy to reactivate patients' immune systems and unleash their ability to attack cancer, will be one of the most promising directions in research in the future.

"It is not new, but many new exciting things have happened in this area in recent years. We hope new developments will happen in this area, and clinical trials have also been active," he said.

Noting the MDACC slogan of "making cancer history," Bogler said to all cancer patients: "Be hopeful about the future."(Source: Xinhua)

## **China Vitamin C Price-Fixing Verdict Scrutinized by Court**

A U.S. price-fixing verdict against Chinese makers of a common dietary supplement faced scrutiny by an appeals court as a judge expressed doubt whether companies regulated by China's government should be subject to American competition law.

China's Ministry of Commerce made the first

appearance by any government agency from that country before a U.S. court in 2006, arguing in support of two Chinese vitamin C makers that a Brooklyn, New York, jury eventually found liable for violating American antitrust law. The companies, whose products are used in everything from energy drinks to livestock feed, were ordered to pay \$147.8 million.

Hebei Welcome Pharmaceutical Co. and its state-owned parent, North China Pharmaceutical Group Corp., were required by law to coordinate export prices and volumes, the ministry said in a filing to the U.S. Court of Appeals in Manhattan, which on Thursday heard the Chinese companies' request to throw out the verdict.

Appeals judges questioned a lawyer for U.S. vitamin C buyers, William Isaacson, about how the lower court came to discount the ministry's assertion that the vitamin makers were following their country's regulations.

It "creates a problem if we all start doing that to each other," Judge Peter Hall said, referring to courts abroad and respect for other governments' statements about their laws. Conflicting antitrust regulations may be better "handled by treaty," Hall said.

### **'Deeply Troubled'**

Earlier, the ministry sent a diplomatic note to the U.S. State Department saying it was "deeply troubled" by the case.

"Antitrust liability under U.S. law does not extend to one circumstance where that conflict would be especially acute: where a foreign sovereign compelled a private party to engage in anticompetitive conduct within that sovereign's borders," the ministry said in court papers. "The district court's approach and result have deeply troubled the Chinese government."

North China Pharmaceutical Group, a leading Chinese drugmaker, said it shouldn't even be implicated in the case because it had no contact with U.S. vitamin C buyers and didn't exert day-to-

day control over Hebei Welcome. Both companies are based in Shijiazhuang, China.

“This is a case which should never have gone to a jury,” said Jonathan Jacobson, a lawyer for the companies. “When the government of China comes in and says, ‘I compel the conduct,’ that should be the end of it.”

### **Global Market**

Worth about \$500 million globally, the market for vitamin C is important to China, which developed a novel manufacturing technique for the product in the 1960s.

The country’s dominance in the industry grew after the U.S. Justice Department cracked down on a European-led vitamin-making cartel in the late 1990s. Companies in China supply about 80 percent of the vitamin C used in the U.S., according to court filings.

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, Chinese firms were accused of manipulating prices by constricting supplies.

Prices rose as high as \$15 a kilogram (\$6.82 a pound) from about \$2.50 a kilogram during the scheme, which lasted from about 2001 to 2006, the U.S. companies claimed.

The Brooklyn jury found in favor of the U.S. companies in March 2013. The jurors awarded \$54.1 million in damages, tripled to \$162.3 million under U.S. law. The judgment was later reduced to account for settlements.

### **Two Remaining**

While more companies were sued, only North China and Hebei Welcome remained in the case by the time of the verdict. Hong Kong-based CSPC Pharmaceutical Group Ltd. and its Weisheng Pharmaceutical unit, along with Aland (Jiangsu) Nutraceutical Co. and Shenyang-based Northeast Pharmaceutical Group Co. settled out of court.

The Chinese Ministry of Commerce and the vitamin makers misrepresented the legal requirements that companies were subject to, lawyers for the U.S. companies said in their filing to the appeals court. China went through substantial deregulation of the industry in 2002 ahead of its admission to the World Trade Organization, the lawyers said.

Qiao Haili, a retired ministry employee who was formerly in charge of vitamin C exports and testified on behalf of the companies, “admitted at trial that ‘on the whole,’ the government did not involve itself in price fixing,” the lawyers for the U.S. companies said.

### **‘Fabricated’ Testimony**

He was also “shown to have fabricated” testimony about a 2003 memo he wrote to the ministry in which he described a lack of control over the vitamin companies, they said.

In the memo, he concluded rules of a ministry organization overseeing vitamin C became a “formality,” the lawyers said.

Coordination of prices among competitors is generally illegal under U.S. antitrust law, although companies based outside the U.S. can argue that the law doesn’t apply if they are forced to engage in those activities under their countries’ regulations.

A Washington-based lawyer representing the ministry, Carter Phillips, said in arguments Thursday that the Chinese regime, requiring companies to set prices that are enforced by the government, is “a practice that takes place exclusively inside of China” that should not be subject to U.S. antitrust law.

In court filings, the ministry called the Brooklyn court’s rejection of its assertion that the companies had no choice “profoundly disrespectful.”

Kirby Behre, a Washington-based competition lawyer who is not involved in the case, said in a



phone interview Thursday that while appeals courts often show a level of deference to trial judges, the Manhattan appeals court may take a harder look in this instance because of the international implications.

There are “so many issues swirling below the surface here,” he said. “Diplomacy and international law seem to be on a collision course with U.S. law.”

The case is *In Re Vitamin C. Antitrust Litigation*, 13-4791, U.S. Court of Appeals for the Second Circuit (Manhattan). (Source: Bloomberg.com)

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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