CHINA UPDATES

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

HPA Health Products Association

ISSUE 79

March 4, 2014

IN THIS ISSUE

U.S. – China HPA Welcomes New Members

This past week General Nutrition Centers and Vitamin Shoppe both joined the association. Representing the two largest specialty health food chain stores in the world, these new members will play a pivotal role in advancing the continued development of China's dietary supplement industry.

China's overall healthcare industry is growing by leaps and bounds. However, preventative nutrition, organic foods and dietary supplements are still very much in the development stages. Regulations for dietary supplements are currently very difficult to navigate and require registrations for each product, which takes 2-3 years to finalize and costs in excess of $50k per SKU. China's FDA and the legislative office of the State Council are currently reviewing potential reforms.

It is the association's mission to help encourage a more open transparent system in China, which will foster increased investment, expanded sales channels and education as well as a larger variety of trusted safe products and brands for consumers to choose from. *(Source: USCHPA)*

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.

China's FDA Adds to its Food Safety Endeavors

The China Food and Drug Administration (CFDA) on Monday announced the launch of a trial program in which food producers will be asked to appoint chief safety officers.

The chief safety officer, appointed by the owner or management of a food producer, will be held responsible all issues regarding the safety of food produced by a company.

The CFDA said this will solve the embarrassing situation in which everyone in the management is responsible for food safety and no one actually is responsible. Meanwhile, the whole food production and sales process must be fully recorded and be made traceable, the CFDA said. *(Source: Xinhua)*

Bayer to Acquire China's Dihon Pharmaceutical Group

Bayer plans to acquire 100% of the shares of Dihon Pharmaceutical Group Co., Ltd., Kunming Yunnan, China, a privately held pharmaceutical company specializing primarily in over-the-counter (OTC) and herbal traditional Chinese medicine (TCM) products. Dihon is a leading player in China's OTC industry with products such as Kang Wang for the treatment of dandruff and other scalp disorders and Pi Kang Wang, an antifungal cream, as well as TCM product Dan E Fu Kang for the treatment of various women's health indications. Financial details have not been disclosed. The transaction is subject to fulfillment of certain conditions, including merger control clearance, and is expected to close in the second half of 2014.

"We aim to strengthen our Life Sciences portfolio with strategic bolt-on acquisitions globally. We are very pleased to have identified a consumer health care company in China with such a strong track record of success built by its dedicated employee base," said Dr. Marijn Dekkers, CEO of Bayer AG. "This acquisition moves us into a leading position amongst multinationals in the OTC industry in China. It also brings a portfolio of well-known consumer brands, which will allow us to provide consumers with an even broader range of self-care options."

"Adding the strong OTC brands from Dihon to our portfolio will significantly advance our business in China and positions us well for future growth," said Dr. Olivier Brandicourt, CEO of Bayer HealthCare. "Equally important is the foothold we will gain in TCM, which makes up about half of the OTC segment in China and is a well-accepted and sought after line of natural science-based alternative therapies for consumers looking for trusted solutions for their healthcare needs. We think we can leverage our recent acquisition of Steigerwald in combination with Dihon's herbal TCM expertise and pipeline to benefit both these areas, which have a different but related heritage."

"Self-care is a critically important component of healthcare in China and internationally, and OTCs are an important tool to help people live happier, healthier and longer," said Dr. Zhenyu Guo, chairman & CEO of Dihon Pharmaceutical Group Co., Ltd. "As such, we're pleased to have been able to build a business with brands that bring relief to consumers across China and other parts of the world. We believe that Bayer, with its marketing, sales, distribution and research expertise, is well positioned to take our success to the next level. This acquisition will further strengthen the Yunnan pharmaceutical industry and offers the potential to further expand TCM to other parts of the world."

Dihon generated sales of 123 million euro in 2013. The company employs approximately 2,400 people in R&D, manufacturing, sales and marketing. In addition to operations in China, Dihon brands are sold in other countries such as Nigeria, Vietnam, Myanmar and Cambodia. Dihon's headquarters is in Kunming, China. The company also has several manufacturing sites throughout China. *(Source: dddmag.com)*

Before Food Gets to Market

Discussion of Chinese food safety law and regulation frequently focuses on the China Food and Drug Administration (CFDA) and the laws and regulations that it administers. CFDA, and its predecessor agency the State Food and Drug Administration, made headlines at the center of the melamine scandal and the resulting and very public death sentence and execution of its former leader Zheng Xiaoyu.

But that is really only one portion of the story surrounding food safety in China. Less is said about the Ministry of Agriculture's (MOA) role in supervising raw agricultural produce and vegetables, poultry, and pork products up until they enter wholesale markets. Just like CFDA, the MOA administers its own food safety law, called the Agricultural Product Quality and Safety Law. It also implements laws, regulations, and policies for the safety of pork, chicken, and seafood. Unlike the CFDA, which has been reorganized and has seen massive legislative and regulatory overhauls, MOA has seen much less change in its role.

This seems strange, because the problems that this agricultural system faces are not small. These include illegal pesticides, fertilizers, and veterinary drugs, as well as rotten or disease-ridden produce and meat. These issues are compounded by problems with the traceability of products, which are coming from hundreds of millions of small farmers and animal breeders, all with different safety issues, to markets where the products are pooled. As a result, it is often difficult to find out where the problem lies, and the contaminants change so frequently that it is also difficult to determine what to test for. Huge blind-spots also exist in MOA regulation, for example, with respect to animal and pet food in China. Nearly no regulations on core issues exist in this important area.

The best products, or products from the larger, more trusted, certified farms, may be directed to export. And, a more recent news story even suggests that many in China believe that the farmers keep many of the better, safer products for their own consumption. What we are left with, as a result, is a system not only with significant problems, but also with severe distrust among those that it serves.

Attention to fixing these problems seems to be growing stronger lately, but unlike with CFDA, the proposed solutions do not appear to be agency reorganization or new legislation or regulations. For example, in December 2013, the State Council (China's main executive body) issued a documentcalling for stronger supervision of agricultural product quality and safety by local governments, as well as more attention to implementing standards. But nowhere in the document did the State Council call for revision of the Agricultural Product Quality and Safety Law or any particular new laws. Indeed, a recent article in the Chinese press indicates that, while an amendment will eventually come, MOA feels more research needs to be done first.

This leaves us with more to ponder and some to watch. If MOA is really playing a lesser role, why? Is there a structural problem, such being caught between promotion of the agricultural economy and measures to control its safety? Or is it a problem of resources?

Perhaps it is a question of paying more attention to MOA. Will this increased public and government attention, at least on the policy level, lead to something more substantial in this area? The fact that we do not have answers to these questions means that it may be a good time to recognize and more closely follow MOA's role in promoting food safety in China. *(Source: Forbes.com)*

Chinese Vying for New Milk Facilities

Several Chinese state-owned enterprises and private companies are in negotiations to bankroll construction of several new milk powder plants in NSW as the state's dairy industry looks at ways to supplement its supply contracts with the big supermarket chains.

Over the past six months Chinese executives have been visiting locations in the state's Hunter Region, the Central West and the Southern Highlands where the plants would be constructed to supply milk powder to the Chinese market.

The plan is being brokered by Dairy Connect, a not-for-profit organization that represents the NSW dairy industry, which includes dairy producers, milk vendors, processors, manufacturers and industry stakeholders.

"We have had conversations where these groups are prepared individually to put $200 million on the table," says Dairy Connect chief executive Mike Logan.

"They want to manage the risk that comes from having their whole supply coming from New Zealand. They recognise that New Zealand can't grow at the same rate that demand is projected to grow in China."

Mr Logan said the plan had the support of more than 500 dairy farmers across the state and Norco, the main co-operative in the region that this year took over supplying and bottling Coles' house-brand milk for its stores in NSW and southern Queensland.

Under the plan, greenfield powder sites would be built for about $40m each at strategic locations to supply the Chinese market and give local milk producers a lucrative alternative to dealing solely with the supermarkets. "Our objective is to get something signed this calendar year to develop a whole milk powder manufacturing business in the state," Mr Logan said.

There is only one small milk powder plant in NSW, at Casino.

The global price for whole milk powder had jumped 65 per cent over the past 12 months, yet Australia's production of milk powder fell 22 per cent last year.

But Mr Logan said some farmers were skeptical about the plan because of their preference for supplying milk for branded dairy products.

News of the plan comes after Hong Kong-based investor William Hui paid about $70m earlier this year for Melbourne-based United Dairy Power, one of the country's largest privately owned milk suppliers.

Canadian giant Saputo last month beat local rivals Murray Goulburn and Bega Cheese for the listed Warrnambool Cheese & Butter, highlighting the level of interest in the dairy sector from foreign investors.

The milk powder plan was discussed at a Chinese New Year agribusiness forum in Melbourne staged by advisory firm PBB and convened by the firm's agribusiness partner Greg Quinn.

The forum was attended by former ASIC chairman Tony D'Aloisio, a non-executive director of PBB, who said investment in the sector by the federal government's Future Fund could help draw funding from competing funds both offshore and domestically.

His comments were backed at the forum by John Baker, chief executive of First Agriculture Holdings, a Singapore-based company dedicated to investing in food and agribusiness real estate, logistics and processing assets in the Asia-Pacific region.

"As asset values realign with returns in the sector, I think there is a strong role for the Future Fund to play, especially in the land-ownership space," Mr Baker said. *(Source: www.weeklytimesnow.com.au)*

2008 China Welcoming U.S. HHS/FDA to China. Is 2014 a different story?

Is China Blocking FDA Inspectors?

In late 2012 the U.S. Food and Drug Administration asked the Chinese government about the possibility of stationing 20 inspectors in China to supplement the nine staff it already had there at the time. The request wasn't unreasonable. “The crucial ingredients for nearly all antibiotics, steroids and many other lifesaving drugs are now made exclusively in China,” noted the New York Times on Feb. 14. Yet, despite the ever-increasing volumes of exported drugs and food from China to the United States, and a mid-December 2013 agreement with the Chinese government personally brokered in Beijing by U.S. Vice President Joseph Biden, most of those added inspectors are still in the United States, awaiting visas.

FDA spokesperson Christopher Kelley declined to comment on the issuance of the visas, nor why they might have been delayed. In a Feb. 21 email, however, he noted that the FDA has 13 staff members currently based in China and the agency “continues to use its existing in-country staff and inspectors on short-term trips from the United States to ensure the safety of FDA-regulated products from China.”

Though no fault of the FDA, that’s simply not good enough. Of the 278,307 foreign food facilities registered by the FDA, 26,743 are located in China, according to Food Safety News. And those facilities export a lot: Between 2003 and 2012, Chinese exports to the U.S. grew from 2.3 billion to 4.1 billion tons.

According to a Bloomberg News report from December, the FDA can perform 20 to 25 food-related inspections per year in China at current staffing levels. The new staff -– there are to be ten drug and seven food inspectors -- would increase that number to 160, with pharmaceutical inspections receiving a similar boost. That’s a big (if hardly sufficient) improvement.

In December, Christopher Hickey, the director of the FDA’s office in Beijing, told Bloomberg News that the Chinese government had opposed visas for five FDA inspectors intended for China, and conceded that the U.S. didn't know the “full story” as to why. It’s possible that Chinese officials are keenly aware that China remains a major hub for drug counterfeiting and are reluctant to open up their factories to scrutiny. Indeed, the current FDA office in China was opened after a counterfeit blood thinner manufactured in Chinacaused dozens of deaths and hundreds of injuries in the States.

Chinese newspapers are filled almost weekly with stories ofcontaminated and counterfeit food; U.S. inspectors probably wouldn’t have much trouble uncovering additional cases. Nonetheless, far from being a threat, the added inspectors should be viewed as an opportunity for China's best manufacturers and food producers to earn approval -– quickly –- for the entry of their products into the U.S. market. FDA approval remains the global pharmaceutical gold standard, and the benefits of earning it aren’t confined to the U.S. market alone. Of course, it’s never comfortable to be subjected to foreign inspectors on your own soil. (I’m personally acquainted with American scrap metal processors who’ve undergone Chinese government inspections for the purpose of obtaining export licenses.) But long-term it's surely worth the trouble, if only to avoid antagonizing U.S. consumers, and a U.S. Congress increasingly suspicious of China's commitment to food and drug safety. Approving the FDA visas will benefit both countries, and it's time that China makes good on its promise to do so. *(Source: bloombergview.com)*

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