

# CHINA UPDATES

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



ISSUE 92  
May 23, 2014

## IN THIS ISSUE

USCHPA Release Export Potential Report

Shanxi Province is to Crack Down on Illegal Promotion of Health Food

China to Tighten Quality Control over Food and Agricultural Product

CFDA Warns Info from Fake Industry Association

New Police Unit Mulled to Handle Food Safety Crimes

Spat Over 'Stolen' GMO Seeds Touches Nerves in China

Online Shopping Rings up Customer Complaints

China's Dairies Facing Fierce Competition

Chinese E-Commerce Platform "JD.com" U.S. IPO

## USCHPA Releases "Export Potential Report"

The goal of this report is to quantify the amount of potential exports and jobs the U.S. dietary supplement industry is losing as a result of China's overly strict regulatory system for dietary supplements or what China refers to as "Health Food Products" (保健食品).

USCHPA surveyed a group of U.S. dietary supplement companies, which was made up of both members and non-members of the association. This group represents some of the industries' largest players and serves as an excellent example of what exactly is being lost in terms of U.S. exports and jobs. To view the report, **CLICK HERE**

## Shanxi Province is to Crack Down on Illegal Promotion of Health Food

China's health food industry has long been bothered by problems including illegal promotion and consumer misleading. On May 4th, the Shanxi provincial FDA announced that it would launch a crack-down campaign on illegal promotion of health food.

The campaign would specialize on the label and instruction book of health food. The authority said that they would step up regulation efforts and expose the illegal products so as to clean the market environment of the health food in the province. It also aims to lead the companies to operate in a legal way in an orderly market. (Source: Sanjin Metro Daily)

**We Know the China Market.  
Need Help?**

Click here to connect with an expert on China focused manufacturing, sales, distribution and marketing.



## China to Tighten Quality Control over Food and Agricultural Product

The State Council recently released a work guideline on quality control and mapped out specific key areas where the related authorities need to focus on.

The work guideline covers four aspects and 77 specific tasks. It aims to improve the food safety situation in China.

The specific tasks target at enhancing the regulation on the safety issue of food, agricultural products and consumer products.

The authorities are asked to inspect the drug residue, organic pollutant and package pollutant of food and agricultural products. They will also spot check the food addictive volume of related food, and improve the food safety situation at schools.

Controls over imported food and agricultural products are expected to be tightened. All overseas companies of infant formula products are asked to register with local regulator.

The guideline also aims to address issues like environmental pollution. (Source: gov.cn)

## CFDA Warns Info from Fake Industry Association

Recently, the CFDA received report that an organization which claims to be "China Food and Drug Industry Association" is illegally holding seminars that charge high fee and releasing illegal info in the name of FDA.

After investigation, we find that this organization is an illegal organization without registration in related department. It has not obtained the certificate for online food and drug information service.

We hereby send the alert to all related companies to be more careful in face of this kind of information. (Source: CFDA)

**So little.**  **So much.**

Powerful Phospholipid EPA & DHA

Excellent User Experience

Smaller Dose, Easy Digestion

 **AkerBioMarine™**  
Antarctic

 **SUPERBA®** KRILL

[www.superbakrill.com](http://www.superbakrill.com)

## New Police Unit Muled to Handle Food Safety Crimes

A new police division to deal with food and drug safety crimes might deter lawbreakers, but more resources need to be put into this area in the wake of mounting public frustration, analysts said Sunday.

Hua Jingfeng, a senior official with the Ministry of Public Security, said at a media briefing Friday that the new bureau, which has been planned for over a year, is still at a theoretical stage but "hopefully will have a result soon."

Hua did not reveal any details of the new bureau's agenda in the Friday press conference, jointly held by the ministry and the China Food and Drug Administration (CFDA).

Under the current regulatory system, the CFDA is responsible for safety issues in the market while police handle cases which violate law.

Sun Zhongshi with the Chinese Monitoring Network for Rational Use of Drugs told the Global Times that the new bureau might be a deterrent.

"The CFDA's supervision proved to be insufficient because its limited manpower can't effectively handle the large number of drug and food factories," Sun said.

Gao Qinwei, professor with the Central University of Finance and Economics, said that a new agency is not the best solution as there will be duplications of administrative systems.

"To fight against counterfeit products like food and drugs, the CFDA needs more manpower and financial resources, and should also be supervised by the public," Gao noted.

There has been much public dissatisfaction with the CFDA along with complaints over light punishments for violators and compensation for victims.

A 2013 survey from the Chinese Academy of Social Sciences said 52.7 percent of respondents were dissatisfied with the food safety situation and 62 percent think the problem will not change or will worsen, China News Service reported.

At the same press conference, Mao Zhenbin, a senior CFDA inspection official, said there are difficulties in dealing with fake and poor quality products sold online. The battle to identify food and drug offences is challenging, as traditional workshop-style production is now cross-regional, making investigation difficult and costly.

Over 43,000 food and drug criminal cases were cracked, and over 60,000 suspects captured in 2013, Mao noted. (Source: Global Times)

## Spat Over ‘Stolen’ GMO Seeds Touches Nerves in China

A war of words in China has reignited public debate over just how far genetically modified food — still mostly illegal here — has already infiltrated the country.

The spat began as an investigation. In April, following on government reports that illegal GMO corn and cotton had been found on the southern

Chinese island of Hainan, the nonprofit Greenpeace, which monitors GMO issues, dispatched two employees to learn more.

The two visited the area referenced in the report, a GMO development site run by Huazhong Agricultural University, one of the nation’s leading research institutes on crop genetics.

The pair took three bags of rice seeds just outside the trial-planting area belonging to the university, which is working to develop GMO rice strains. They were planning to see if GMO seeds from the trial site had found their way to adjacent farmland.

Campus staff at the site, though, stopped them and demanded they return the seeds, saying the land outside the trial area also belonged to the university. The Greenpeace employees obliged, and were allowed to leave.

That might have been the end of the story. But Huazhong, still upset by the incident, then published an article on its website that accused Greenpeace of thieving GMO rice seeds. Greenpeace shot back, denying the accusations, while also noting that the university’s test bed was located less than 20 meters from surrounding farmland—an apparent breach of state law, which requires a minimum buffer of 100 meters.

The Ministry of Agriculture then weighed in. Without specifying Greenpeace by name, on Sunday, it said in a statement that said security around areas working to develop GMOs should be boosted. Greenpeace again responded, explaining why it had gone to the area, and suggested that “problems with the management of GMO seeds planted on a trial basis at the university could have led to GMO seeds ‘drifting’ to areas outside the university.”

This isn’t the first time Greenpeace has warned that

#1 THE FISH OIL IN THE UNITED STATES<sup>†</sup>

NORDIC<sup>®</sup> NATURALS

† based on SPINS scan data

illegal GMO grains may be running amok in China. The country is in the early stages of introducing GMO food into the human diet. While it has not yet allowed public sales of GMO grains, including rice, corn and wheat, it allows related scientific research and limited imports – as long as the imports are used only for animal consumption. Some forms of GMO food are also permitted for humans if they've been processed, such as GMO soybeans used to manufacture soy oil. Even under these constraints, Chinese universities and companies do develop their own GMO strains.

One might say the feud in Hainan has reached a draw. No law enforcement official has gotten in touch with Greenpeace so far, and there hasn't been any sign of further investigations into the matter, Greenpeace spokesman Damin Tang said. Because the seeds were quickly returned, Greenpeace also had no conclusive evidence on whether GMO seeds had indeed "drifted" off the Sanya campus.

The debate has nonetheless spilled into China's microblogging platforms, with opinions swinging between criticism of Greenpeace and suspicion of China's government.

"You have invited a thousand people to try to eat genetically modified rice," a blogger wrote, referring to 'taste tests' for the public conducted by officials and academics using GMO rice. "What position are you in to talk about stealing materials and keeping secrets? What are you afraid of losing?"

Others said the police should investigate Greenpeace. "Do you know it's an extremist environmental group?" another wrote.

But there's already a sense of resignation that the spread of GMOs is well underway in China. "Illegal GMO products have come into supermarkets, and the agricultural ministry still pretends to be unaware of it," Cui Yongyuan, a former TV commentator, wrote on his verified Sina Weibo account. (Source: WSJ)



## Online Shopping Rings up Customer Complaints

China's online shopping sector was the largest target of consumer complaints in the service industry in 2013, according to two consumer rights groups.

The China Consumers' Association said online shopping, Internet access and mobile telecommunications received almost half of all consumer complaints in the sector last year.

Online services, especially shopping, also topped complaints received by the China Association for Quality Promotion, which focuses on protection of consumer rights.

A report released by the China National Institute of Standardization on Wednesday said intense competition in the industry has failed to yield improvements in service standards.

"The high number of consumer complaints is in line with the country's fast-developing e-commerce market, which is the world's largest in terms of the number of participants," said Wu Jingming, a professor of consumer rights law at China University of Political Science and Law.

Wu said the online shopping industry was built on the framework of industry self-regulation and without guidelines and regulations from authorities.

"That means there is more room for activities that infringe upon consumer rights and consumers cannot solve the disputes through traditional



channels. All they can do is to file complaints and seek help," he said.

Wu said the solution is increasing the penalties for infringing consumer rights.

Around 20 percent of consumers failed to protect their rights under a new law that gives them seven days to return goods for refunds, and more than 30 percent of respondents said online shopping platforms failed to provide accurate contact information for the sellers, according to a survey by the China Consumer's Association in April.

Wu said the country needs a law exclusively for the e-commerce industry.

The number of consumer complaints received in the medical and health sector, clothing and beauty industry, finance and insurance and tourism by the China Association for Quality Promotion tripled last year.

Tang Wanjin, vice-president with the China National Institute of Standardization, said the fact that the country's service sector is mostly small and medium-sized companies has hindered the improvement of standards.

"Meanwhile, the country is lacking a quality system in the service sector to push for the improvement of services," he said.

As of 2012, China had 7.22 million companies in the service sector, according to CNIS. (Source: China Daily)

### China's Dairies Facing Fierce Competition

China's dairy enterprises, especially infant formula makers, are bracing themselves for intense rivalry with foreign counterparts following the country's new regulation to streamline imported dairy products.



So far, over 1,000 overseas dairy producers have received entry approval from China's quality watchdog. Among those 41 are makers of infant formula milk powder from 13 countries including New Zealand, Ireland and Singapore.

According to the new rule that took effect on May 1<sup>st</sup>, foreign dairy companies have to ensure their products are consistent with China's safety standards and registered to the General Administration of Quality Supervision, Inspection and Quarantine. It is the only way to gain access into the market.

The move was regarded as fresh efforts from the Chinese government to further regulate the country's dairy market for better product quality, keeping the excellent and weeding out the unqualified, especially fake foreign brands that are actually produced by local makers.

Industry analysts predict around 50 percent of small foreign milk powder producers that lack research capabilities will be ruled out of the Chinese market by the restriction.

The regulation, although seemingly harsher to overseas companies, is unlikely to hinder the operation of major international producers like Danone, Wyeth and Mead Johnson, which have all



**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

been included in the approval list.

A sound and orderly competitive arena, after sweeping out substandard producers, will help leading firms grab larger market share.

Song Liang, a senior analyst of Distribution Productivity Promotion Center of China Commerce, said firms that have been rejected from the Chinese market did not take up a large proportion and main competitors still remain, indicating the competition will remain tough for the country's local brands.

In 2013, overseas milk powder brands occupied 54 percent of the market share in terms of sales revenue, outnumbering Chinese local products. Beingmate, China's largest milk powder maker, only had 8.5 percent of the market, dwarfed by 13.3 percent of Wyeth and 14.5 percent of Mead Johnson.

In addition, Song said the first batch of approvals only targeted the world's major producers and the state watchdog will certify brands from countries including Japan and the United States in the next phase.

To tackle the fiercer competition, Chinese dairy firms have started to counteract their weaknesses.

Sanyuan, one of China's leading dairy producers in Beijing, has received 10 million yuan (1.62 million U.S. dollars) worth of financial aid from the municipality for the company's research on infant formula milk powder, dubbed as the corporate's attempt to improve product quality and project a sound image for homegrown brands.

Similar to Sanyuan, Beingmate is also gathering steam to tap the Chinese market, by striving to build a more efficient marketing channel and restructure its business, as well as mergers and acquisitions, in a bid to increase its market proportion.

The moves are in line with the country's resolution to push forward integration in the dairy sector, thus strengthening large and promising producers.

Analysts expect resources and market share of small

makers to be taken by dairy giants which will reinforce their position.

Foreign dairy products take up a lion's share of the Chinese market. Chinese consumers regard products to be safer and healthier, with them buying 301,000 tonnes of milk powder in the first two months of 2014, up 79.3 percent from a year ago. (Source: Xinhua)

## Chinese E-Commerce Platform “JD.com” U.S. IPO

Chinese e-commerce site JD.com went public in an initial offering on the Nasdaq Stock Market that raised \$1.78 billion and claimed the title of biggest IPO in the US by a Chinese company, to date.

"This moment belongs to every member of the JD.com family," JD CEO and founder Richard Liu said. "This is just a small step, but I want to thank all of the employees for their efforts," Liu said through a translator. "There is still a long way to go, but it is because of them that we are here at Nasdaq today."

JD also known as Jingdong Mall and backed by Saudi billionaire Prince Alwaleed bin Talal, is the biggest direct seller of online goods in China operating out of its Beijing headquarters, it offers direct purchases of products from distributors and manufacturers through its website, and also oversees an independent network of delivery couriers and warehousing facilities.

Not only was Thursday's listing the biggest IPO in the US by a Chinese company to date; it also gave the firm a foothold in the US market ahead of its much larger rival, Alibaba Holdings Group Ltd, China's No 1 e-commerce firm. Alibaba's IPO, expected to be held later this year, could exceed \$20 billion, according to some estimates.

Managers of JD's offering sold 93.6 million American Depositary Shares (ADS) at \$19, above the marketed range of \$16 to \$18 apiece. Trading under the symbol "JD", shares opened at \$19 and hit a high of \$22.80 in the early morning before eventually closing at \$20.90, up \$1.90, or 10 percent.

Managing the deal for JD were Bank of America Merrill Lynch and UBS AG.

JD is the latest in a string of Chinese companies seeking to go public in the US. Last week, Jumei International Holding Ltd raised \$245.1 million with its IPO on the New York Stock Exchange.

Kathleen Smith, principal at IPO investment advisory firm Renaissance Capital, said US investors have a penchant for companies based on an e-commerce model.

"US IPO investors are very interested in getting exposure to the explosive growth of e-commerce in China," Smith wrote China Daily in an email. "So far this year, the seven US-listed IPOs from Chinese companies have risen 10 percent on their first day of trading; however, all but one have traded lower from there."

JD has also secured a partnership with Tencent Holdings Ltd, a Chinese conglomerate with assets in media, entertainment and Internet services. JD and Tencent agreed to merge their e-commerce businesses in March, in a private stock deal that includes an offering of JD shares to Tencent subsidiary Huang River Investment Ltd. The deal is valued at \$1.3 billion, according to Reuters, bringing the total raised through JD's stock offerings to

nearly \$3.1 billion.

China is on course to overtake the US as the world's biggest online retail market this year with predicted sales of nearly \$180 billion, according to New York-based market research firm eMarketer.

In an update to its IPO prospectus on Monday, JD reported a net loss of more than \$600 million from January to March of this year. The company attributed the losses to a share incentive plan for Liu, the company's founder, who received a one-off, share-based bonus of \$591 million in advance of the IPO on Thursday.

Liu said he wants to spend his time making sure the company emulates the success it has seen "over the last 10 years".

"We see a lot of examples where internal management has gotten out of control due to the fact that a lot of the managers spend time trying to please the shareholders," he said. "Instead of following that example I want to spend my time on managing the company, and it's my hope that this kind of growth will last for the next 10 years."(Source:ChinaDaily)

**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 the nutritional / functional ingredients. The association's major focus is the continued development of China's dietary supplement and nutritional ingredient industry as well as offering business services to global companies wishing to enter the China Market**

**If you want to learn more about the association and how it can help your business, contact**

**us at: [info@uschinahpa.org](mailto:info@uschinahpa.org)**

**If have China related news that you would like to share with the association for publication**

**contact us at: [news@uschinahpa.org](mailto:news@uschinahpa.org)**