



# CHINA UPDATES

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## **Infant Organic Food Becomes Popular**

In recent years, Chinese consumers are looking for food with better quality, which makes organic food one of the most popular products in the local market.

The American organic food brand Healthy Times was previously bought by Biostme, a Guangdong-based food company, and the European organic food brand Little Freddie also tapped into Chinese market. Abbotts also rolling out organic milk powder products.

In 2014, among the new organic food hit the market, organic infant products account for 23% of them. The number was 3% in 2010, according to a recent report by Mintel. The report also says that 76% of parents are willing to pay more for organic food, and 48% of them said the food they bought for their babies are organic food.

Luo Fei, CEO of Biostme, said the company would help Healthy Times to march into Chinese market by selling it online and would open offline stores next year the latest. (Source: China Food Tech)

## **Shandong Food Companies Try Food Safety Insurance**

Over 650 local food companies in Shandong province have been included into the pilot program of food safety insurance, according to the local food regulators.

The related companies include dairy product companies, liquor companies and a number of large scale meat product companies. Health food companies in Jinan are also included.



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Other companies can join the program voluntarily.

The insurance provides compensation for companies whose food are involved in food safety issues and have to compensate the consumers for loss. (Source: Qilu Evening News)

### **Over 80% of Health Products Complained are for Elderly Consumers**

Shanghai consumer product regulators said that among all the complaint reports they received in the past few months, health products for elderly consumers accounted for 80% of them.

The authority said that some illegal health products tend to lure elderly consumers by making up some scientific concepts and guaranteeing the consumers that the product can cure disease and replace medicines.

Other vendors are using free physical test as bait to attract consumers and then sell their products to consumers.

The authorities also warn the so-called “emotion marketing”, as some salespeople even claim to be relatives of these elderly consumers to win trust from them and buy their products. (Source: jsw.com)

### **China to Integrate Customs Special Supervision Areas**

China will integrate its specially-supervised bonded zones to facilitate and encourage trade in key areas such as the high-tech and high-value added sectors, according to a circular issued by the State Council.

The move aims to promote the transformation and upgrading of the processing sector, facilitate the implementation of major national strategies including the Beijing-Tianjin-Hebei integrated development program and support regional economic development.

Export processing zones, bonded logistics parks, cross-border industrial zones, and the newly-

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established special supervision areas will all be integrated under the umbrella term comprehensive bonded zones.

These zones will be administered and supervised under a unified model, and businesses including bonded processing, bonded logistics and bonded warehousing services will be promoted.

Enterprises in the special supervision areas are encouraged to develop high-tech, high value-added domestic and foreign maintenance and remanufacturing services, as well as exploring overseas market through cross-border e-commerce, according to the circular.

Since 1990, China has established over 100 customs special supervision areas including bonded zones, cross-border industrial zones and export processing zones, to facilitate cross-border trade and economic development. (Source: Xinhua)

### **Alibaba to Offer Nov 11 Deals in Offline Stores**

Alibaba Group Holding Ltd used to fly solo on Singles' Day, China's largest online shopping festival that falls on Nov 11 every year.

But this year, the online shopping giant plans to make the 24-hour festival an "omni-channel

celebration" by inviting a large number of bricks-and-mortar stores across the country to participate too.

Alibaba said that 180,000 offline stores, such as shopping malls and chain stores, across 330 cities in China will be involved in the Nov 11 event.



Zhang Jianfeng, president of Alibaba's retail business unit, said the first-time participation of so many thousands of offline stores - including Alibaba's new partners Suning Commerce Group Co Ltd and Intime Retail (Group) Co Ltd - will create a shopping extravaganza combining the digital economy with bricks-and-mortar.

"Alibaba has been successful at building its business online. But we've been thinking for a while about how to work with offline partners as they are still such an influential power in the economy," said Zhang.

The offline stores will integrate with Alibaba's membership and product management, logistics and delivery service systems.

Customers buying home appliances online, for instance, will have their items delivered in as quickly as two hours from the nearest retail store participating in the Nov 11 event.

They will also be able to try on clothes at nearby shopping malls, and buy items via smartphone at

Nov 11 sale prices, online, via Alibaba's Tmall platform.

The developments are the latest moves in the rapid expansion of mobile shopping in China.

Nearly 43 percent of Alibaba's 57.1 billion yuan (US\$8.98 billion) of sales during last year's Nov 11 were made via mobile devices, and this year the company projects the number will top 50 percent.

this year's teaming-up by Alibaba with offline stores - its traditional rivals - however, comes as no great surprise to industry observers.

Wang Xiaoxing, from Beijing-based Internet consultancy Analysys International, said Alibaba has already shown a strong willingness to grow its presence offline after buying 20 percent of Suning in August.

The companies are integrating their online and store-based shopping businesses.

During next month's Nov 11, anyone buying electronic products on Tmall will be offered free after-sales services at 1,600 Suning stores, which clearly benefits both companies.

"With the slowing of the Chinese economy and the sluggish progress of traditional retailers, it is important for e-commerce companies and offline operators to work together," he said.

Hu Yanping, an analyst with DCCI Data Center of China Internet, said this budding relationship is likely to pose a major threat to the Beijing-based JD.com Inc, which specializes in selling branded electronics.

Sun Weimin, Suning's vice-chairman, insisted on Monday that products that will be sold during this year's Nov 11 will not be beaten on price by those sold on JD.com. (Source: China Daily)

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## Low Birth-Rate to Drag Down Industry

Wang Yuan, a teacher in a township kindergarten in Xuzhou, Jiangsu province, is ideally placed to witness the fall in China's birth-rate.

Five years ago, she recalled that there were about 40 children per class. Now, Wang said there are just 30 in the class for 5-year-olds and about 20 in the class for 4-year-olds. The figure is just 10 for the class of 3-year-olds.

This sort of anecdotal evidence is being backed up by hard statistics. By the end of last year, there were 225 million Chinese who were 14 years old or younger, which was 16.5 percent of the total population.



That was slightly down from 2011 when the country's sixth national census found the ratio was 16.6 percent. But that number was considerable less than the 22.89 percent in 2000 when the fifth census was released.

According to the global consensus, a country with 15 to 18 percent of its population at 14 years old or younger is considered a "severe low-birth rate society".

Naturally, the figures have triggered a debate in China. Academics, including Mu Guangzong and Liang Jianzhang of Peking University, and Yi Fuxian of Wisconsin University, have argued that the family planning policy must be stopped immediately.

In fact, they say, the government should roll out a "population revival" scheme to avoid China falling into a low birth-rate trap.

"Nursing subsidies should be handed out to couples having more than one child," Mu said. "Other benefits should include longer maternity leave for parents, and easier access to education and health services. Having two children would be good, but three would be even better."

Already the country's aging population is having a huge impact on industry.

Last year, the labor force continued to contract with the working population of 15 to 59-year-olds down 0.6 percent, according to National Bureau of Statistics.

Even the number of migrant workers was static in the first nine months of this year from 1.9 percent growth in 2014 and 2.4 percent growth in 2013.

Shortages in the work force have already been felt in key industrial cities on the Chinese coast. In the eastern city of Zhangjiagang, home to China's largest privately owned steel mills in Jiangsu province, migrant workers and their families make up more than 40 percent of the population, according to Yao Linrong, a leading city official.

When asked what was Zhangjiagang's greatest challenge in the next five years, Yao replied: "It has to be population. We need a stable population to keep the economy growing."

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At the Yonggang Group, the second largest privately owned steel maker in the country, only a few of its workers are "local" even though the company generated 35 billion yuan (\$5.5 billion) in revenue last year.

Nationally, the picture is just as grim. China's total fertility rate has fallen to 1.4, well below 2.1 minimum required to replace an aging population. If that trend continues, the population will shrink by 36 percent in a generation, experts said.

Many regions face even lower birth rates. Shanghai, for example, has the lowest TFR of 0.86 for the last decade, while the sixth census found that the northeastern region had a rate barely above 1.

Last year, the government allowed couples to have a second child if either of them is the single child in their family. Of the 11 million couples eligible to have a second child, only 1.45 million nationwide have applied for permission. (Source: China Daily)

## China's Meat Lovers Have Serious Beef With WHO Cancer Study



China, a country of carnivores, is outraged by the World Health Organization's recent report claiming that red and processed meats have the potential to cause cancer. Industry organizations, companies and consumers are backing their bacon, claiming

that the country's meat products are safe and the option to eat them is the right one.

"You can't simply say that a product causes cancer," said Ma Xiaozhong, head of the Jinhua Ham Industry Association, a group that represents ham producers in the eastern city of Jinhua. "People have to have protein if they want health and they need to eat meat for that," Mr. Ma said.

A spokeswoman for Hong Kong-listed WH Group, which owns pork producer Smithfield Foods in the U.S., declined to comment on the WHO report but said that the company has seen varying opinions and research. She said the firm believes consumers "will fight for their right to eat meat."

China is a country that – like France – is serious about its food and its meat. One of the most frequently sighted signs in China is “串 “ or chuan(r), which means meat skewers and is used to advertise local kabob sellers.

Hormel Foods Corp. announced plans earlier this year to open a plant in China to meet greater demands for its Spam. And in recent years, meat sales in China have skyrocketed, with consumers buying import meats online through websites like JD.com and Tmall, owned by ecommerce giants JD.com Inc. and Alibaba Group Holding Ltd. respectively.

By 2025, China's demand for beef alone — which isn't as common as pork and chicken in Chinese cuisine – is expected to reach 10.2 million metric tons, up from its current 8 million.

Mr. Ma said the study did not take into account that companies and countries process meat differently. He assured consumers that Chinese meat standards are high and that products are safe. Jinhua's products are not smoked and lack chemicals, such as 3.4-benzopyrene, that can be carcinogenic, he



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said.

The WHO stands by the report, which was written by a panel of researchers for the International Agency for Research on Cancer. The researchers concluded that for every 100 grams of red meat consumed per day, there is a 17% increase in the risk of colorectal cancer. For every 50 grams of processed meat consumed daily, there is an 18% increase, they found.

Red meat, according to the WHO, refers to muscle protein, such as beef, pork, veal, lamb, mutton, horse and goat, of which China eats all (in addition to donkey). Processed meats include those that have been processed through salting, curing, fermentation, smoking, or other means for preserving or enhancing flavor. (Source: WSJ)

### China Child Policy Change Doesn't Herald Surge in Infant Food Demand

Stock prices for baby food makers, which climbed after China pledged on Thursday to ease family planning restrictions, may have surged too soon, with analysts and one leading company predicting little chance of a significant bump in demand from the policy change.

Shares for milk-powder maker Danone SA (DANO.PA) hit a five-month high and Mead Johnson Nutrition Co (MJN.N) reached a two-month high after China's ruling Communist Party said it will allow all couples to have two children after decades of a strict one-child policy.

The announcement comes at a time when sales for baby food and milk formula companies have weakened due to China's economic slowdown and its campaigns to promote breastfeeding. Global prices for whole milk powder fell in July to levels not seen since 2009, according to the U.S. Department of Agriculture.

But no baby boom is not expected to be forthcoming soon as small families are an engrained part of Chinese culture and adding more

children is too expensive for many.

Analysts note that an easing of policy in late 2013, allowing couples to have a second child in situations where one spouse was only child has only had a minor impact. As of June, only 1.5 million of the 11 million eligible couples had applied for second child.

Mead Johnson, one of the top five international baby formula brands in China, said it did not expect the policy adjustment to "significantly impact births or birth rates in China, consistent with what we have seen in previous rounds of relaxation."

ANZ analysts added that a huge impact on milk powder demand for New Zealand, the top dairy exporter to China, was unlikely.



"It is primarily in the richer Eastern seaboard cities where consumers can afford formula based on New Zealand powders," they wrote in a note to clients.

"Here, the policy has been less binding – particularly after the policy was relaxed somewhat in 2013, but also because wealthier people generally want fewer children. But it all helps at the margin."

New Zealand has seen its shipments of whole milk powder slide 65 percent in the first five months of

2015, according to the USDA. Shares in the shareholder's fund of New Zealand's Fonterra Cooperative Group Ltd (FCG.NZ), the world's biggest dairy exporter, made only modest gains on Friday morning.

Retail sales of baby food in China in 2011 totaled 68 billion yuan, or about \$10.7 billion, with sales of baby milk formula accounting for about 90 percent of the value, the USDA said in a report last month, citing data from Euromonitor.

Fred Gale, a senior economist for the USDA, said he did not expect a detectable impact on dairy demand from the change in policy due to the expense of raising a child in China - a sentiment echoed by Chinese citizens posting to microblogging site Weibo.

But Bunge Ltd, a top global agricultural trader, is predicting the change will add millions more babies to China's population over the long term.

The change is "good for demand, but it's not necessarily steaks," Bunge Chief Executive Soren Schroder told Reuters.

"It's the whole spread of basic food, starting with infant nutrition and then working its way up to poultry, pork, processed foods of various types," he said. (Source: Reuters)

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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