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GAP Certification To be Cancelled

Recently CFDA released a notice on its official website that since this February, the State Council released a guidance which cancelled 13 administrative approvals, including GAP certification, which regulates TCM's production quality.

Industry people said that the certification should have been cancelled a long time ago.

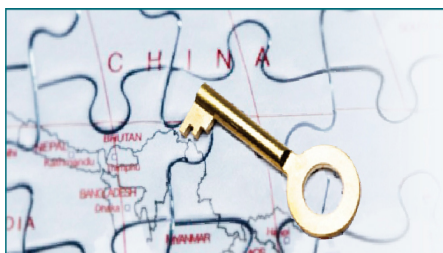
The GAP certification was started in 2003, which targets at the low quality of TCM production, including the illegal processing of TCM raw material. The certification aims at improving the production quality of TCM and make it stable.

It is estimated that by this January, 194 TCM material planting bases nationwide have been granted with GAP certification.

However, not all officially recognized bases are doing good business. "The certification has been used mostly as a marketing method for companies," said Jia Haibin, deputy director of information center of China TCM Association. (Source: Yangcheng Evening News)

Why Listed Companies Don't Call Their Products "Health Food"

In financial reports of listed health companies in China, there are so many ways to name and describe health products, but the term "health food" appears the least frequent.



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In the latest version of food safety law, which was carried out since last year, health food has been listed as a major category in the law and was given legal status. But why does this term is still cold-faced by the local companies?

The other terms include “nutrition product”, “nutrition supplement” and “dietary supplement” are instead well-accepted by the local market, and can integrate with international market. For Chinese companies who plan to tap into the international market, using the above names to describe their products help with their global expansion strategy.

On the other hand, the term” health food” poses more limits on the products regarding applying for official approvals in China, which goes against the market-oriented trend. Products with 27 kinds of health functions can be named as “health food”, according to local regulations.

We hope that the administrative system can keep up with the market and consumption trend, which will help to boost the industry development of health food. (Source : Zhezheng Kangxun)

Zhejiang Announced Ten Major Food Safety Cases

At the tail end of China’s spring festival, regulators with Zhejiang’s FDA announced ten major cases regarding food safety took place during China’s lunar new year.

Regarding food and health food, the ten major cases include some local food vendors in Hangzhou who add illegal additives in their products. A small workshop in Huzhou sells substandard products that it claimed to boost sexual performance. A small restaurant in Zhoushan sells fake beef.

Zhu Zhiquan, director of Zhejiang’s food safety office and bureau chief of Zhejiang’s provincial FDA said

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that the agency would strengthen regulation on food and launch regulator inspection and spot check to dig out “unwritten rules” and dirty deals in the local food industry.

The illegal vendors and manufacturers will be punished severely, said the regulators. (Source: China News Net)

China Health Care Association Set Up Committee on Wechat Shopping

China Health Care Association recently set up a committee in Beijing to regulate shopping on Wechat, Tencent’s social media app on mobile devises, which is the first of this kind.

The committee will provide guidance to health companies to run business on Wechat, map out regulations on Wechat shopping and promote the e-commerce industry for local health food companies.

Statistics show that Wechat has 600 million daily active users. A number of leading Chinese health brands have been developing their business on Wechat’s platforms. Industry people called 2015 as the “beginning year of health food sales on Wechat”. (Source: nmgcb)

Fast-food Chains Early Adopters of System

Fast-food retailers McDonald's Corp and KFC are among the first group of merchants in the Chinese mainland to use Apple Pay, the smartphone-based payment system launched in the country, on Thursday.



McDonald's adopted the payment system at its 1,700 restaurants across the country.

"McDonald's is offering customers a digital and personalized dining experiencing," said Guan Xucong, chief marketing officer of McDonald's China operation.

"We believe the fast and secure mobile payment brought by Apple Pay will further lift up our customers' digital experience at our restaurants."

Fast-food giant KFC, a unit of Yum Brands Inc, will also use Apple Pay at its 258 stores in Beijing from Thursday.

It has already integrated other digital platforms, including WeChat Wallet (an app developed by Tencent Holdings Ltd), and has created self-order service apps.

According to Kantar Worldpanel, a company that provides information on consumer behavior, Apple Inc "regained its title of most-sold smartphone brand" in China.

Jason Yu, general manager of Kantar Worldpanel China, said most Apple users in the country are well educated and have a high monthly income.

"Apple Pay will undoubtedly bring more convenience at checkout counters and will improve shopping experiences, especially in supermarkets at peak times," Yu said.

Apple Pay is arriving late to China's electronic payments market, which is dominated by Alipay, which is owned by Alibaba Group Holding Ltd, and WeChat Wallet, owned by Tencent. (Source: China Daily)

Foreign Companies Bet on China's Consumers as Industry Slows

Coffee shops, burger bars and clothes stores are among the foreign businesses in China that say they are thriving despite the economic slowdown that is hurting the manufacturing sector.

A Reuters examination of comments or recent statements from 34 large publicly-traded foreign companies that updated investors on their China operations shows a diverging experience between sectors.

Eighteen of the companies had products focused on consumers and 13 of these said sales grew in the fourth quarter or full year with just three down and two flat. Of the eight industrial companies in the search, six reported weakness in China or falling sales.

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Coffee shop chain Starbucks, Sweden-based tissue maker SCA fashion group Hennes & Mauritz and fast-food seller McDonald's are seeing strong growth despite the economy expanding at its slowest pace since 2009 in the fourth quarter.

"The success we are enjoying in China is really kind of highlighted by this past quarter," said Howard Schultz, chairman and CEO of Starbucks, which like many foreign companies does not break out China operating results in its accounts. He was speaking on a Jan 21 call with investors.

"We opened over 150 stores in China, this past quarter, the most we've ever opened in our history."

McDonald's said its fourth-quarter comparable sales increased 4 percent in China and it plans to open more than 250 restaurants this year, the highest in any of its markets.

"We remain confident in the potential of this important market and in the strategies we have in place to expand the brand even further," Steve Easterbrook, McDonald's Corporation CEO told investors on Jan 25.

Magnus Groth, CEO of SCA, which also makes diapers, said the rate at which China's population was shifting from being poor and rural to an urban middle class, was unmatched in other emerging markets, creating huge opportunities for his business.

But in the industrial sector the outlook was less rosy.

Construction goods maker Caterpillar and Germany's Siemens are among the industrial

companies that suffered last year. U.S.-based United Technologies Corp., which makes elevators and refrigeration units predicted even lower sales in 2016.

"Short-cycle (industrial) business was affected by double-digit decline in China," said Siemens CEO Joe Kaeser told investors last week.

"China is going to be slow and it remains to be seen whether we see a sustainable demand-related pick-up," he added.

Several CEOs said the divergence was a normal sign that China's economy is maturing from one based on industry to one fueled by consumption.

Growth for 2015 as a whole hit 6.9 percent after the fourth quarter slowed to 6.8 percent, capping a tumultuous year that witnessed a huge outflow of capital, a slide in the currency and a summer stocks crash. There has been further volatility in financial markets this year.

Data from China's statistics bureau showed that industrial output for December missed expectations with a rise of just 5.9 percent, illustrating how a slowing economy and shift to consumer-led growth is hurting industry.

By contrast, December retail sales, although disappointing, were a strong 11.1 percent.

Ford Motor Company reported a good fourth quarter in China with sales up 27 percent in December.

"It's going from an investment-led, and industry-led economy to a consumption-led one. And if you look at the consumption piece of GDP that's actually



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growing, which is a good sign," CEO Mark Fields said last month.

"It's going to be a bit bumpy as they go through that transition."

Consumer goods companies are not unaffected by China's downturn. Several have reported weakness in the market but even they have largely shrugged it off.

Apple said it saw some "economic softness" in China – "something that we have not seen before" Chief Financial Officer Luca Maestri told Reuters in an interview. However, CEO Tim Cook said the iPhone maker was not changing its investment plans there, citing strong underlying demand trends.

"The middle class in China was less than 50 million people in 2010, and by 2020, it's projected to be about half a billion. .. I think the demographics are great," he added.

Some companies, like Ford and Unilever, which reported moderated growth in the more developed markets within China, said secondary cities were picking up the slack.

"The growth is coming from really the lower tier and coastal cities, more so than the A cities," said Paul Polman, CEO of Unilever, which makes everything from ice-cream to cleaning products.

An increasing adoption of Western consumption patterns is also buoying companies. Drinks maker Remy Cointreau said Christmas gifting was becoming increasingly important for his business, helping to compensate for a reduction in the importance of the Chinese New Year market.

Starbucks said its growth in China was without the

country having adopted the "morning ritual" of drinking coffee, but that it was confident it would, offering significant additional long term growth.

Yet some western trends currently being echoed in China, present challenges for companies. As in the United States and Europe, Chinese shoppers are increasingly eschewing supermarkets. This has hit French supermarket chain Carrefour and companies, like chocolate maker Hershey, which mostly sell large shops.(Source: Reuters)

Pesticide Residue Major Source of China's Food Contamination

Pesticide and chemical residue is the major sources of food contamination in China, the Chinese Academy of Engineering (CAE) has found.

Pesticide residue was detected in 146 kinds of fruit and vegetable in the past three years, with detection rates ranging from 54 percent to 96.9 percent, said the CAE in its report on food safety in China, which was released Wednesday.

Research also revealed antibiotic misuse in animal and marine farming, and that contaminants, including heavy metals and mycotoxins, have hampered the safety of grains in China.

The heavy metal contamination in grains was severe in some regions, with over 20 percent of grains exceeding safety standards.

Around 6.2 percent of the annual grain yield is contaminated by mycotoxins during production, storage and transportation every year, the report said.

"Despite the progress made, more should be done to further improve food safety in China," said Pang



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Guofang, researcher with the CAE. (Source: Global Times)

Holiday Consumption Robust amid China's Consumer-Led Growth



Booming tourism, cinema and retail sales during the week-long Spring Festival holiday show that China's efforts to make its economy more reliant on the consumption power of its vast population is paying off.

The increasingly affluent Chinese are not only willing to spend, they spend more wisely and healthily. Aside from big feasts during family reunions, activities such as domestic and overseas travel, movies and health products have caught on.

Shops and restaurants across the country brought in 754 billion yuan (\$115 billion), up 11.2 percent over the same period last year, the Ministry of Commerce said.

On Feb 8, the first day of the Year of the Monkey according to the lunar calendar, box office reached a record 660 million yuan.

These higher figures did not come from nowhere. Online vendors went full throttle with promotional events and delivery companies worked around the clock.

The Spring Festival is no longer a travel rush

characterized by hardship. People now travel comfortably in high-speed trains while the gifts bought online are delivered to their relatives and friends.

Statistics from e-commerce giant Alibaba showed that around 14 percent of orders during its holiday promotion were delivered to different addresses, meaning around 280 million orders were likely holiday gifts.

"A precondition for online vendors to cash in on the holiday is that express delivery companies continued operating thanks to an ample supply of labor. This is an evidence of how fast the Chinese service industry is growing," said Zhao Ping, a researcher with the China Council for the Promotion of International Trade.

Restaurants had a busy week from hosting family dinners. Their business was given added impetus as they worked closer with e-commerce platforms. Sales of 27 restaurants surveyed in the Chongqing Municipality grew 16.6 percent to 8.37 million yuan thanks to cooperation with online platforms including Meituan and Baidu Nuomi.

As income keeps growing, people have become more enthusiastic with other alternatives to celebrate the Chinese New Year. Family gatherings are no longer restricted to hometowns, but have expanded to exotic locales.

Zhang Li, a resident of Shanghai, took her family on a trip to Thailand on Feb 9. "An overseas trip is an attractive option to while away the holiday," she said.

The Chinese are not only more mobile, they travel with more stylish. According to China's leading online travel agent Ctrip, 60 percent of the hotel reservations by Chinese tourist in overseas trips went to four and five-star hotels. The figure for domestic trips was 53 percent. Last year, the figures were 51 percent and 35 percent respectively.

"The preference for better star-rated hotels means

Chinese are willing to spend more to ensure enjoyable trips. They have higher demand on quality now," a Ctrip spokesperson said.

The booming holiday market is welcome news for China as it strives to retool its economy from investment-led to one that relies more on consumption and innovation. The economy saw a 6.9-percent growth in 2015, the slowest annual expansion in a quarter century, but consumption has emerged as the new growth driver.

Last year, consumption contributed to 66.4 percent of China's gross domestic product, up 15.4 percentage points from 2014. (Source: Xinhua)

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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