



U.S. Dietary Supplement Export Potential Report

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CHINA 2014



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“THE KEY TO CREATING NEW JOBS IS OPENING MARKETS FOR AMERICAN GOODS... FOR EVERY \$1 BILLION WE INCREASE EXPORTS, THOUSANDS OF JOBS ARE SUPPORTED HERE AT HOME.”

—President Barack Obama, Nov. 5, 2010

Introduction

This report was prepared by the U.S. – China Health Products Association (USCHPA), which is a U.S. 501c6 non-profit organization. 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.

Data Collection Method:

USCHPA asked each participating company to supply their 2013 sales for the three largest markets they do business in. The association then took the consumer base of each market, which was derived by using the labor force figures found on CIA World Fact Book, and divided the sales by the consumer base to come up with a weighted average annual sale for each customer in the three markets. USCHPA then multiplied that weighted average annual sale for each customer by China’s consumer base (275 million) to come up with a potential export sales figure for the China market. The association could not use the labor force of China to represent its consumer base as the labor force is over 600 million and is not a true representation of China’s consumer base.

USCHPA then asked the companies based on the potential exports to China figure, how many jobs would that create for your company. What the association found was that for each \$3 million in exports one job was created.

Below is an example of the formula used by USCHPA:

Company "X"

<u>Markets</u>	<u>Consumer Base</u>	<u>2013 Sales</u>	<u>Sales per Consumer</u>
Country 1	155 million	\$10 million	\$0.06
Country 2	32 million	\$3 million	\$0.09
Country 3	19 million	\$1 million	\$0.05
Average	206 million	\$14 million	\$0.07
China	275 million	multiply by (\$0.07)	\$19,250,000.00 Potential Exports Lost

The above is just an example. The actual potential exports lost, is listed at the end of this report.

Background

Out of all the markets in the world, China has been the focus for many U.S. supplement companies as China represents the largest consumer base in the world with an expanding economy. Consumer estimates are in the range of 250 – 300 million. Due to China's dismal food safety record and poor air quality, Chinese have become extremely health conscious and desire buying healthy food and products such as dietary supplements from the U.S. and other foreign countries.

China's huge market and consumer demand should have already made China the largest market for dietary supplements. However, overly strict regulations have crippled China's dietary supplement industry. China's Food and Drug Administration requires each product to be registered, which takes 2 – 3 years to complete and costs in excess of \$100k per product (SKU). The fees are a combination of government administration fees, laboratory testing fees and registration agent fees. The process is complex and is not at all transparent, so companies must hire registration agents to successfully navigate the registration process.

USCHPA published a complete position paper on China's dietary supplement industry and regulatory environment. This paper is linked at the end of this report.

USCHPA Findings

USCHPA feels the below figures are true and an accurate representation of losses in both U.S. exports and jobs for the companies that participated. Of course these numbers would not be realized immediately. First the regulations would have to become more open and transparent, which would lead to both domestic and foreign investment in the sector. This investment would be mainly focused at creating more developed sales channels such as chain health food stores, supermarkets, pharmacies and e-commerce platforms. More availability and greater selection would also spur the marketing and education efforts to flourish, which in turn would create greater demand.

As the USCHPA was not able to gather information from 100 percent of the U.S. dietary supplement industry, the figure below would in fact be much larger especially if the association were to consider all the peripheral industries involved such as ingredient suppliers, contract manufacturers, packaging, logistics etc.

The below information was gathered from the following companies, which represent some of the largest players in the U.S. market. (Alphabetical order):

- Ganeden Biotech
- General Nutrition Centers (GNC)
- Jarrow Formulas
- NBTY (Nature’s Bounty)
- Nordic Naturals
- NOW Foods
- Pharmavite (Nature’s Made)
- Trace Minerals Research
- Twin Labs

The below figures are in aggregate form as to protect the individual sales of the participating companies.

TOTAL POTENTIAL EXPORTS	TOTAL POTENTIAL JOBS
\$8,371,973,666.00	2791

Closing Remarks

Although the above represents billions in “potential exports” there are actually real losses being felt. Many of the association’s members both from the U.S. and abroad are seeing real losses in their current businesses in China. As of January 1, 2014, China’s FDA has put a stop to the importation of dietary supplements as regular food and is now requiring that all supplement companies must have China FDA registration prior to entry. As most foreign supplement companies were importing their products under the general food category, this new move by China FDA has devastated the industry.

Unfortunately companies were not willing to report their actual losses to USCHPA, but an estimate would be in the tens of millions of U.S. dollars.

Since 2010, the association has been cooperating with U.S. and Chinese organizations, industry and government to encourage regulatory change. However, matters have only gotten worse not better. This recent move by China’s FDA has essentially put an end to U.S. imports of dietary supplements as food. Rumors have it that China’s FDA is going to implement new regulations in the third or fourth quarter of 2014. However, new regulations were supposed to come out back in 2009, which never materialized.

This is now clearly a trade issue and should be taken up with China's Ministry of Commerce. China is working hard to transform its economy from export oriented to more of a balanced consumption market. As dietary supplements are considered consumer goods, these products fit nicely into helping China increase internal consumption as well as job creation since U.S. and other foreign operations in China require local staff.

Furthermore, the Ministry of Health is moving toward a more preventative healthcare system. This is due to the increasing number of senior citizens. By 2050, it is estimated that close to half the population will be made up of retirees. The Ministry of Health realizes that a population of this size that is not healthy would drain the social welfare system. So it is imperative that China's seniors stay healthier longer. Again dietary supplements are a perfect fit as they help to support health and well-being.

USCHPA's report, "China's Dietary Supplement Sector and Key Issues" clearly outlines the \$billions in savings governments can realize by encouraging the use of dietary supplements for a variety of health related issues. USCHPA does not see a down side to China moving the dietary supplement industry towards a more open and transparent regulatory system. 

For more information or clarifications, please contact the association:

info@uschinahpa.org