



# CHINA UPDATES

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## **CFDA Held Seminar on Health Food Production**

China's national food regulator held a seminar recently to emphasize the importance of health food regulation. The seminar was attended by 16 health institutions including China Health Care Association and companies including Amway and By-Health.

The seminar focused on the updated Food Safety Law and brought up the new definition of health food, filing and registration methods, and classification management. Representatives from companies also discussed IPR protection and new ingredient issues.

Regulators said in the seminar that they would cooperate and communication with related companies to promote the health industry development. (Source: China Food Journal)

## **FDA of Hubei Province Built Effective Drug Registration Management System**

The provincial food and drug regulator in Hubei province took effort in managing the drug registration system last year, which so far proceeds quite well.

The efforts include strengthening the management of registration applicants, risk alert system, research system and information release platform.



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So far over 500 applicants have registered in the system. (Source: CFDA)

### Heilongjiang Regulator Maps out Food Safety Inspection Plan

In response to the state regulator's request to strengthen food regulation, FDA in Heilongjiang Province is adopting various methods to protect the food safety of local brands, making sure the food processing procedure to be up to standard.

The regulator also mapped out monitoring and spot check plan targeting at food production. The inspection will cover all food companies province-wide.

The inspection will specifically pay attention to high-risk food. The plan elaborates on the types of food the inspections cover, as well as area, route and time of the checks.

Those food which are included into the blacklist in previous spot-check results will be specifically checked in the following inspections. (Source: [hlj.gov.cn](http://hlj.gov.cn))

### China's Beer Industry Goes Flat With Anti-Corruption Campaign

Chinese President Xi Jinping's war against corruption is snarling sales of everything in its path, from fireworks to baijiu to mooncakes and even Wal-Mart products. The latest victim: beer.

The choice drink among the masses saw production fall in 2014 for the first time in a decade, state-run China Daily reports. Over the full year, total beer production fell 1%, but in a sign that the effects of Mr. Xi's campaign are getting stronger, output fell 17% in the month of December alone, the paper says, citing [chinaibeer.com](http://chinaibeer.com), the website of the Beer Professional Committee at the China Food Industry Association.

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An unnamed administrative employee at a Chinese beer producer attributed the drop to the austerity campaign.

“Beer sales at restaurants and entertainment venues are gloomy, since a lot of officials didn't dare to eat out or even go to karaoke parlors. Many companies suspended their gift-giving activity in the wake of the austerity drive, which led to declines of beer sales at supermarkets,” the person told China Daily.

The fall in production of beer for the masses comes even as the popularity of craft brewing is picking up in the country, as Chinese discover they can trade in their Tsingtao for a tea-infused microbrew. Beijing has seen a number of new craft breweries open as the trend spreads from expat-owned bars to those owned and operated by Chinese locals. Others, meanwhile, are learning to make their own brews at home.

Beer is a big industry in China: The country has been the world's largest beer market since 2003, as consumption in the country rises more broadly. Revenue for beer production increased at an average annualized rate of 7.5% from 2009-14, totaling \$32.4 billion. Per-capita beer consumption increased at an annualized rate of 5.1% from 2008-

13, according to consumer-research firm IBISWorld. At the same time, the industry has become more consolidated, with the country's top five breweries accounting for 80% of volume, according to China Daily. (Source: WSJ)

## Yum Sales Top Estimates as China Food-Safety Scare Wanes

Yum Brands Inc., owner of the Pizza Hut and KFC fast-food chains, posted fourth-quarter revenue that beat analysts' estimates as sales in China slid less than expected.



Sales fell 4.4 percent to about \$4 billion, the Louisville, Kentucky-based company said in a statement Wednesday. The average of 15 analysts' estimates compiled by Bloomberg was \$3.94 billion. Yum, still recovering from a 2012 supply-chain investigation, was hit with another food-safety issue in July when vendor OSI Group LLC was probed for altering expiration dates on meat. Yum generates more than half its revenue in China and is banking on growth in the country, adding menu items at KFC locations and bringing breakfast to more than half its Pizza Hut restaurants there.

Sales at restaurants in China open at least 13 months fell 16 percent in the quarter. Analysts surveyed by Consensus Metrix projected a 19 percent drop.

The shares rose 0.9 percent to \$74.33 at 10:38 a.m. in New York. They dropped 3.7 percent last year,

compared with a 1.7 percent gain for the Standard & Poor's 500 Restaurants Index.

Yum "trades almost exclusively on trends in China, and the fact that it isn't getting worse gives the market reason to believe you'll see improvement as 2015 progresses," said RJ Hottovy, an analyst at Morningstar Inc. in Chicago. "The market was bracing for the worst."

Yum posted a net loss of \$86 million, or 20 cents a share, in the quarter, compared with profit of \$321 million, or 70 cents, a year earlier. Excluding some items, profit was 61 cents a share, trailing analysts' 66-cent average estimate. Foreign-currency exchange-rate pressure reduced operating profit by \$11 million during the quarter.

Yum maintained its forecast that earnings per share would increase at least 10 percent this year, but said the road to that profit level had become more challenging as sales in China remained negative through January.

"Our recovery is not occurring at the pace we expected," Chief Executive Officer Greg Creed said on a conference call Thursday. He said KFC was revamping its promotions surrounding the upcoming Chinese New Year in a bid to boost sales.

Yum has more than 6,700 restaurants in China, including more than 4,800 KFC locations. The company said Wednesday it plans to open 700 new restaurants in China.

"We continue to firmly believe in the long-term potential of China," Creed said in the statement.

This year, the company plans to open 2,100 new international restaurants. Yum has more than 41,000 restaurants worldwide. (Source: Bloomberg)

## China Underlines Cautious Approach to Biotech Crops

China will continue to promote research into genetically modified crops while maintaining strict controls on safety of the technology, a top agriculture official said on Tuesday, underscoring Beijing's cautious approach towards biotechnology.

The comments came after a major policy document, known as the "number one document", called for strengthening of GMO research and safe management of the technology, as well as educating the public on the issue.

It was the first time that the document, released early each year and focusing on agriculture, had explicitly addressed the increasingly fervent debate among the Chinese public around safety of GMO foods. That prompted speculation in local media about a possible shift in the government's position.

But Han Jun, deputy head of the Communist Party's office on rural affairs, said the new document was "consistent" with current policy on biotech.

The GMO debate had become a "social problem" and people needed a more objective understanding of the technology, he said.

China has poured billions of yuan into developing GMO seeds but has not dared to permit cultivation of biotech varieties of feed and food crops, citing consumer concerns over safety.

Its position is also thought to be impacting the approval for import of genetically modified crops, which faces long delays.

The government has already made some attempts to clear up worries about GMOs, launching a national media campaign last year.

But Han said that it remained an "extremely sensitive" issue for all of Chinese society. "It's a hot topic for everyone in their daily life."

While recognizing the problem of public perception, Chinese scientists are increasingly impatient with the government's approach.

"Scientists are in a hurry, companies are in a hurry, farmers are also in a hurry. But our government departments need to speed up," Huang Dafang, research fellow and former director of the Biotechnology Research Institute at China's Academy of Agricultural Sciences told reporters last week.

He also questioned why the government had stalled commercialization of GMO crops.

"New strains are still not being approved. Is it because of safety? No, it's because of government process."

Han added that China follows international standards on safety and management of its biotech research in areas such as genetically modified rice and corn, and said that Beijing had no choice but to continue supporting the technology.

"China, a big country with 1.3 billion people and its agricultural development facing increasingly serious environmental constraints, cannot afford to fall behind in research of GMOs." (Source: Reuters)

## South Korean Cosmetics Firm Eyes China's Middle Class

AmorePacific Group expects sales in China to jump 30 percent this year as the South Korean



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cosmetics producer opens more outlets to capture a wealthier Chinese middle class keen to look more like their Korean idols.

"China is geographically close and it has a very big population," Suh Kyung-bae, the billionaire chairman of the Seoul-based holding company of AmorePacific Corp, said in an interview. The company recognized the importance of Asia's rising middle class 15 years ago, and this is still one of its main drivers, Suh said at the cosmetics maker's factory in Osan, South Korea.

AmorePacific Corp, South Korea's largest cosmetics maker, joins companies such as Hotel Shilla Coand casino operator Paradise Co in benefiting from the rising popularity of Korean entertainment and culture, especially in China. The maker of facial creams and ginseng serums plans to increase the number of Laneige and Sulwhasoo sales outlets in China and work with more online retailers to sell its products, Suh said.

AmorePacific Group, whose brands also include Etude and Mamonde, competes with Procter & Gamble Co and L'Oreal SA in selling products such as the 270 yuan (\$43) Laneige and 188 yuan Innisfree-brand facial creams in China.

The company, which has 2,335 stores in China, plans to raise that by 15 percent this year, it said.

AmorePacific Group had 2.1 percent of China's 131.4 billion yuan skin care market in 2013, the 12th-biggest share, according to Euromonitor International. L'Oreal has the largest market share with 11.4 percent, according to the industry researcher.

Suh is South Korea's third-richest man with a net worth of \$6.8 billion, according to the Bloomberg

Billionaires index.

AmorePacific Corp's shares jumped 19 percent in January, making it the best-performing stock in the beauty and personal care sector globally, according to data from Bloomberg Industries.

China and Southeast Asia will be the biggest growth drivers for the group, said Kim Bo-young, a Seoul-based analyst at BNP Paribas Securities Korea Co.

"The Southeast Asia market has become almost half the size of China," said Kim, who has a buy recommendation on AmorePacific Corp. "It is also enjoying faster growth, and there is a meaningful number of middle class looking to buy affordable luxury brands."



AmorePacific Group said on Feb 3 sales grew 21 percent to 4.7 trillion won (\$4.3 billion) in 2014.China is its biggest market outside South Korea and accounted for 8.6 percent of sales in 2013.

China may make up 30 percent of AmorePacific Group's total sales by 2020, Chief Strategy Officer Kim Seung-hwan said last year. The group expects to more than double sales to 12 trillion won by 2020, with half of that coming from overseas, it said last October.(Source: China Daily)

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## Jack Ma Tells Quality Watchdog Alibaba Will Help Root Out Fakes

Alibaba Group Holding Ltd. Chairman Jack Ma met with China's quality regulator and pledged to fight fake goods, as the e-commerce giant tries to quiet claims it has failed to prevent counterfeiters from using its sites.



Alibaba would work with the Chinese government to block knock-offs from its Taobao Marketplace and other online malls, Ma told Zhi Shuping, head of the General Administration of Quality Supervision, Inspection and Quarantine, according to a statement posted today on the agency's website. The company would use data collected from users and cloud-computing to aid the effort, Ma said.

The meeting comes less than three weeks after another regulator, the State Administration for Industry and Commerce, issued a scathing "white paper," accusing Alibaba of tolerating unlicensed merchants who sell fakes online. After Ma met with the head of SAIC Jan. 30, that agency released a statement describing the critical report document as a meeting memo that lacked "judicial effect."

Cao Lei, director of the Hangzhou-based China E-Commerce Research Center, said Alibaba must demonstrate deference to all its regulators. "Jack Ma is trying to find more support, and also show his willingness to cooperate," Cao said by phone.

Alibaba rose 0.4 percent in New York trading on

Monday to close at \$86 before the statement was released. The stock has declined 17 percent this year.

After Monday's meeting with Ma, Zhi, the quality chief, said Alibaba was a global brand and should lead efforts to ensure quality and protect consumers' interest, according to the statement.

During a Feb. 2 appearance in Hong Kong, Ma said the company had resolved the dispute with SAIC. "We don't want to be misunderstood by the world that we are not transparent," he said at the time. "We don't want to be misunderstood that Taobao is a platform for selling fake products."

Building a reputation as a source of quality goods is a key challenge for Alibaba as the company pushes beyond China to reach 2 billion customers worldwide. While Ma has pledged close cooperation with regulators, he has also promised to share user data with Chinese authorities only if they're investigating terrorism or other crimes.

Alibaba has worked to get rid of counterfeits, saying it removed 90 million listings for products that breached intellectual-property rights before its record-breaking initial public offering in September. The company said in December it had spent \$161 million since the beginning of 2013 to block counterfeit products and protect consumers. (Source: Bloomberg)

## Food and Drug Officials Set Up Online Watchdog



The Beijing Food and Drug Administration (BFDA) has formally set up an online inspection team to monitor the unlawful sale of food and drugs on the Internet, according to BFDA deputy head Zhang Fengping at Beijing's ongoing two sessions, the Beijing Daily reported.

Zhang said the team of seven, along with several assistants, are looking for manufacturers who do not have legal qualifications for selling food, drugs, and medical appliances. They are also cracking down on vendors who use false advertising. He said it's difficult to trace illegal activity online because vendors can easily hide their identities.

The BFDA is also exploring the possibility of cross-regional inspections on food and drugs. Approximately 80 percent of drugs in Beijing are sourced from outside the city. (Source: Global Times)

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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