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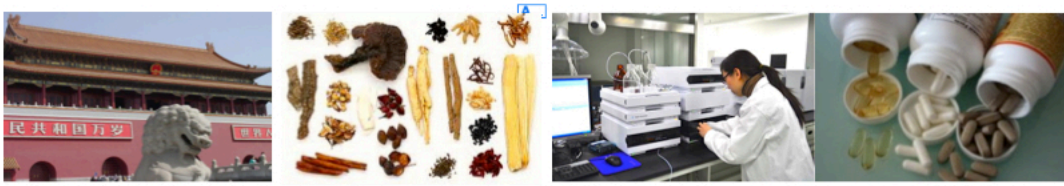

ISSUE 87
April 21, 2014

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Chinese Authority Received 270,000 Food, Drug Safety Complaints Last Year

Chinese authorities received nearly 270,000 complaints about food, pharmaceuticals, cosmetics and medical equipment last year, an official with the State Food and Drug Administration (SFDA) said on Monday.

Most complaints were about unlicensed production, advertisements, unauthorized distribution, substandard products, and banned additives, said Liu Pei, SFDA center director.

Most complaints (82 percent) were collected via SFDA hotline 12331, launched in 2012 but also through websites, letters and personal visits.

Complaints about food and pharmaceutical safety have been on the rise in recent years, reflecting growing public awareness of their rights and interests, Li said.

Food and drug safety is a sensitive issue for Chinese consumers. The food and drug industry has been hit by a number of scandals in the past few years.

Public trust in domestic dairy companies was eroded in 2008, when melamine-tainted milk killed six infants and made thousands of other children ill. (Source: Global Times)

China Updates is a service provided by U.S.-China Health Products Association. The Newsletters are issued approximately three times a month. China Updates provides news on regulatory environment, new legislation, association activities and any information related to China's natural health products industry.

China has Success in Food Smuggling Crackdown

Chinese customs authorities have put 114 smuggling cases of agricultural products on file for investigation since beginning a nationwide crackdown at the beginning of this year.

The cases involved 1.46 billion yuan (235.2 million US dollars), the General Administration of Customs (GAC) said Thursday.

Zhu Feng, deputy head of the administration's anti-smuggling bureau, said the GAC initiated an intensive one-year campaign, running till the end of December, to combat smuggling of agricultural products.

Nanning, Kunming and Jinan customs have ferreted out a large amount of sugar, rice and cotton in the campaign, he said.

Zhu said rising production costs in China have driven up prices of domestic agricultural products, fueling smuggling activities.

The administration's figures showed that China seized 14,000 tonnes of sugar, 52,000 tonnes of rice and 94,000 tonnes of frozen meat in the crackdown last year.

Food safety problems have emerged with the smuggling as a third of the frozen meat confiscated last year, about 30,000 tonnes, came from epidemic-stricken areas, according to Zhu.

Smuggling also affects domestic food production and results in losses of taxes, the official said.(Source: Global Times)

DSM in Exclusive Discussions to Acquire Aland (China)

Royal DSM, the global Life Sciences and Materials Sciences company, announces today it is in exclusive discussions with Aland Nutraceutical Holding, Ltd. ("Aland") that may or may not result in the acquisition of Aland, a China-based global producer of vitamin C. Further information will be announced in due course, if and when appropriate.

If successful, this relatively small acquisition would allow DSM to further strengthen its position in vitamin C. For DSM the acquisition, which would fully meet its financial and strategic requirements, would add to its position in vitamin C, the world's largest vitamin measured by volume. Aland would also improve DSM's global footprint in vitamins for Human Nutrition & Health, Animal Nutrition & Health and Personal Care, as it adds to DSM's existing vitamin C capacity in Dalry (Scotland, United Kingdom) to which the company remains fully committed.

Aland was founded in 1990 and has a production facility in the Jiangsu Province in China. In 2013 the company realized net sales of about USD 90 million in vitamin C. (Source: press release/WSJ)

China to Remain A Challenge For Global Beauty Players

L'Oréal is the leading cosmetics and beauty care player globally with a market capitalization of about $98 billion. The company competes with other notable pure-play cosmetics manufacturers like Estee Lauder, Shiseido, Avon Products and Revlon in the multi-billion dollar cosmetics market. Additionally, it faces strong competition from cosmetics brands of global consumer product companies such as Unilever, Procter & Gamble and Beiersdorf.

L'Oréal reported revenues of approximately $30.5 billion in the recently concluded fiscal 2013. The company has a strong market share position across skin care, hair care, makeup and fragrance product categories in key demographic regions worldwide.

However, it has been particularly aggressive in expanding its market share in emerging market regions of Asia-Pacific and Africa. In this note, we take a broader look at China, the largest cosmetics market among emerging economies, and analyze various trends shaping its future.

The Chinese beauty and cosmetics market is the third largest market globally, after North America and Japan, and had market sales of approximately $23 billion in 2013. Within this huge market, L'Oréal reported sales of over $2 billion in 2013.

This translates into a 9% market share for L'Oréal in the overall Chinese beauty market. However, the company has faced intense pressure from domestic players within the mass-market cosmetics space and has bowed out of the Chinese hair care market by shutting down its Garnier brand.

L'Oréal still commands market leadership positions in beauty and make-up cosmetics, with L'Oréal Paris and Maybelline New York being the number one brands in their respective segments. However, domestic players, like Shangai Jahwa United, have displayed a better understanding of the Chinese consumer tastes.

The company's brand 'Herborist' uses traditional Chinese medicinal and herbal practices in developing its beauty products and has shown

strong resonance with Chinese consumers. Adapting such practices has given domestic Chinese beauty players a decent lead over large, international players.

To counter this strengthening competition from domestic players and retain their market share, global beauty companies have been on an 'acquire-to-grow' strategy in the Chinese market. L'Oréal announced its acquisition of Magic Holdings International Limited for $850 million last year, which is the company's largest acquisition in the Chinese market.

Magic Holdings is the leader in the Chinese facial care market, with annual revenues that grew 14% on a constant currency basis to reach $220 million in 2013. The acquisition of Magic Holdings indicates the company's stance against domestic competition.

Going forward, we expect market conditions for International players in China to remain challenging. Chinese consumers in tier 1 cities are exhibiting a greater preference to local beauty manufacturers who have an understanding of traditional practices. This trend should become evident in tier 2/tier 3 cities as consumer discretionary income levels expand and consumer demand for cosmetics increases.

Moreover, the Chinese consumer has become more sophisticated over the years and is unwilling to spend a premium on international brands when a domestic brands can provide similar benefits at a lower price point.

We expect International beauty players to complete more acquisitions in China to maintain their market shares in the near term. Over the longer term, these acquisitions should allow global beauty brands to better position themselves in this market. (Source: Forbes)

China Cited as Good Example in Promotion of Food Security

The 2013 report of the International Research Institute for Food Policies, IFPRI, that was released on Monday in Dakar, praised China for having managed to halve the prevalence of under-nutrition since 1990.

"Since 1990, China has managed to reduce by half the number of under-nutrition that moved from 23 percent to 11 percent," the study launched in the presence of Senegal's Agriculture Minister Papa Abdoulaye Seck indicated.

The report further said that China and Vietnam were on the path to eradicating hunger by 2025 while Brazil and Thailand had already achieved this goal.

"Other developing countries should learn from these experiences to achieve food and nutritional security. Elimination of hunger requires a combination of strategies centered on agriculture, nutrition and social protection," the study recommended.

IFPRI report noted that in Sub-Saharan Africa, agriculture will play a key role in contributing to poverty reduction.

The document equally urged concerned governments to adopt economic policies that favor food and nutritional security. It particularly called for elimination of hunger by the year 2025.(Source: Global Times)

Foreign Firms' Love-Hate Bond with China

Foreign companies have mixed feelings on China. The world's second-largest economy offers them an enticing market, yet there remain tricky barriers to entry, bosses of global heavyweights said at an international forum on Thursday.

China has become very attractive for international firms seeking to tap the growing consumer market, but its complicated business and investment approval procedures have bothered many foreign entrants, said attendants at the ongoing Boao Forum for Asia (BFA) 2014 Annual Conference.

A Chinese consumer market barely existed a decade ago, but now the country seems ready to be the next consumption superpower, with Chinese getting richer and increasingly luxury-minded and online.

China has already become the world's largest market for automobiles, smartphones and luxury goods. It has also outperformed the United States to be the world's largest e-commerce market.

Currently, private consumption accounts for less than 40 percent of China's total GDP, while over half of economic growth is driven by consumer spending in developed countries, according to a report released by a think tank with the BFA last month.

But the potential for future consumption growth is enormous. The Chinese consumer market is expected to grow 10 to 15 percent in the coming six years, with a total market growth of 1.4 trillion U.S. dollars, said Mitch Barns, CEO of Nielsen.

Meanwhile, Chinese consumers' consumption patterns are expanding to service industries, as they splurge on travel and entertainment. The service sector accounted for 46.1 percent of the total GDP last year, as it overtook the manufacturing sector for the first time.

The Chinese government is also taking steps to shift its economy by reducing reliance on foreign investment and exports and encouraging consumption for renewed growth momentum.

A massive urbanization push is under way, which will produce tens of millions of more affluent citizens seeking better goods and services at home and abroad.

"China is the most important market in Asia for us and it's getting bigger. The attraction in the past was cheap labor, now it's the rising consumers," said Sanjeev Chadha, PepsiCo CEO for Asia.

Over half of U.S. companies established in China have been running businesses here for over 20 years, but now they are finding a palpable growth slowdown accompanied by rising costs and challenges, said Barbara Franklin, former U.S. commerce minister, citing research by the U.S.-China Business Council.

Many sectors are not fully open to foreign players and China does not allow total ownership of a company through investment. Foreign enterprises also face a loose intellectual property rights protection regime and talent shortages in some sectors and regions due to the country's uneven urbanization.

According to former EU trade Commissioner Peter Mandelson, there has been some lowering of market entry barriers over the years, particularly in terms of tariffs, but new ones are often erected in their place.

However, there are signs of the government more seriously loosening its grip on the market as China's reform continues to progress.

American businesses were closely watching China's reform moves, said Franklin, who believes that the gradual implementation of the reform agenda set by November's key CPC meeting will offer foreign firms promising prospects in investment.

Mandelson also recommended that those eyeing China peruse the decision document issued at the meeting as it indicates "really amazing" changes to come.

He predicted that quite a different economy will be seen as the reform gradually rolls out, with structural changes and more specialized sectors, advanced technologies and management and professional workers. (Source: Xinhua)

Why Alibaba is a Big Deal

Many consumers in the U.S. go to Amazon.com when they shop online. But for hundreds of millions of Chinese consumers, online shopping is synonymous with Taobao and Tmall, the two marketplaces run by Alibaba Group Holding.

Helped by the sheer size of its domestic market – China has over 600 million Internet users – Alibaba's business has expanded rapidly over the past decade and its sites already handle more transactions than those for Amazon and eBay combined.

Now, Alibaba is facing a major turning point as it prepares to go public in New York in what could be the largest Internet initial public offering in U.S. history. Analysts and bankers say Alibaba's IPO could raise $15 billion or more, possibly surpassing Facebook $16 billion IPO in 2012.

Alibaba Founder Jack Ma

Even though there is so much hype over its IPO in the U.S., Alibaba's actual e-commerce operations are still largely unfamiliar to U.S. investors, let alone U.S. consumers many of whom have never used Alibaba's services. While some businesses in the U.S. have used Alibaba.com to find Chinese suppliers, that business-to-business website is now a relatively small part of Alibaba's revenue, compared to its Chinese consumer shopping sites Taobao and Tmall, which together account for the company's revenue according to analysts.

"There's no other e-commerce group that is as dominant as Alibaba in their home markets," said Paul McKenzie an analyst at Hong Kong based brokerage CLSA.

Some of Alibaba's financial information is available through its major shareholder,Yahoo, which includes Alibaba's results in its quarterly earnings reports. And the latest Alibaba earnings numbers from Yahoo showed the Chinese company's continued growth.

The next big opportunity to find out a lot more about Alibaba — its operations, finances and ownership – will be when the company actually files for a U.S. IPO. Its IPO prospectus should provide potential investors with a lot of new material to digest. Alibaba last month said it has decided to start the process of an IPO in the U.S., but it still hasn't made the IPO filing. (Source: Wall Street Journal)

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