Mar 22nd, 2016
Get Ready for China!

The EU SME Centre is an EU Commission funded project which helps EU SMEs prepare to do business in China by providing them with a range of information, advice, training and support services.

The Centre is implemented by a consortium of six partners and was established in October 2010. It successfully completed its first phase in July 2014 and has now entered its second phase which will run until July 2018.
Please continue to submit your text questions and comments using the Questions Panel

www.eusmecentre.org.cn
Kirk Barlow, Managing Director, Sown Solutions

Kirk Barlow has lived and worked in China since 2009 and is very knowledgeable of the F&B import and distribution processes. During this time he has developed a strong knowledge of the Organic Food market through developing direct sales channels between organic producers, wholesalers, restaurants/hotels, and downstream production companies.

Kirk owns and operates his own company which provides sales and management support to organic farms in China. This involves developing agreements with five star hotels, mid-high tier restaurants, juice processing plants, and using a number of online sales techniques. As an extension to this, his company provides advice to small-holder producers from abroad who are looking to export products to China.

From 2010-2013 Kirk was a Consultant within the Global Strategy Group of KPMG China where he worked with both new and existing companies in China. In November 2015, he co-hosted the International Community Supported Agriculture Conference in Beijing through receiving sponsorship from the Shunyi (Beijing) Government which saw over 700 farmers and representatives from 28 countries attend. The President of IFOAM was one of 50 presenters, which also included a contingent from IFOAM Asia and FAO Asia.
Areas covered:

a. What is the market like for organic F&B in China?

b. What are appropriate strategies to introduce or expand my product line to include organic?

c. What are the certification and labelling requirements?

d. What are the Opportunities and Challenges, and what can I about them?

e. How are companies currently marketing/selling their organic products in China?

f. What E-Commerce methods are there to sell organic products?
Organic Market in China
<table>
<thead>
<tr>
<th>Category</th>
<th>Products type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>Rice, various legumes and pulses, peanuts, wheat, buckwheat, corn, etc.</td>
</tr>
<tr>
<td>Beans</td>
<td>Mung bean, kidney bean, etc.</td>
</tr>
<tr>
<td>Vegetable oil</td>
<td>Soybean, canola, flax, sunflower seeds, pumpkin seeds, etc.</td>
</tr>
<tr>
<td>Vegetables</td>
<td>All kinds of leafy vegetables, tuberous root vegetables, tuberous plant vegetables, fruit vegetables, garlic, ginger, bamboo shoots (mostly wild harvest), mushrooms (both from cultivation and wild harvest), etc.</td>
</tr>
<tr>
<td>Fruits</td>
<td>Apples, pears, strawberries, blueberries, peaches, jujube, grapes, etc.</td>
</tr>
<tr>
<td>Tea</td>
<td>Green tea, black tea, herbal tea, Pu-er Tea, Wu-loom Tea, etc.</td>
</tr>
<tr>
<td>Textiles</td>
<td>Cotton, silk, flax, etc.</td>
</tr>
<tr>
<td>Medicinal herbs</td>
<td>Ginseng, various Chinese medicinal herbs (both from cultivation and wild harvest),</td>
</tr>
<tr>
<td>Livestock</td>
<td>Meat, eggs and diary products, etc.</td>
</tr>
<tr>
<td>Aquaculture</td>
<td>Fish, shrimp, crab, etc.</td>
</tr>
<tr>
<td>Processed foods</td>
<td>Frozen vegetables, dried fruits, can vegetables and fruits, etc.</td>
</tr>
</tbody>
</table>

Market Size

• 2% expected domestic organic consumption in 2017, or USD22 billion (RMB 142 billion) experiencing a CAGR of 12% (2012-2017)

• Imported organics is difficult to track, however most estimates place this figure at about RMB 140 million (USD $20 million), but is expected to be growing in the range of 20-50% per year as more countries adopt standard recognition and cooperation agreements

• Massive agriculture conversion in China: There were about 81,000 hectares in 2010, and in 2016 there are well over 200,000 hectares in China farmed organically, experiencing a CAGR of 25%
Key Growth Drivers

- An increased demand for ‘safe’ and transparent food supply as there is a higher migration to urban centres and fewer people living in rural farming areas
- Increased income and improved living standards are generating concerns about food quality and nutritional issues
- There are more and more overseas returnees and foreigners in China, particularly in tier-one cities, increasing the demand for organic products
- Downstream processing, and integrating into other parts of the organic value chain as people look for more convenience products
- The online-shopping boom
CHINESE CONSUMERS ARE GOING ONLINE IN UNPRECEDENTED NUMBERS

CHINA 2015
780 MILLION INTERNET USERS
MANY OF THESE WILL BE MOBILE INTERNET USERS, DUE TO THE GROWING NUMBER OF INEXPENSIVE MOBILE DEVICES.

CHINA 2010
420 MILLION INTERNET USERS
6 MILLION NEW USERS PER MONTH

UNITED STATES 2010
50% FEWER USERS THAN CHINA

INDIA 2010
80% FEWER USERS

SOURCE: MCKINSEY
Mega-cities are leading China’s consumption
Mega-cities are leading China’s consumption

<table>
<thead>
<tr>
<th>Sub-cities</th>
<th>Population* (m)</th>
<th>GDP** (Rmb bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chang-Zhu-Tan</td>
<td>8.3</td>
<td>320</td>
</tr>
<tr>
<td>Chengdu</td>
<td>8.4</td>
<td>313</td>
</tr>
<tr>
<td>Chongqing</td>
<td>9.2</td>
<td>489</td>
</tr>
<tr>
<td>Greater Beijing</td>
<td>23.3</td>
<td>1,900</td>
</tr>
<tr>
<td>Greater Shanghai</td>
<td>18.2</td>
<td>1,787</td>
</tr>
<tr>
<td>Greater Xi’an</td>
<td>7.9</td>
<td>264</td>
</tr>
<tr>
<td>Greater Zhengzhou</td>
<td>7.6</td>
<td>162</td>
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<tr>
<td>Greater Guangzhou</td>
<td>10.8</td>
<td>1,356</td>
</tr>
<tr>
<td>Hefei economic circle</td>
<td>7.2</td>
<td>222</td>
</tr>
<tr>
<td>Shandong peninsula</td>
<td>17.9</td>
<td>1,227</td>
</tr>
<tr>
<td>Greater Shenyang</td>
<td>11.0</td>
<td>668</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>11.1</td>
<td>820</td>
</tr>
<tr>
<td>Wuhan</td>
<td>8.3</td>
<td>389</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit, National Bureau of Statistics.
Food Safety in China

There is a fundamental difference in why more people are looking for alternative food supplies in China. Issues like counterfeit labels, lead and cadmium tainted vegetables are making food safety the primary motivator for choosing organic.

The challenges made to the integrity of the organic system, combined with limited transparency within the food sector has caused a much higher demand for organic, high quality, natural, and safe imported foods. It is also placing a higher emphasis on brand and personal relationships.

- More recently in February 2016 lead and cadmium tainted “certified organic vegetable” exports were discovered in Hong Kong supermarkets

- In 2011/12 counterfeit labels were discovered on online market places going for less then $1EUR per label

- 2008 melamine milk scandal which hospitalized 860 people and killed six babies

- 2003 scandals included hotpot broth, rice, pickles, chives and noodles. These put more attention on illegal additives, the processing industry, and restaurants
2015 Food Safety Law enacted in October 2015 impacts both domestic and foreign firms

The law is comprehensive, including regulations which includes almost everything from online sales platforms to labeling requirements.

A high emphasis has been placed on these four areas:

- Staple and supplementary foods for infants and other specific populations
- Products with health care or nutritional claims based on any registered or filed technical requirements made, as well as any product labels, instructions, or advertising materials
- Food producers or distributors with a high food safety risk
- Food which pose potential safety risks as suggested by risk monitoring results of food safety

Other areas for food safety:

- Assuring compliance is everyone’s responsibility
- Labeling / advertising / instructions
- Compliance with food additive regulations
As a WOFE or Joint Venture firm, everyone faces the same food distribution and safety regulations regardless of quality, organic, conventional, or natural (organically grown)

- Company registration documents, Hygiene certifications, Food Circulation documentation, site visits, lab testing reports if applicable

- Site visits by actual buyer (some cases), environmental questionnaires (some cases)
II Certification and Labelling Requirements
Overview

- In order to sell organic products legally in China, all products (whether domestically or internationally produced) are required to obtain Chinese organic certification.

- Certification is available for field crops, livestock, aquaculture, wild plants, honey, fungus, processed foods, fertilizers, and pesticides.

- The Chinese organic certificate is valid for one year and applicants must annually renew their certification.

- The EU organic logo and those of EU Member States are only used to supplement the official Chinese Organic labeling and to increase the visibility of organic food and beverages for consumers.

- You should not expect Customs Officials to approve your product for import if you have your home country’s organic label on it without the Chinese Label.
Definition of “Organic Products” and “Natural Products”

- **Organic Products**: Organic products are made from organic raw materials. Organic certifications are usually required. China has set a clear definition of organic products in the National Standard GB/T 19630-2011.

- “Organically Grown” or **Natural Products**: This is typically used to circumvent organic certification in China, since there is no certification process of this. It is difficult to define a product as “natural”. In general, the term is used when the food does not contain "artificial flavoring, colors, chemical preservatives, or synthetic ingredients” (USDA definition).
Typical organic farming practices include:

- **GB/T19630-2011** provides extensive details applicable for all organic products for sale in China, including domestic and international products.
- Generally speaking, EU and Chinese organic standards are broadly equivalent.
- Like EU, there are very strict limits on chemical pesticides and synthetic fertiliser use, as well as antibiotics, additives, growth regulators, and other inputs related to raising animals or cultivating crops.
- Crop rotations, diverse and open-air systems are required in most instances.
- **BUT** there are differences, particularly with the use of organic pesticides.
- No genetically modified organisms (GMO) allowed.
Certification And Accreditation Administration (CNCA) of the PRC is the Ministry-level body that oversees government based certifications, which included creation and enforcement of organic food laws.

China National Accreditation Service (CNAS) gives certification to accreditation bodies. Currently there are 24 organizations which are allowed to certify and register organic product records with the CNCA.

Organic Products Certification Organizations

- Beijing ECOCERT Certification Center Co., Ltd (www.ecocert.cn)
- China Organic Food Certification Center (www.ofcc.org.cn)
- Organic Food Develop and Certification Center of China (www.ofdc.org.cn)
How to Get Certification

Chinese organic certification process

1. Apply, submit documents
2. Document Check
   - Sign contract/cost estimate/pay
3. Onsite Inspection
4. Inspection Report
5. Issuing Certificates
6. Evaluation (resolving any non-conformities)
7. Maintaining Certificates
China Organic Certificate

Sample

OFCC Fee schedule:
- ~ RMB 12,000 + 3000 x (person days) + cost per label
- Annual renewal: ~ RMB 5000

Certification agencies fee schedules vary.

Payment to cover the Transportation cost is usually required.
Anti-counterfeiting label

http://food.cnca.cn/
Finding Your Strategy: Challenges, Opportunities and Marketing for EU SMEs
Developing your strategy..

- **Gift giving** originally promoted the idea of organic food during early adoption period: this is becoming less of a trend due to **tightening governmental policies** towards officials and corporations receiving gifts.

- Reevaluating packaging, labeling, and customer engagement strategy to **promote more day-to-day usage** of organic products.

- Despite labeling, **domestic food scandals** have increased the trust placed on foreign brands, perhaps even regardless of their certification.

- There is increased pressure on producers to provide ‘**radical’ transparency** throughout their supply chain. A growing niche of customers want to see where and who is producing their food.

- Distribution models to find access to the current buyers of organic products seems to be shifting to **more online, and specialized grocery chains with high customer engagement activities**.
Challenges for EU SMEs

Consumption

• A lack of awareness of organic products, in addition to unethical practices by retailers, continues to strain China’s organic market, both domestically and internationally. Many Chinese do not understand what “organic” means. Most people are skeptical of any domestically produced label. Brand is highly valued.

Supply and Distribution

• There are more and more conferences which promote organic F&B trade, and more mainstream supermarkets, sales specialists, and online venues promoting organic foods due to the higher margins. However, with tough food safety laws built into distribution, it is making it difficult to ensure the integrity of your supply channel is sound (i.e. competence of distributors to follow rules on ongoing basis).
Challenges for EU SMEs

Certification

• While all certifying bodies have earned government accreditation, certain certifiers have built better reputations than others with respect to upholding the strict organic requirements when awarding producers organic certification. The government conducts random audits of the certification bodies; yet, the frequency of audits may be insufficient to induce complete compliance.

Enforcement and Labelling

• Organic standards are poorly enforced domestically. Such an environment fails to stop illegal activity. In order to cut costs, some producers purposely circumvent the annual renewal process and continue to use expired organic labels. Meanwhile, some retailers intentionally mislabel conventional produce as organic.
• **Organic Grain**

Specialty rice and grain may find niche markets in China. For instance, there remains strong demand for fragrant long-grain rice, black rice, and quinoa.

• **Organic Fruits and Vegetables**

Temperate fruits with special qualities may be able to penetrate the market as Chinese consumers value exotic or unusual foods. There can be good market opportunities for common and exotic tropical fruits such as banana, durian, pineapple, pomelo, star fruit, rambutan and guava.
• **Organic Processed food**

Baby food, dairy products and gourmet food. Good taste, health value and attractive packaging are important attributes.

• **Organic Food Supplements**

The Chinese traditional belief in functional foods provides a strong basis for food supplements, with pro- and pre-biotic products and herbs of interest. While there may be some conventional products already available in the market, organic products are rare.
Customers and Distribution

Distribution Channels:

- Hypermarkets: such as METRO, Carrefour, etc.
- High-end supermarkets / organic markets
- Food & Beverage chain stores
- Online stores with delivery services (Taobao)
- Social Media platforms such as WeChat
- Ecommerce APPS such as Android/Apple systems
- Find an Importer + Distributor

Depending on your product’s quality, supply quantity, price point, there are different channels one should approach first. Larger supply volume capabilities would mean that a relationship with a Chinese importer-distributor could be a good place to start since retailers tend to rely on their advice and introduction of new products.

Holiday, high and low ordering seasons
Chinese New Year
Singles Day
“Black Friday”
Many more…
China’s is the world’s largest e-commerce market, with growth expected to rise from US$153 billion in 2015 to US$323 billion in 2016.

Over 70% of the people in Mainland China shopping online more than once a week.

The Alibaba Group alone controls more than 80% of e-commerce transactions in the Chinese market.
What better integration gets you

Start a group. Share content. Collect orders.

- **Setting up group-buying on WeChat**

- **Official accounts**: A website or online shop within the WeChat platform. Though there are ways around it, business registration documents are usually required.

- **Private ‘chat groups’**: Set them up and solicit sales through sending a link or simple product photos/descriptions. It’s generally best to be upfront about the group’s intention.

- **WeChat Groupons**: There are “organically grown farms” in Beijing with Groups who sell their excess harvests worth RMB5,000-10,000 per location. These drop-off points also serve as an impromptu farmer’s market where new products can be introduced and sold at higher retail prices.
Product

- Have the Chinese organic seal
- Given that Chinese consumers have serious concerns about the integrity of the organic products, and some may even doubt the effectiveness of Chinese organic certification, exports should carry the seal of an internationally recognized certification body
- Products should have a reasonable shelf-life because of the time it can take for importing and distribution (35-50 days shipping)

Price

- Chinese consumers are generally price sensitive
- Prices should be competitive for mass products and reasonable for premium quality products
- Importing costs, including custom clearance, are quite significant, making it preferable to ship as large a volume as possible to spread costs
Marketing Strategies for EU SMEs

Place

- Most organic products are sold in hypermarkets, while premium products are sold in high-end supermarkets and specialty stores
- Distributors are normally regional, rather than nation-wide
- It is important to find a good, reputable and committed Chinese importer-distributor as a partner to introduce, distribute and market the product

Promotion

- Should focus on the organic integrity and product quality, especially if the product has unique nutritional or functional value
- Should portray clean environment and sustainable ecosystem of place of origin
- Attractive packaging with exporting country’s characters. This does not need to be luxurious, but should be clear and attractive
Case Studies, Event & Useful Links
Alce Nero, Italian Organic

- Certified, packaged and shipped to China.
- Organic spaghetti can be bought at a mid-high end BHG Supermarket at a 30% premium on same products from Italy.
- Extra Virgin Olive oil seems to be claiming a 40% price premium online. Available on Yihaodian.com, Amazon.cn, and JD.com.
- Lower end supermarkets tend to discounts on organic items claiming they cannot compete with locally produced products.
Shared Harvest Farm

- Locally produced and considered “Natural” or “Organically Grown”

- 90% are Chinese clients, the remainder are expatriates or minority groups

- Retail price is 30-40RMB/Kilogram for all fresh vegetables, which sometimes acts as a discount for specialty products. For most mainstream vegetables and fruit, this can mean 3-7x higher price than conventional foods found at supermarkets

- Sells via a mixture of CSA (Community Supported Agriculture), WeChat Groups, online storefront on Taobao, Farmer’s Markets, restaurants, hotels
Exhibitions and Events

**BioFach China**
May 26 to 28, 2016 Shanghai World Expo Exhibition & Convention Center

**2016 China (Beijing) International Organic and Green Food Expo**
Nov 18-20, 2016 China International Exhibition Center
http://www.ujfair.cn/index.php

**China (Guangzhou) International Nutrient & Health Food & Organic Products Exhibition (CINHOE)**
Jun 29 – Jul 1, 2016

**2016 China Beijing International Organic and Green Food Expo**
3-5 July, 2016 Beijing International Convention Center
http://www.cifeb.com/

**2016 Beijing Organic & Green Food Industry Exhibition**
Apr.14-Apr.16, 2016 Beijing International Exhibition Center
http://en.gnfexpo.com/
Useful Links

**Full List of certification agencies (in Chinese)**
- Each agency is listed in Chinese, complete with their contact information/website in this search engine: [http://ffip.cnca.cn/ffip/publicquery/certSearch.jsp](http://ffip.cnca.cn/ffip/publicquery/certSearch.jsp)
  - i.e. ECOCERT: [http://ffip.cnca.cn/ffip/publicquery/certSearch.jsp](http://ffip.cnca.cn/ffip/publicquery/certSearch.jsp)

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- Organic Food Develop and Certification Center of China (www.ofdc.org.cn)

**Other links**
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