



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 6/9/2006

GAIN Report Number: CH6608

China, Peoples Republic of

Organic Products

South China Organic Food Market Brief

2006

Approved by:

Keith Schneller
U.S. Consulate General

Prepared by:

Ursula Chen

Report Highlights:

In over two decades of stellar economic development, China has bolstered not only an ever-increasing middle class, but also an increased awareness of a seriously contaminated environment. Many local entrepreneurs have successfully grown and distributed "green" produce in South China while sales of organic food are quickly gaining ground in many mid- to high-end supermarket chains. However, worrying about whether the Chinese organic food would live up to what the label claims to be, many Chinese consumers hesitate to buy products that are generally three to five times more expensive than regular items. So far, there are very limited organic food categories in the South China market, which also indicates opportunities for US organic exporters.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Guangzhou [CH3]
[CH]

1. EXECUTIVE SUMMARY	4
2. CURRENT SITUATION	5
3. EXTERNAL ENVIRONMENT – OPPORTUNITIES AND THREATS	6
3.1 Political	6
3.2 Social	6
3.3 Technological	7
3.4 Economic	7
3.5 Competitive	8
3.6 Legal	8
4. INDUSTRY ANALYSIS	9
4.1 Industry Description and Analysis	9
4.2 Overview of Guangdong Organic Food	12
4.3 Overview of Fujian Organic Food.....	14
4.4 Overview of Hainan Organic Food	14
4.5 Overview of Guangxi Organic Food.....	15
4.6 Overview of Hunan Organic Food	16
4.7 Overview of Guizhou Organic Food.....	16
4.8 Industry Trends.....	17
5. CERTIFICATION AND REGULATIONS	19
5.1 OFDC.....	20
5.2 OFCC.....	20
5.3 HCAQCC.....	21
5.4 International Certifiers	21
5.5 San Pin (three kinds of foods)	22
5.5.1 No-public-harm Food	22
5.5.2 Green Food (A grade green food)	22
5.5.3 Organic Food (AA grade green food)	22
5.6 The New National Regulations on Organic Products	23
6. PACKAGING AND LABELING	25
6.1 Packaging.....	25
6.2 Labeling	26
7. ENTRY BARRIERS	27
8. COMPETITOR ANALYSIS	28
8.1 Guangdong.....	28
8.1.1 Guangzhou Dong Sheng Organic Vegetables Farm	28
8.1.2 Zhuhai Nong Feng Import and Export Company Limited	28
8.1.3 Zengcheng Organic Farm	28
8.1.4 Shenzhen Yu Nong Ju Industrial Company Limited	29
8.2 Guangxi	29
8.2.1 Guangxi Sha Lian Na Food Company.....	29
8.3 Hunan.....	29
8.3.1 Hunan Tea Company.....	29
8.4 Beijing	30
8.4.1 Beijing Tian Di Sheng Organic Food Products Company Limited	30
8.4.2 Beijing Hua Bang Food Company Limited.....	30
8.5 New Zealand.....	31
8.6 Competitors' Strengths	31
8.7 Competitors' Weaknesses	31
9. PRODUCT MIX	33
10. PLACEMENT MIX	34
10.1 Importers	34
10.2 Distributors and Wholesalers	34
10.3 Retail Outlets	34
11. PRICE MIX	35

12. CONCLUSION 37

1. EXECUTIVE SUMMARY

The following report was prepared by a former ATO marketing specialist as an MBA project at the Royal Roads University in Canada. In over two decades of stellar economic development with at least 9% annual growth, China has bolstered not only an ever increasing middle class, but also an increased awareness of a seriously contaminated environment. US organic food exporters will find growing demand in the South China market for high-quality organic food products.

Food poisoning incidents along with SARS, bird flu and the over-use of fertilizers and chemicals have driven the organic industry to grow and expand rapidly in South China.

Many entrepreneurs have successfully grown and distributed "green" produce in South China while sales of organic food are quickly gaining ground in many mid- to high-end supermarket chains. The Green Food Development Center, set up by the Ministry of Agricultural, is in charge of the management and development of green and organic foods. Along with the Organic Food Development Center, the Green Food Development Center enacted the national organic food regulations, which came into effective on April 1, 2005. These organizations not only designed the Chinese organic standards, but also inspect and audit the actual implementations of the standards in the marketplace.

Worrying about whether the Chinese organic food would live up to what the label claims to be, many Chinese consumers hesitate to buy products that are generally three to five times more expensive than regular items. So far, there are very limited organic food categories in the South China market, which also indicates a large gap for US organic exporters to close.

The organic food sector in the US has been well developed with a wide variety of products, some of which are seeing saturation in certain product lines. On the other hand, consumers in China are suffering from limited organic choices, serious food safety issues and non-credible organic foods. The demand for safe food in the Chinese market is strong and the organic food concept will become more popular with proper and adequate market education.

2. CURRENT SITUATION

China joined the WTO in 2001 and has experienced tremendous economic growth in the past twenty years with a per-capita GDP of over USD1, 200.¹ Living standards continue to improve and people are spending more and more on expensive items such as houses and cars. In the next five years, the Chinese government expects its economy to grow at a rate of eight percent each year. As Chinese consumers become more affluent, they are also becoming more concerned about food safety issues and have more confidence in imported food products compared to locally produced products.

In 2002 the number of "middle class" households in China was estimated at 50 million by the French bank BNP, translated into an average annual income of RMB75,000 (USD9,068) with assets of RMB310,000 (USD37,485). The "middle class" stratum is expected to double in 2010, two years after the Beijing Summer Olympic games, with an average household income of RMB150,000 (USD18,137) and assets of RMB620,000 (USD74,969)²

On the contrary, the food safety situation continues to be a problem in China. Problems arise throughout the entire food sector: from small processing plants to large state-owned enterprises, from Chinese brands to international brands, from snacks to meat and vegetables. Numerous regulations and laws have not been able to prevent food poisoning from happening, although the Chinese government has stepped up its control of food inspection.

The Green Food Guangdong magazine reported that although China owns less than 1/10 of the world's arable land, it also utilizes 30% of the world's nitrogen fertilizer. China is not only the biggest user of chemical fertilizer, but also the biggest user of pesticides. In the past 20 years, less than 15% of farming families received training in how to use fertilizer properly.

The year of 2004 witnessed many serious food poisoning incidents in China, ranging from domestically made milk powder killing many infants, to poisonous glass noodles, preserved vegetables, liquor and spoiled rice. In 2005, even some international brands were reported having problems in food safety. KFC was hit by unsafe coloring ingredients. Nestle milk powder and Haagen-dazs ice cream were both under the media spotlights due to product safety accidents. People are becoming more and more concerned on what to take home and what to feed their children. The official statistics from the

¹ Xu Da Shan, "China's economy to grow 8% from 2006 to 2010", China Daily, March 21, 2005, http://www.chinadaily.com.cn/english/doc/2005-03/21/content_426718.htm accessed July 2005.

² Xin Zhi Gang, "Dissecting China's 'middle class'", China Daily, October 27, 2004, http://www.chinadaily.com.cn/english/doc/2004-10/27/content_386060.htm accessed July 2005

National Information Center revealed that between 1998 and 2004, there were 1,896 cases of food poisoning, with 73,534 people affected and 1,254 deaths.

With China's "one child policy", more and more consumers are searching for safer food to bring home. According to interviews with purchasing managers at some high-end retail stores in South China, many consumers are buying more expensive, but safer green or organic labeled foods. Although China itself produces and supplies some organic products, its certification standards and labeling management are not consistent. Therefore, many health sensitive consumers are looking for more reputable imported products as a solution.

3. EXTERNAL ENVIRONMENT – OPPORTUNITIES AND THREATS

3.1 Political

Opportunities	Threats
US and China have a positive political relationship.	The Chinese government is putting more efforts into developing its own organic food sector.
The Agricultural Departments of various provinces in China are attaching great importance to the organic farming through drafting plans and providing guidance.	
China enacted its National Organic Standards and Laws in 2005.	

3.2 Social

Opportunities	Threats
SARS, bird flu, and many other food poisoning incidents are major concerns in China.	It takes a long time to learn the business practices in China and build necessary relationships.
Chinese agricultural products are reported to be heavily polluted from long-term, irrational, and over-usage of chemicals in addition to improper disposal of animal excrement and waste.	Organic is still a relative new concept to many consumers.
The State Administration of Environmental Protection of China reported that "seven million hectares of farm land were	Definitions and benefits of organic food are not well communicated to consumers.

irrigated with water containing industrial and domestic sewage." ³	
Chinese consumers do not have faith in their government's certification and labeling systems.	Some cultural and language barriers may hinder exporters from setting up business in China.
US food safety standards enjoy a credible reputation in the Chinese market.	
Guangdong province shares borders with Hong Kong and Macau, where organic food is more commonly recognized and accepted.	
Chinese consumers are worried about food safety and want to provide their families with safe and healthy foods.	
More and more people are accepting western style of food and living.	
Some people are already buying organic food.	

3.3 Technological

Opportunities	Threats
The internet is becoming more and more common in people's work and family life.	
Web sites are one of the major media that people will look for information.	
Many high-income consumers are computer savvy.	
Organic processing technologies in the US are far more advanced than the South China players.	
Organic disease and pest control techniques are more sophisticated in the States.	

3.4 Economic

Opportunities	Threats
---------------	---------

³ Shanghai Daily Company Web Site .

http://www.shanghaidaily.com/art/2005/12/09/224907/Pollution_reduces_farmland_production.htm, accessed on Dec. 10, 2005

China's economy continues to grow at a high rate.	The exchange rate of US dollar and RMB is around 8 yuan per dollar.
The income of educated workforce is increasing steadily each year.	Little if any economic analysis of the Chinese organic sector.
The size of middle class is expanding in China.	
South China is open to foreign trade and has traditionally been the gateway to the rest of China.	

3.5 Competitive

Opportunities	Threats
US organic food is of high quality and producers have many years of experience managing a credible industry.	Organic food production is in its infancy in China. China has the potential to become a major producer and exporter of organic produce.
US exporters can provide more selections of products that are credible to Chinese consumers.	Organic food is included under the green food category and promoted as green food which is confusing to consumers.
The farm size and production scale in US are much larger and capable of satisfying large demand.	The labor costs in China are lower than the US.
Processed organic food is scarce in the China market.	

3.6 Legal

Opportunities	Threats
Measures were put in place to crack down on counterfeit organic or green label products by the Chinese government.	There are no specific laws/regulations that are designed for imported organic foods.
Fraudulent products can be found everywhere in China, which weaken consumer confidence in the implementation of laws and the reliability of the Chinese labeling system, giving greater credibility to US labels.	Unclear labeling and tax requirements for imported organic foods
The US food sector is highly regulated and enjoys a good	Organic foods are categorized under green food in China.

reputation among Chinese customers.	Government regulators and officials don't distinguish organic food from green food. This diminishes the uniqueness of organic food and makes it harder for average consumers to buy into the idea of organic food.
-------------------------------------	--

4. INDUSTRY ANALYSIS

4.1 Industry Description and Analysis

In China, the organic food sector is being cultivated and managed by the Green Food Development Center of the Agricultural Ministry at the national level and the Green Food Office at the Provincial level. There are some municipal regulating and certification offices, but most of them remain at the provincial level. Different provinces are at different stages of development of organic farming and manufacturing. Among numerous provinces that are switching emphasis from industrialized farming to organic farming, Helongjiang province in the north is one of the most experienced pioneers followed by Jiangxi, Zhejiang, Shandong, Jiangsu and Guangdong. The first certified organic product in China was tea from Zhejiang province back in 1990. As China is now facing more technical barriers in international trade, the Chinese government has realized that going organic can be the answer to some of the trading conflicts it has with Europe, Japan, and the US. Thus, various levels of Green Food Offices and certification centers were set up by the Agricultural Ministry to regulate and promote organic agriculture in China.

As a matter of fact, other than regular food items in the market, there are three "green" food categories being pushed by the government at all levels: San Pin, i.e. no-public-harm food, green food and organic food. The "no-public-harm" food category almost implies that all other, conventional foods are harmful. This category basically meets conventional food standards in most Western countries. Green food does not mean food that is green in color, but a symbol that suggests the food is wholesome and safe for consumption. However, much confusion remains in the market because the government didn't spend much effort in communicating these various classifications or labels to consumers. As a result, consumers have not realized the full value carried in these products and labels. For organic food, only some people within the food industry have heard about or are knowledgeable about organic food. However, even retailers, purchasing managers or sales staff of organic food items unfamiliar with these "green food" definitions. Consequently, many consumers do not buy any of these three food categories, not to mention buying specifically organic.

The production of green food and organic food are managed by the Green Food Office of the respective provinces. The same office is also responsible

for the certification process, although it has a different name for that purpose: China Organic Food Certification Center (OFCC). Therefore, the policy maker sets standards and audits the implementation of them.

Currently, there is no direct state or provincial subsidies from the government, however, some cities or counties may have their own incentive programs to recognize products that claimed to be A grade or AA grade green food (equals organic food, according to OFCC) certification. Some educational materials and training courses are offered to the local farmers in cities of Guangdong province.

Although China became a member of the International Federation of Organic Agriculture Movement (IFOAM) in 1993, the concept of organic has not been clearly communicated to its consumers. Many government officials, businessmen, and farmers understand organic agriculture as things that have been done in the past. Namely, that everything was done naturally. Most organic farming is being carried out in remote or undeveloped mountainous areas. To protect its international market shares, the Chinese government has been working on improving its regulation and certification systems to meet European, US and Japanese organic standards. Meanwhile, bilateral certification negotiations are also underway with some countries.

According to Dr. Huang Jian Hong of Guizhou Province People's Congress Office, major barriers of further development of China's green (organic) food are:

- Obsolete production equipment
- Serious environmental contamination
- Poor inspection techniques
- Weak branding protection
- Ineffective inspection, approval, and tracking systems

For the processed food sector, although some products were certified as green (organic) food, the production ingredients do not meet the requirements of green food. In some cases, residue rate of fertilizer, feed additives, animal medication and other toxic materials are very high. Some green (organic) food producers do not follow instructions to make sure the green (organic) food standards are maintained through out all stages of production, transportation, warehousing and sales.

It is very difficult to locate statistics for organic food, as most of the information available combines conventional, green food, and organic food data together. Organic food constitutes less than 0.1% of the whole China food market, far lower than the average rate of 2% in the world. The Chinese government has expressed its strong desire to expand organic farming and

requested each province to increase organic production 5 to 10 times more than the current level in the next 5 to 10 years with focuses on vegetables, grains, poultry, livestock and tea.

OFCC started its certification work from 2002 and there are now 288 companies and 843 products that were certified as organic with a total annual production of 450,000 tons. In 2004, \$230 million of organic food products were exported,⁴ but it is not easy to meet the quality needs of the international market.

With increasing demand from the international market, the domestic market also saw growth and is expected to gain more significant market share in the years to come. The government is discussing subsidies for certified products, farmers, and manufacturers and may also fund the promoters of certification, inspection and training institutes

Since Chinese farmers own small pieces of land individually and know very little about the concept of organic farming, the organic operation is more like carrying a contract. Some entrepreneurs saw opportunities in exporting organic products so they placed orders to farmers on what they wanted. Farmers would follow requirements of the contract and produce the products, then turn over to the buyers for a pre-set price. The buyers are responsible for packaging, storing, shipping and selling the contracted organic products.

All of the organic food is sold in mid- to high-end supermarkets. There are few if any specialty stores or farmers' markets for organic products in South China. All but one retail chain in South China is currently selling their own organic products namely, the Beijing Tian Di Sheng Company under the trade mark of Organic Farm. The products are mainly fresh vegetables, while some stores carry some organic grains and beans from the same supplier. The prices are normally three to five times higher than the conventional products. Buyers are mainly women between 30 to 45 of age with high incomes.

All of them reported that the reason for buying organic foods was for health considerations and because they were a safer choice. They would buy organic products whenever possible and the prices are not of too much concern to these regular users.

Many of the customers of JUSCO, a Japanese retailer, are expatriates living and working in South China. They were much more concerned about the food safety records of China and have the extra income to afford organic products. Worrying about counterfeit organic products, organic customers will only shop from international chain stores, relying on their internal controlling

⁴ GD Green Food. page 6 volume 3 2005

system on the authenticity of the organic products. Therefore, the retailers of organic products have strict requirements on their suppliers and would arrange lab test for sample products regularly. JUSCO recently signed a contract with a lab in the city of Qingdao in Northern China. Some samples of the organic labeled products sold in JUSCO will be flown to the lab for residue testing. The “trust contract” between JUSCO and the supplier, Beijing Tian Di Sheng Company, would forfeit the failed products from selling in any of their chained stores in China. JUSCO has experienced great potential in selling organic products and expects to expand the line into more stores.

The other supplier of organic vegetables was found in Shenzhen, a special economic zone of South China. Shenzhen Yu Nong Ju Industrial Company Limited sells only in one chain store in the city, the Sui Bao Department Stores, to test the market.

4.2 Overview of Guangdong Organic Food

Certified Products	Tons
Vegetables	1,000
Fruits	710
Rice	360
Tea	143

(Source: Guangdong Green Food Office, Sept. 2005)

In South China, Guangdong is the trend leader in pursuing organic farming/production on a large scale. According to the Director of the Guangdong Green Food Office, there are currently 9 companies and 74 kinds of products that have been certified as organic by the OFCC, with a total production of 8,411mu⁵ (560.73 hectare) and 2,213 tons. Four more are applying for organic certifications in 2005. The majority of the products are for export to US, EU, Japan, Russia, Hong Kong and Macau. Because it is possible to receive certification from a variety of agencies the number of other organic producers/manufacturers is unclear. Other certifiers are from Nanjiang province, Hong Kong, Japan, US, German and Switzerland.

Guangdong is known for its OEM manufacturing, so a large volume of arable land has been converted into industrial property in the past twenty years. To expand the organic food sector, the government and investors chose remote and underdeveloped areas in the mountainous region, where manufacturing, pollution or contamination is relatively low. This strategy makes it easier to control and manage production activities.

Liu Hong Sheng, a researcher at Guangdong Agricultural Office, pointed out that the trend of Guangdong agriculture is to develop A grade green products

⁵ 1 Hectare = 15 Mu

as the technical requirements are moderate, fit the current level of farming labor quality and the returns are easier to obtain. It is much more difficult to convert to organic farming as the requirements are very high and the labor force in Guangdong does not have the necessary skills to bring organic farming to such a high level. Some larger enterprises may attempt this in the future, but for general farmers, organic farming is not an option that they can technically pursue at the present time.

In Guangdong, the provincial government does not provide monetary support or subsidies for organic production activities. However, some municipal governments may offer incentives for farmers to convert to organic. Currently, there are no organic meat products in South China. The Director of Guangdong Green Food Office explained that the food chain for organic livestock is long and difficult to monitor and inspect for certification purposes. As the auditor will have to trace back to the animal feed and animals tend to get sick through out their life time, it is very hard for farmers to make sure that their products are organic.

For fresh produce, the certification fee is around 10,000 yuan (USD1, 242.24)⁶ per year per product. The Guangdong Green Food Office has seven auditors working on the certification of green and organic food products in the province. The provincial government would like to expand organic production in Guangdong and encourage organic specialty stores to be opened in some high income neighborhoods. If the proper amount of marketing work is done for organic food, the Guangdong Green Food Office believes there is great potential for consumers to buy organic products.



(According to the manager of the Fresh Produce Department of JUSCO, this small display unit was able to generate over 40,000 yuan (USD 5,000) of sales in its first month of the debut.)

⁶ 1 USD = RMB8.05 Yuan

Guangdong is the only province in South China that has organic products in stores. Shenzhen, Guangzhou and Zhuhai are leading the trend in consumption of organic products.

4.3 Overview of Fujian Organic Food

Certified Products	Tons
Dried and fresh fungus	1,530
Spring Bamboo Shoots	N/A
Camellia Seed Oil	N/A
Tea	N/A

Source: Fujian Green Food Office, October 2005

In Fujian, there is one provincial Green Food Office and nine municipal branches in charge of the regulation and administration of organic agriculture. In 2003, there were seven kinds of food products that received OFCC certifications as AA grade green food (namely organic, according to OFCC). Organic tea is the main product in the province. Fujian has long history for growing high quality tea in China, so it is a natural move for the growers to switch to organic in order to keep up with the demand of the international market. In addition to tea, some wild fungus and bamboo shoots also received certifications as being organic. The data on total organic production are not available as the existing information combined "San Pin" together for reporting.

The emphasis of organic food in Fujian is entirely for export. All of the products are sold outside of China and can enjoy favorable governmental subsidies and incentives. Some of the cities will provide subsidies or bonuses for enterprises that successfully produce organic products. Zhangzhou city is the key player in organic food production in Fujian, thanks to its natural environment and the government's emphasis on earning hard currencies.

It should be noted that some of the Fujian certification agencies did not abide by the standards set up by the State administrative authority and lost their status as a certifier of organic food.

4.4 Overview of Hainan Organic Food

Unlike the rapid growth in other provinces, the green food sector in Hainan did not see a surge in the past years; instead, the sector is shrinking despite growing consumer demand. Hainan is an island away from the mainland and is the only province that has a tropical climate in China. It has potential to develop specialty organic products but due to various reasons the sector was not able to grow from the green food base. There were 23 companies and 45 products that were certified as green food, and now only 13 companies are

left with 25 products. Commodities are mainly tropical fruits, tea, poultry and bottled water. There are no certified organic products in the province.

The Hainan Green Food Office is staffed by only one person with a very small operating budget. The certification expenses are high and there are no favorable government policies and programs to support the sector. However, remaining players in the market see great potential for the future of their green labeled fruit. The President of Hainan Bao Feng Agricultural Development Company, Luo Zhao Zhen said that their products enjoyed prices two or three times higher than regular fruit items on the market and sales keep climbing steadily, although he also commented that they have come a long way in surviving in the relatively new “green food” market.

Farmers and owners of businesses in Hainan are optimistic about the green food sector and would like to increase production of organic products when the government reduces the certification and labeling fees, as they also see increasing demand for safer and healthier products. In addition to the higher certification costs, the hot weather in this province also makes it difficult for farmers to control and manage diseases affecting plants and animals.

The Green Food Office of Hainan is working on reducing costs for producers and manufacturers that would like to apply and use the green label. For example, the usage of the green label for egg products is expected to be cut from over 10,000 yuan (USD 1,242) to 1,800 yuan (USD 223.6).⁷ It is expected that the organic food sector will grow in this province in the coming years under this favorable policy.

4.5 Overview of Guangxi Organic Food

Certified Products	Tons
Vegetables	N/A
Tea	N/A

(Source: Guangxi Green Food Office, October, 2005)

Organic food is an emerging sector in this province. There are a handful of producers that are producing organic vegetables and teas. Like other provinces, all the organic products are being exported with no retail sales within Mainland China. The Director of Guangxi Green Food Office sees Guangxi as a great potential supplier of organic products due to vast uncontaminated land and diverse geographic environment. With long coastal line and plenty of untouched forestry land, the province's agricultural officials would like to promote the “San Pin” (no-public-harm food, green food and organic food) to a larger scale. Some educational programs and incentive policies are being developed to help the sector grow. Meanwhile, the

⁷ 1 USD = RMB8.05 yuan

province is building a “green” marketing network that would tie the production, wholesale, retail, and promotion of “San Ping” together.

4.6 Overview of Hunan Organic Food

Certified Products	Tons
Tea	5,000
Orange	N/A
Vegetables	N/A

(Source: Hunan Green Food Office and OFDC, October, 2005)

Since 2000, the export of green products (including organic products) has maintained an annual growth rate of 50%, with total value exceeding USD 40 million in 2004. Organic tea is the main item for sale on the international market, complemented by oranges and vegetables. There are 21 tea producers that received organic certifications, covering over 20,000 mu (1,333 hectares)⁸ of land with annual production of 5,000 tons. To expand the exportation, Hunan province sought close cooperation with some international certification bodies, so that its organic products could meet the widely accepted standards.

To facilitate the trading of green products, the National Green Food Wholesale Market was founded in Changsha, the capital city of Hunan. The market occupies 70,000 square meters with over 1,500 pavilions for trading, serving Central and Southern China with safe and healthy food products.

Despite the ambitious plans of the Hunan agricultural officials, researchers pointed out that the province’s natural resources have been deteriorating seriously. Over application of pesticides and fertilizers, industrial pollution and overuse of the land has been gradually reducing the productivity of the soil. If the government does not take corrective actions, it will be impossible to develop organic production in Hunan.

4.7 Overview of Guizhou Organic Food

Certified Products	Tons
Maotai Liquor	N/A
Tea	N/A
Chicken	N/A

(Source: Guizhou Green Food Office and OFDC, October, 2005)

The first certified organic product of Guizhou was granted by OFDC in December 2003. Although it came into the game a bit later than other Southern China provinces, Guizhou has obtained some organic certifications

⁸ 1 Hectare = 15 Mu

for its tea products in the past two years and was the first province in Southern China to produce certified organic chicken. Maotai, one of the most famous Chinese liquors better known as “baijiu”, also received an organic certification. The Green Food Office of Guizhou published guidelines on how to produce organic fertilizers and animal feed for its farmers. It is also planning to produce organic beef once researches on the feeding and production techniques are completed. Even though the government is discussing how to help farmers build their brands in organic products and increase auditing, inspection and marketing activities, farmers in Guizhou are not as organized as their counterparts in other provinces. They tend to work on their own and decide what to grow and how to produce by themselves. There is very little government intervention in the agricultural sector in Guizhou. Because organic farming and production requires a strong foundation and necessitates lots of input from both the government and farmers throughout the whole process, the organic food sector in Guizhou will take time to develop.

4.8 Industry Trends

Growing concerns on food safety – Consumers, government, and producers/manufacturers are all paying more attention to serious food safety issues in China. Wholesale markets, distribution centers and supermarkets are requested to test chemical residues of products before selling. Many cities have developed tracking systems to trace “no-public-harm” produce and meat products sold both in traditional wet markets and modern supermarkets. With these “electronic identification” bar codes, producers and farmers could be identified for over usage of chemicals. Meanwhile, well-informed consumers with higher income are becoming more sensitive to food safety issues. They are seeking ways to reduce their intake of unsafe food products through buying from more credible international chain stores or consuming more organic products whenever possible. With the Beijing Olympic Games coming, many agricultural practitioners are aiming to become the official suppliers of the 2008 Games. So they are voluntarily placing more efforts in improving product quality and safety.

Increasing emphasis from the government – The government has seen organic farming and production as an effective way to face the challenges of international trade barriers. In addition to earning hard currencies, the exports of organic products can improve the economic status of low-income farmers. Thus, the government will continue to expand the scale of organic farming by introducing more favorable policies and programs. Director Ma of China OFCC claimed that certification for organic food has increased by more than 40% each year for several years now and the center will work hard to promote organic food and its credibility.

Growing initiatives taken by retailers – More retailers promise to provide safer food products to customers, especially the foreign supermarket chains. All of them have developed their own food safety insurance systems and promote it at the entrance of every fresh produce section. Some retailers are also setting up inspection and tracking systems. A large number of supermarkets post explanations of organic food and its benefits next to the products along with respective organic certificates.

Aligning organic standards with the international requirements – Technical barriers such as stricter maximum agricultural chemical residue limits and environment requirements for farm products press the Chinese government to bring its organic standards up to international levels. The Ministry of Commerce has launched training programs for organic exporters and farmers to prepare for the stricter export rules set by Europe and Japan.

Cracking down on counterfeit organic labels – The government has acknowledged worries about fake organic products hindering the growth of the sector; hence more inspections and management efforts are being introduced to protect authentic organic products while heavier punishments are being enforced on the illegal use of the labels.

Branding organic products – Some organic producers have branded their products to differentiate themselves from conventional produce. The Beijing Tian Di Sheng Company uses “Organic Farm” as their brand for all of their products, although not many efforts have been put into adding value to the brand or managing different perceptions of the brand.

Expanding varieties – At the beginning, tea was the only commodity that was grown organically. In South China, there are now many kinds of organic vegetables, fruits, mushrooms, and poultry. Organic seafood and meat products are being explored in some areas.

Emerging processed products – Some of the organic fruit growers in Guangdong are planning to turn their organic produce into organic juice. Although the processing techniques are simple and the manufacturing scale is small, there are already some preliminary processed organic foods available in Beijing, Shanghai, Zhejiang and Jiangsu.

Enlarging consumer base – Rapid economic development in China has resulted in an ever increasing middle-class. Incomes of educated consumers are rising each year and so are their concerns on health issues. Frequent buyers of organic products do not mind the higher price, as long as they can bring home safer and healthier food.

Increasing market presence – More and more retailers are selling organic products, and some cities are planning to have specialty stores and designated outlets for organic products. In Zhuhai city of Guangdong province, the Golden Garden Green Food store carries only green foods and organic food items. Although consumer knowledge of organic products is still relatively low, sales are steadily increasing. In July 2005, the first organic food supermarket, OStore, was opened in Shanghai. The store also includes an organic bakery section and a small cafeteria. The sales floor is around 100 square meters and 98% of the store customers are expatriates living or working in Shanghai. The Store carries over a hundred kinds of food items such as beans, noodles, flour, vegetables, rice, aquatic products, beverages, breakfast, and snacks. Many of the products are from the US, Japan and Germany, while some are made by local joint-venture companies.

Increasing governmental subsidies to develop the sector – Many growers and producers have complained about the high certification and auditing costs associated with organic production. To help the sector grow, the government is working on reducing various fees, taxes, and loan programs while developing more support programs for certified products and enterprises in addition to putting more incentive programs in place for organic certification which would include promotions, training, and extension services for farmers and producers. Government officials claim that according to WTO policies, the Chinese government can subsidize their farmers up to 8.5% of the total production value. At present, the Chinese government provides only 3.3% of allowances to agriculture. Therefore, it has flexibility in providing increased support to the production of green and organic food.

According to Zhou Ze Jiang, an engineer at OFDC, there will be a 40% to 50% annual growth of the organic sector in the next few years. It is expected that in ten years the organic food sector could account for 1% to 1.5% of the domestic food market with 3% of market share in the international market. The government has realized that organic production is a sustainable way to develop the agricultural sector of China.

5. CERTIFICATION AND REGULATIONS

In 1990, the first organic product to be certified in China was tea of Zhejiang province by a Dutch certification body. Up till now, there are three Chinese entities that are involved in certification of organic products:

- a) Organic Food Development Center (OFDC)
- b) Organic Food Certification Center (OFCC)
- c) Hanzhou China Agricultural Quality Certification Center HCAQCC

5.1 OFDC

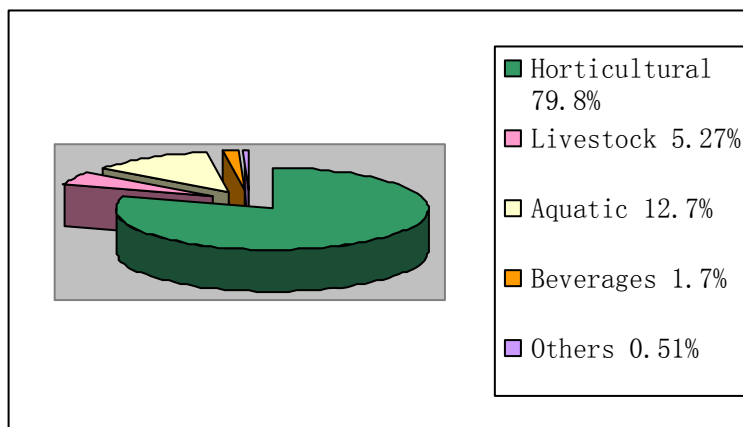
The first Chinese certification body was the Organic Food Development Center (OFDC) of the State Environmental Protection Administration. Founded in 1994, this partly State run entity was accredited by IFAOM in 2003. It works together with the government, farmers and enterprises in promoting organic farming and production in China, while engaging in active dialogue with international organic practitioners. Based in Nanjing, OFDC has set up 22 offices in most of the major cities and granted certificates to over 400 organic farms and processors. By the end of 2004, there were 228 companies and 588 kinds of products which received organic certificates from OFDC with annual sale of 3.5 billion yuan or USD230 million. It maintains bilateral recognitions with many countries as most of its clients' products would be sold outside of China. The OFDC, which has become the most credible Chinese certification agent, claims to be using the same organic standards as the International Federation of Organic Agriculture Movements (IFOAM).

5.2 OFCC

China Green Food Development Center (CGFDC) was set up by the China Agricultural Ministry to engage in certification and management of the green food sector in China. Founded in 1995, CGFDC introduced different grading systems among green food, i.e. A grade and AA grade green food. In 2002, China Organic Food Certification Center (OFCC) was founded by the CGFDC to expedite the expansion of organic products in China. Despite its English name, China Organic Food Certification Center, its Chinese name does not communicate anything related to organic food. The mission of the organization is to promote and certify organic products, but an average consumer would not associate this organization's name, China Green (direct translation in Chinese), with organic food.

In two years, OFCC has expanded to 38 branches and a total of 140 registered inspection personnel in addition to 42 experts in the field. Standards of A grade Green Food was drafted with reference to the food and hygiene standards in developed countries. The AA grade green food standards were based on the basic principles of organic food by IFOAM, supplemented by regulations that were unique to the current situations of China. Director Guo Chun Min of OFCC recently stated that there were 148 newly certified organic enterprises in 2004, an increase of 45% from the previous year.

As of 2004, 588 commodities were certified as organic by OFCC totaling 372,000 tons. Product breakdowns:



5.3 HCAQCC

Founded in 1999, the Organic Tea Research and Development Center (OTRDC) is the most accredited authority in providing certifications to organic tea and its products. With approval from the China Agricultural Ministry, OTRDC specializes in certification of tea and related products in China. The standards it uses were developed with references to the international requirements while making adjustments according to China's current situations. In addition to certification, it also provides training to growers and processors of tea products. In 2003, OTRDC changed its name to Hangzhou China Agricultural Quality Certification Center (HCAQCC). As a result, it is no longer a governmental agency but an independent business entity. HCAQCC has its own labels and certification systems for tea products. So far, there are over 200 tea growers and processors who have received certification from HCAQCC.

5.4 International Certifiers

In addition, the offices of some international certifiers can also be found in China, such as the Organic Crop Improvement Association (OCIA), the Japan Organic and Natural Foods Association (JONA), ECOCERT International, BCS and GFRS of Germany, SKAL of The Netherlands and the Institute for Market Ecology (IMO) of Switzerland. Most of these international certifiers have local partners in China, either with a governmental agent or a local agricultural university, such as the OCIA with OFDC and the French Ecocert with China Agricultural University. There are now over 500 international certifiers in China. During the certification process, these international entities implement the standards and requirements according to the laws and regulations of their respective countries, although they are operating within Mainland China. Literally, all these entities fall under the management of the OFDC. In 2004, administrative responsibility was transferred to the Certification and Accreditation Administration of China (CNCA). Nearly all the products certified

by these organizations were sold outside of China, except some organic products of Beijing Tian Di Sheng Company, which is the largest Chinese organic producer and distributor within China. In order to get their products into as many international markets as possible, many organic producers applied for certification from more than two certifiers. For export-oriented enterprises, the German BCS certified many of their products as it has negotiated bilateral recognition with the United States, Japan and Europe.

5.5 San Pin (three kinds of foods)

Until recently, OFCC certified organic food as AA grade green food. This was because when China started environmental friendly farming a few years ago, it realized that it was impossible for the whole country to go organic. Therefore, it created a “green” idea that would include both green food labels and organic food labels. In China, there are three food categories that are not clearly defined and often confusing to consumers and even some retailers: “no-public-harm” food, green food and organic food. The definitions for these three categories are very ambiguous. Even on the official website of the Chinese food related web pages, a consumer will not get a clear picture of the defining characteristics of each category. Below are the explanations according to the Director of the Guangdong Green Food Center.

5.5.1 No-public-harm Food

“No-public-harm Food” is the minimum food safety requirements developed by the Chinese government. In 2003, the China Agricultural Ministry set up a 5-year goal to improve the quality standards of all agricultural products to at least meet the requirements under this category. At the current time, most Chinese food products do not meet these minimum safety standards.

5.5.2 Green Food (A grade green food)

Despite its name, Green Food does not refer to the color of the food. Instead, “green” implies wholesomeness and safety. When the China Agricultural Ministry developed its food safety standards in the 1990s, it wanted to bring its safety requirements close to those of developed countries, such as the US and Europe. Therefore, when a product has a green label, it means it has most likely met the basic food safety levels of most western countries – and has nothing to do with the organic standards of these countries. Under the requirements of this label, only certain chemicals can be used in limited amounts and for a limited time. Occasionally, some food products that have green food labels can be found in regular supermarkets.

5.5.3 Organic Food (AA grade green food)

The “organic” label came to the market only two years ago. Before, there was no organic label issued by OFCC. If the products received AA grade green food certification, then it meant that the products met the requirements of organic food. Hence, AA grade of green food equals organic food in China.

According to the Green Food Development Center of China, AA grade green food was produced in an environment that meets organic production standards. No chemicals were used throughout the production process and the production and packaging techniques passed the specific requirements and inspections. Since many of the statistics published by the Chinese government combine A grade and AA grade green food, it is very difficult to get meaningful data to gauge the organic food market in China. As a result of increased demand in organic food, OFCC stopped using AA grade green food to address organic food items in 2003. In the meantime, OFCC's own organic labels were designed and granted to products that met its requirements.

5.6 The New National Regulations on Organic Products

Before April 1, 2005, there were no national or unified industrial organic food standards in China. All the three Chinese certification bodies are members of IFOAM, but used their own standards for organic products. Due to these different standards, the certifiers did not have a system that will recognize certifications from other organizations. Back in 2001, OFDC published some guidelines and regulations for organic certification and production. However, the three certifiers still used their own certification standards. OFCC has its standards for AA grade green food (organic food) standards, while OFDC implements IFOAM's standards and OTRDC uses tea industry standards in China. International agencies implement US, European or Japanese standards when issuing organic certificates. Directors from the three Chinese certification bodies said all these different variations are quite similar but the implementations varied. For example, all of them require organic food to be grown on uncontaminated land. When auditing, some certifiers would skip inspecting the soil or water quality if the farm was located in a remote area, away from industrial pollution.

In 2003, CNCA published Regulations on Certification of Organic Production and Processing based on the OFDC standards. In the same year, it started consultations on national organic food standards with an objective to develop a set of standards that are recognized internationally while accommodating the uniqueness of the current situations in China.

On April 1, 2005, the Certification Administrative Procedures of Organic Products were launched by CNCA. At the same time, the National Standards of Organic Certification were being implemented along with the new training and registration of organic auditors. With the new Procedures, the China government hopes to maintain its market share in the European organic food products and be on the list of Europe's "Organic Food Supplier List of the Third Country". Mr. Xiao Xin Ji, Director of OFDC commented that this new Procedures lay a solid base for the first unified national standards for organic foods through eliminating situations where individual certifiers could use their

own standards when certifying organic products. It set a milestone in promoting the whole organic food sector in China.

Starting April 1, 2005, all the organic products sold in China are required to print both "Chinese Organic Products" in Chinese and "Organic" in English onto the packaging materials of certified organic products. Eight months after the introduction of the new Procedures, there were no organic products that could be found in the supermarkets that met the requirements.

After April 1, only products that were certified by agencies that are accredited by CNCA can label its products as organic. However, these new procedures also require organic certification agencies to be an independent legal entity and have a certain amount of registered capital. This became problematic for many non-profit certifiers who were advocates for environmentally friendly organic farming practices. Literally, all the international certification bodies are operating illegally in China according to these two requirements.

The other drawback with these new procedures is that it does not explain how foreign organic food products can be sold in China, products that received certifications from international agencies, or how they could sell their products in China in the event they decide to switch from exporting. Since there are no international certification agencies that have been approved by the CNCA, these certifiers can not use the newly introduced organic labels. Consequently, products not certified by one of the three Chinese certifiers can not be sold legally in China.

According to these new procedures, packaging materials or labels that consist of words such as "organic product", "converting to organic product", "non-contaminated", or "completely natural" without proper certification, will face fines up to 30,000 yuan (USD 3,727)⁹. But as with many administrative regulations on paper, the implementation of this policy is extremely difficult in China. Packaging that contained the above mentioned words appeared everywhere in the market eight months after the introduction of the new procedures.

Some of the highlights of the new procedures:

- Labels with "Chinese organic food products" in Chinese and "Organic" in English must be printed or placed with stickers onto the packaging materials of the organic products;
- Product that contains more than 95% of organic ingredients can be labeled as "Organic";
- For processed foods with more than 70% but less than 95% of organic ingredients, can be labeled as "Manufactured with Organic Ingredients";

⁹ 1 USD = RMB 8.05 Yuan

- For products that contains organic ingredients less than 70%, can only mark the specific ingredient/s as organic;
- There are two kinds of certified organic label under the new procedures. One is “Chinese organic product”, and the other is “Conversion to organic product”. The design of the logo is the same, but the color is different, green for organic, brown for conversion organic;
- Producers of organic products have to apply for sales permit and the sales volume can not exceed the approved limit;
- Organizations that are engaging in organic food certification must apply for recognition of its qualifications and competencies from the Organic Food Certification Committee of CNCA;
- Certification organizations have to be an independent legal entity with some registered capital;
- Organic labels are to be provided by the Organic Food Certification Committee;
- The organic certification is valid for one year. Producers or farmers must apply for renewal each year.

Although CNCA said it did not intend to limit the numbers of certifiers in the China market, it is expected that many small sized organizations will eventually be phased out. Three years ago, OFDC was the only certifier for organic products. Since the organic food market is very small in China, many certification organizations may not have enough business after the introduction of the new procedures.

6. PACKAGING AND LABELING

6.1 Packaging

Unlike organic food sold in the US, all organic fresh produce is packed in small quantity in plastic wraps or bags. Although the packaging makes it impossible for consumers who prefer touching and feeling the produce by hand, the advantage is that the price of the produce will not seem too expensive as it would otherwise appear in larger quantities. For example, tomatoes will be packed by two pieces in a plastic wrap, selling at 8 yuan (USD 1) per unit. This kind of packaging strategy can help consumer to make the purchase decision easier than putting the produce loosely on the display counter. As many media pointed out that counterfeit products are everywhere in China, the system of trust in the China market is lacking. Consumers in Mainland China still have difficulties believing what the organic label claims, which affects their buying decisions. If organic produce is being loosely displayed, skeptical consumers may think that the products are the same kind of regular produce but being packed in an organic labeled plastic bag for staggering prices. Since consumers can not tell whether a product is organically grown or not from the appearance of the product, the packaging and labeling become the critical link in marketing the product which is conceptually different from other regular agricultural products.

China is still in the process of developing guidelines for storing, handling and packaging of organic products.

6.2 Labeling

All of the certified products are required to place the organic label on its packaging materials along with the name of the product, place of origin, manufacturer/producer, production date, shelf life, and product grade. At present, there are three kinds of organic labels in the China market, one from each of the Chinese certification organizations, namely, OFDC, OFCC, and HCAQCC. It is important to know that, as of April 1, 2005, the new "organic" label and "conversion to organic" label were introduced to replace the above mentioned labels. With only one organic label in the market, it is hoped that more branding and positioning of the sector can be done to better educate consumers. However, there still seems to be much confusion in the market place regarding the new labels. Several OFCC staff were either unaware of the new labels or did not know the new labels are in effect already. OFDC explained that the three labels will continue be used for certification purpose and the new labels will be put along with their existing ones.

Organic label of OFDC



Organic label of OFCC



Organic tea label of HCAQCC



New organic label in China
(introduced on April 1, 2005)



New conversion label in China
(introduced on April 1, 2005)



7. ENTRY BARRIERS

- Organic food is a brand new concept to most Chinese consumers. Even for those who have been exposed to the terminology, they are still confused by the various categories mentioned above: “no-public-harm”, “green” foods, or “organic” foods. There is a large amount of education and marketing that needs to be done in order to increase the sales of organic products;
- Weak market recognition of organic food: In most mid- to high-end supermarkets, when approached for organic products, customers would be referred to the “no-public-harm food” unit. Many retail staff would insist those are organic products, even though the packaging indicated otherwise;
- The exchange rate between the US dollar and RMB fluctuates around 8.05. Because of the lower labor costs in China, it will be difficult for many US organic products to be competitive with Chinese ones;
- Confusing regulations on label and certification requirements makes it difficult for US organic products to be sold on the market legally. New regulations do not clearly address what imported organic products need to do in terms of labeling;
- Purchasing habits of average Chinese consumers limit the potential placement channels of US organic foods, as many people are still buying from traditional wet markets where food items are much cheaper than in supermarkets;
- Only selected mid- to high-end supermarkets carry organic products. There are very few specialty or health stores in South China. It is not very convenient for loyal customers to buy organic products on a regular basis unless they live near these few select stores.

Competition from Chinese “green” food may have an impact on the demand for organic products. If the OFCC is successful in convincing consumers that their “green” food category is much safer than conventional produce, the demand for organic produce could be reduced significantly.

8. COMPETITOR ANALYSIS

Most Chinese organic farmers are relatively small players. The following section provides case study information after surveying some of the larger players in the green food/organic market in South China.

8.1 Guangdong

8.1.1 Guangzhou Dong Sheng Organic Vegetables Farm

With organic vegetable fields in Conghua city, Guangzhou Dong Sheng Organic Vegetables Farm is part of the Hong Kong Ou Thai Kee Company. The organic farm is located at the upper stream of Liuxi River, which supplies the drinking water for Guangzhou city. The first part of the organic project took up 1,500 mu (100 hectare)¹⁰ and grows vegetables such as organic cucumbers, tomatoes, beans, carrots, lettuces, strawberries and choy sum. Over 60 percent of their produce is exported to Hong Kong, Macau, Canada, Singapore and the US. A small amount is sold to Wal-Mart and Sam's Club in Mainland China. By 2004, they had more than 60 products certified as organic. Their "green food" label and "no-public-harm" label products are now being sold in most of the major supermarkets in Guangzhou and Shenzhen. Dong Sheng is aiming to expand its farm to 5,000 mu (333 hectare) and hoping that the surrounding farms would follow suit, resulting in 11,000mu (733 hectare) of organic vegetables farmland in Conghua city.

8.1.2 Zhuhai Nong Feng Import and Export Company Limited

Interestingly, this company was involved in the pesticides business before it moved into organic rice production. The company started growing organic rice in 2002 and received organic certification from a Hong Kong certification entity in 2003. They produced more than 1,000 tons last year which was all sold to Hong Kong and Macau. The organic rice field occupies 5,000 mu (333 hectare) of land and receives technical support from the South China Agricultural University. It is now the biggest organic rice producer in Guangdong province.

8.1.3 Zengcheng Organic Farm

Zengcheng Organic Farm is a supplier of Beijing Tian Di Sheng Company. It grows vegetables and ships them directly to chain stores in Guangzhou and Shenzhen every morning directly from the farm. It grows more than 20 kinds of vegetables with annual production of 8,000 tons, among which 90% are sent to Hong Kong and other South East Asian markets. The annual sales value reached USD 2 million this past year. Although their products enjoy a strong demand in overseas markets, they have decided to focus on the rapidly developing domestic market for organic produce. The Deputy General Manager, Duan Min, said they saw greater risks on international markets than

¹⁰ 1 Hectare = 15 Mu

in the domestic one although the profit margins would be much higher when selling to other countries. They worry about strong competition and have decided to focus on the domestic market to improve their production processes. They have over 1,000 mu (66.7 hectare)¹¹ of certified organic land in Zengcheng, which is about an hour away from Guangzhou by car.

8.1.4 Shenzhen Yu Nong Ju Industrial Company Limited

Producing organic vegetables since 2001, Shenzhen Yu Nong Ju Company received assistance from the Shenzhen government in becoming the official supplier of the city's vegetables. Being the only certified organic farm in Shenzhen, Yu Nong Ju produces five tons of organic vegetables daily and supplies supermarkets in Hong Kong and Shenzhen. Currently, the farm run by Yu Nong Ju takes up 400 mu (26.7 hectare) of land. They plan to expand it to 1,000 mu (66.7 hectare) in the near future. Unlike the Beijing Tian Di Sheng Company, Yu Nong Ju supplies its organic vegetables only to the Sui Bao Department Stores in Shenzhen.

8.2 Guangxi

8.2.1 Guangxi Sha Lian Na Food Company

With investments in a 67 hectare organic vegetable farm in Guangxi province, Guangxi Sha Lian Na Food Company, a branch of Hong Kong Sha Lian Na, tested waters in Shenzhen two years ago. Due to a relatively small sales volume, the company had to suspend its supply to the domestic market. Now, they think the Shenzhen vegetable market is more mature and decided to reintroduce its organic vegetables in Shenzhen. The company hires over 300 farmers to work on 133 hectare of land. In 2004, Sha Lian Na exported more than 1,000 tons of vegetables to Hong Kong and East South Asia. It supplies about 2,000 tons of vegetables for supermarkets in Shenzhen on a daily basis. Hong Kong Sha Lian Na owns some farms and organic food bases in Ningxia, Inner Mongolia and Hebei province. Sha Lian Na provides free seeds and technical support to growers and signs purchase contracts at set prices.

8.3 Hunan

8.3.1 Hunan Tea Company

The company owns 12 organic tea production bases and obtained certifications from Europe's IMO, NOP of US, JONA of Japan. The certified land of Hunan Tea Company takes up about 15,810 mu (1,054 hectare)¹² and the output accounts for 95.6% of the province's total tea exports. Their export sales reached USD 4.50 million in 2003 with prices that were 30% higher than regular tea products.

¹¹ 1 Hectare = 15 Mu

¹² 1 Hectare = 15 Mu

8.4 Beijing

8.4.1 Beijing Tian Di Sheng Organic Food Products Company Limited

Founded by a former OFCC Director, Beijing Tian Di Sheng Organic has been very successful in sourcing and selling organic vegetables in South China. All but one supermarket chain in South China received organic product supplies from this single company.

The General Manger of the company, Ms. Chen Cong Hong, saw a great market potential for organic food when she was in charge of the certification of organic products at OFCC. After five years of operation, the company now owns the "Organic Farm" trademark and has 200,000 mu (13,333 hectare) of organic food production bases throughout China. In addition to vegetables, they also consolidate beans, corn, tea, peanuts, eggs and beef from their contracted suppliers. However, in South China, they only provide vegetables, beans and peanuts to the chain stores. They do not own most of the farms, but set up contractual relationships with individual farms. Tian Di Sheng tells the farms what they want and sets the purchase prices a year in advance. Most of the products sold have OFDC or BCS certification.

The company has had to face some false news reports that it sold non-organic products on designated organic shelves in some northern cities. Therefore, the biggest challenge of the company is how they can convince more consumers to believe their products meet certification requirements. As an average person, it is impossible to tell whether the products he/she is paying 3 to 8 times more for are organic.

8.4.2 Beijing Hua Bang Food Company Limited

Founded in April 1995, Beijing Hua Bang Food Company Limited specializes in the production of fruit juice with an annual capacity of 100,000 tons. In 2002, Hua Bang started to plant organic peaches, kiwi, hawthorn, oranges and grapes on its 70,000 mu (4,667 hectares)¹³ of land located in Beijing, Sichuan, Hebei and Henan provinces. Its organic fruit received certifications from OFDC, OCIA and JAS. Its first organic fruit juice line was introduced to the Northern China market at the end of 2005. The company is expecting return on investments by 2006. Hua Bang also plans to develop organic canned fruits. The company is working hard to become the official juice supplier of the 2008 Beijing Olympic Games.

Although Hua Bang is not marketing its products in South China now, it is expected to go South in the near future.

¹³ 1 Hectare = 15 Mu

8.5 New Zealand

In October, 2005, New Zealand Trade and Enterprise-sponsored Focus Center was opened in Hong Kong with an eye on the quickly expanding Mainland China market. The Trade Negotiations Minister was reported saying that "there is a lot of emphasis on organic products... and Hong Kong offers exposure to the growing numbers of Chinese that travel here and can be a gateway to the mainland." In the past years, South China has seen a big increase of imported food items from New Zealand and Australia. The New Zealand Trade Council has been very active in promoting their foods in this fast growing market. Therefore, organic exporters from this country can be strong potential competitors in the South China market.

8.6 Competitors' Strengths

Proximity to the market – Many of the competitors are producing fresh produces that have a shorter shelf life and require proper storing techniques for transportation. Therefore, their ability to grow near the market reduces the costs involved in order to keep them fresh and maintain the good taste and nice shape.

Inexpensive labor – Opposed to industrialized farming, organic production requires more attention and more labor input throughout the growing cycle. China has a vast labor force to provide this kind of care at a much lower cost.

Suitable products – Due to dramatic differences in culture, Chinese have strong preferences for traditional Chinese produce that may not be grown in the US. However, the situation is less so in fruits, snacks, beverages and other processed foods.

Uncontaminated seeds – Modern agriculture was only introduced to China 20 years ago. Before its opening to the outside world, Chinese farmers did not use pesticides or fertilizers, not to mention genetically modified seeds. Even nowadays, many of the Chinese farmers are still feeding or growing their animals and plants in traditional ways. It is much cheaper and easier to find organic seeds or embryos for organic production in China.

8.7 Competitors' Weaknesses

Limited knowledge of labor force – Despite the large labor force on farms, most workers are uneducated and are not familiar with organic farming. They have to receive instructions from buyers on what to do and how to produce their products. During production, they lack much of the needed knowledge on what the final product should be and why people want to buy organic products, which will affect the quality of their products. For example, it was reported that some farmers do not believe in organic pesticides and sometimes they were caught applying chemicals to the plants. Thus the

buyers need to spend lots of time and efforts in monitoring, training and educating farm workers on every process of organic production. Improper growing, handling, storing, and transporting of organic products costs farmers, buyers, and nearby growers a lot of money and effort.

Limited technology – As it is an emerging sector, organic farming and production technology are not well developed yet. The most successful organic producer, Tian Di Sheng Company, said they lose almost 50% of their vegetable output due to various technical reasons. Many of the agricultural experts are still learning from testing on farms, not to mention individual farmers who just learned the term “organic” recently. The processing technology of organic products is nearly non-existent for most food products. Proper handling, storage, and transportation techniques still need to be explored by regulators and practitioners to minimize shrink and waste.

Small scale – Like any other agricultural sector, farms in China are small in size and operate on their own with their hands. To bring the organic sector to a higher level, it requires more organized production that can maintain supplies in a larger quantity with higher quality. At present, the supply of organic products is not large enough to meet the demands of high-income residents in large cities.

Low credibility – As reported by the Guizhou Green Food Office, some green food sold in the market is packed nicely, but sometimes the quality is extremely low and some even contain toxic ingredients. This kind of irresponsible behavior has weakened the image of authentic green and organic products. In Hainan, an industrial expert claimed that 80% of the green food labels are fake. Some retailers pack washed vegetables with green food labels and then sell for higher profit margins. These short-sighted behaviors have created lots of difficulties for genuine certified products to win trust from consumers. Most of the consumers interviewed said they didn't buy and would not buy organic because they don't trust labels or certifications.

Weak administration – The AA grade green food standards of China are not completely the same as the organic food standards on the international market. There are some laws and regulations that have been introduced for organic food, but the management and implementation of them remain challenges for the government. The typical way of doing business in China results in a large number of consumers who do not trust authorities and do not believe in regulations, which, however, is vital to the development of organic products. The various levels of Green Food Offices in China do not coordinate their efforts in expanding or promoting the organic sector.

Poor marketing efforts – Green/organic food producers have not adequately leveraged the certifications to market their products. The certification labels were simply being stuck onto the products and the producers did little to educate consumers about the health benefits of consuming these premium products. Like many agricultural producers, Chinese organic food practitioners did not invest in brand building or marketing initiatives. There is no brand recognition or brand management in the Chinese organic food market.

Limited variety – Most of the organic products available on market are limited to mostly vegetables. Few if any meat products, organic fruit, or processed organic food products can be found in stores in South China. Even for vegetables, the selections are limited. Organic teas are for export only. This limited variety of supplies suppresses consumers' interests in buying organic.

9. PRODUCT MIX

The following Chinese organic products can be found in supermarkets of Guangzhou, Zhuhai, and Shenzhen:

Organic products being produced in South China	Liquor, tea, chicken, oranges, longan, lychee, vegetables, bamboo shoots, fungus, camellia oil, and rice.
Organic products from other parts of China	Beans, peanuts, eggs, cereal and fruit juice.

Since South China is already producing some fresh fruit and vegetables, it is not recommended that US organic exporters try to compete with them due to handling and transportation difficulties and for the great confusion in understanding the labeling/certification process. However, South China is lacking a wide variety of organic processed foods and beverages. US organic exporters can take advantage of this gap and provide the market with a wider selection of organic drinks and snacks. These products are suitable for long distance transportation and easy for importers and distributors to handle and store. Since many Chinese parents worry about the health and wellness of their only child, they are more likely to use a US brand that they know they can trust. Thus, there is great market potential for baby food and children's organic food products as well.

In short, high quality and easy-to-consume, packaged foods are the best market entry products for US organic exporters.

10. PLACEMENT MIX

Depending upon how individual US organic food exporters would like to do, the placement mix opportunities can vary greatly.

10.1 Importers

In China, not every company or business entity can bring foreign products into the Chinese market. Only a company that has import licenses can import food products from other countries. These companies can be big or small. Some importers help buyers to handle only the paper work while some have their own distribution channels and engage in selling the products as well. It is recommended that any potential US exporter take the time to study the market very carefully before entering into a business relationship with a Chinese importer/distributor. The business culture is dramatically different in China than in the US and personal relationships "guanxi" is most important. Finding the "right" partner is extremely important for the US company to develop a long-term position in the market place. The ATO in Guangzhou has developed strong relationships with major importers in South China and can provide all sorts of assistance to US food exporters, such as setting up meetings, recommending contacts and providing opportunities for menu-promotions and in-store promotions. These marketing activities are most useful in assisting local importers/distributors get into the HRI and Retail sectors.

10.2 Distributors and Wholesalers

The ATO in Guangzhou can assist new-to-China US exporters explore the market before making the plunge. Since most retailers rely on importers/distributors, it is nearly impossible to ship directly to the retailers. The ATOs are familiar with most major importers/distributors and are happy to make introductions. By using the services provided by the Guangzhou ATO, US organic food exporters can reach potential partners with less hassle and save a lot of time in figuring out logistics and networking.

10.3 Retail Outlets

Because of the long history, culture and high population density, retail outlets can be found on every street in South China. However, since an average consumer will not be able to tell whether a product is organic or not, they rely completely on the green food certification systems to ensure they are getting what they have paid for. For historical reasons, consumers do not generally trust labels or individual retailers. With counterfeit products flooding the market, consumers have very low confidence in getting high quality products from regular retail outlets.

With more than ten years of change in China, chain stores have become more and more popular in urban areas. For the younger generation, it has completely replaced the traditional wet market, where farmers would sell their produce directly to consumers. In Guangzhou and Shenzhen, high income earners have become accustomed to shopping at mid- to high-end international chain stores for quality and safe food. These international chain stores should become the main retail channel for US organic foods in order to attract and retain targeted customers. The downside of using supermarkets as the core placement strategy is that most of the stores will require stocking fees and event/holiday promotional fees from suppliers. Meanwhile, the supply has to be consistent in substantial volume; otherwise suppliers will face high penalties from retailers.

11. PRICE MIX

Currently, the sales prices of Chinese organic products are at least three to five times higher than regular agricultural products. For imported organic products, there are no additional taxes or tariffs to paid over conventional products. However, the regular customs and the 17% value added tax have to be paid on any imported items. It is not clear whether imported organic products will be required to obtain Chinese certification. When reached for comments, government officials said they had not seen a policy on the issue yet. Therefore, it is of vital importance for US organic food exporters to locate an experienced importer or distributors for their products in order to eliminate unnecessary costs.

Depending upon what products a US organic exporter would like to bring into the South China market, the pricing mix should be either high-value strategy or premium strategy, meaning supplying high quality product at high prices or medium prices.

To gain some sense of the current market prices for both conventional and “organic” foods, the following information is compiled from visits to various stores in Shenzhen and Guangzhou.



VanGuard Stores

(Exchange Rate: \$1 = RMB 8.05)

Products	Unit Price/Kg Regular	Unit Price/Kg Organic
Potato	RMB 4.00 (USD 0.50)	RMB 15.8 (USD 1.96)
Lettuce	RMB 2.40 (USD 0.30)	RMB 17.9 (USD 2.22)
Cucumber	RMB 3.4 (USD 0.42)	RMB 15.6 (USD 1.94)
Onion	RMB 2.6 (USD 0.32)	RMB 17.5 (USD 2.17)
Eggplant	RMB 3.0 (USD 0.36)	RMB 16.9 (USD 2.10)
Bell Pepper	RMB 3.6 (USD 0.44)	RMB 17.9 (USD 2.22)

Red/Yellow Bell Pepper	RMB 5.0 (USD 0.62)	RMB 34.6 (USD 4.3)
Celery	RMB 4.0 (USD 0.50)	RMB 21.5 (USD 2.67)
Leek	RMB 5.8 (USD 0.72)	RMB 23.3 (USD 2.89)
Egg	RMB 0.4 /each (USD 0.05)	RMB 1 /each (USD 0.12)
Soybean	RMB 12.5 (USD 1.56)	RMB 22.0 (USD 2.73)
Red Bean	RMB 15.0 (USD 1.86)	RMB 28.0 (USD 3.48)
Green Bean	RMB 15.0 (USD 1,86)	RMB 25.3 (USD 3.14)
Millet	RMB 10.0 (USD 1.24)	RMB 19.5 (USD 2.42)
Peanut Kernel	RMB 16.5 (USD 2.05)	RMB 33.8 (USD 4.20)
Peanut in Shell	RMB 18.0 (USD 2.24)	RMB 49.5 (USD 6.15)
Corn Meal	RMB 5.6 (USD 0.70)	RMB 18.5 (USD 2.30)
Brown Rice	RMB 9.0 (USD 1.12)	RMB 19.3 (USD 2.4)

JUSCO  (Exchange Rate: \$1 = RMB 8.05)

Products	Price/Kg Regular	Price/Kg Organic
Potato	RMB 6.0 (USD 0.75)	RMB 16.2 (USD 2.01)
Carrot	RMB 7.6 (USD 0.94)	RMB 17.7 (USD 2.20)
Cucumber	RMB 8.0 (USD 0.99)	RMB 13.5 (USD 1.68)
Onion	RMB 3.0 (USD 0.36)	RMB 18.2 (USD 2.26)
Tomato	RMB 3.4 (USD 0.42)	RMB 17.0 (USD 2.11)
Pepper	RMB 6.5 (USD 0.81)	RMB 19.6 (USD 2.47)
Ginger	RMB 8.4 (USD 1.04)	RMB 22.1 (USD 2.74)
Garlic	RMB 5.8 (USD 0.72)	RMB 18.5 (USD 2.30)
Celery	RMB 4.2 (USD 0.52)	RMB 20.0 (USD 2.48)
Leek	RMB 6.3 (USD 0.78)	RMB 20.0 (USD 2.48)
Egg	RMB 0.4 / each (USD 0.05)	RMB RMB 1 /each (USD 0.12)

Carrefour  (Exchange Rate: \$1 = RMB 8.05)

Products	Price/Kilograms Regular	Price/Kilograms Organic
Green Pepper	RMB 5.2 (USD 0,65)	20.0 (USD 2.48)
Eggplant	RMB 4.0 (USD 0.50)	19.6 (USD 2.47)
Cucumber	RMB 3.8(USD 0.47)	15.9 (USD 1.98)
Garlic	RMB 5.4 (USD 0.67)	17.5 (USD 2.17)
Ginger	RMB 6.8 (USD 0.84)	20.9 (USD 2.60)
Carrot	RMB 4.1 (USD 0.51)	17.0 (USD 2.12)

Tomato	RMB 4.4 (USD 0.55)	17.6 (USD 2.19)
Onion	RMB 3.4 (USD 0.42)	17.2 (USD 2.14)
Chinese Choy Sum	RMB 2.00 (USD 0.25)	21.0 (USD 2.61)

12. CONCLUSION

The organic diet craze has only started its growth phase in South China and the sales of Chinese organic products have made impressive headways. Eating organic may be a life style choice in other countries, but in China where food safety problems continue to be a major problem, choosing organic is a must for many health sensitive consumers.

Our analysis indicates that the Chinese organic sector is still in its infancy and is not ready to meet the needs of the international market and ever more demanding domestic consumers. Therefore, there are opportunities for US companies to enter and grow with this newly evolving, organic food market especially with processed food and beverage products.