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Strategies on China's Organic Market "Lockout"

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Report Highlights:

Summary: The new Chinese organic law forbids any organic products to be marketed as organic without the Chinese organic label. All imported organic products are impacted. U.S. organic food manufacturers are urged to either partner with local importers to consider revising the organic label or set aside more marketing funds to promote the products through different strategies outlined in this report, while Foreign Agricultural Service, USDA's National Organic Program, and the Organic Trade Association work with their China counterparts on a mutual agreement that aim at reaching some sort of equivalency with the USDA organic label.

Background: The organic market in Asia is split into two groups: producer and consumer countries. According to Certification and Accreditation Administration of China (CNCA), the 23 certifying agencies in China have issued over 10,000 Chinese organic certifications to 7,000 companies with

coverage of over 2 million hectares of land. Although China has long been a producer country for organic food products, its unstable food safety record has forged it into a massive consumer country in the world market. In 2010, Wal-Mart stores in China reportedly marketed conventionally produced pork as “green” pork (alleging a higher product quality and safety standard). Over 30 outlets were temporarily closed during an investigation and its former CEO was forced to resign as a result. According to news reports, these Wal-Mart outlets sourced 200 kilos of “green” pork, but recorded close to 1,000 kilos of “green” pork in actual retail sales. There were also many other reports on the China market about mislabeling and “misleading” marking claims. Consumer confidence in China’s food safety regulation and enforcement authority has dropped to its lowest in the last three years.

New Organic Standards: To address consumers criticizing the government’s non-performance on food safety issues, the new China organic standards were introduced on March 1, 2012 with an effective date of July 1, 2012. The standards are more stringent on the production environment, food safety, pesticide residue and overall quality controls. For example, under the new requirements, soil, water, and even PM2.5 in the air, now need to be monitored on certified organic farm land (similar to the States). A detailed input and product list were also recently implemented. As a result of Green Peace’s widely circulated announcement that pesticides were detected and widely used in most of China’s “organic” products, the new standards adopted a zero tolerance for these types of chemical residues. Every single organic package now must carry the China organic seal, name of its certification body, and the 17-digit code uploaded into the China National Certification Administration’s (CNCA) system so that consumers can trace the authenticity of an organic product.

Product list: Only products included on the product list are eligible to be certified as organic. Under the new regulation, in fact, China is no longer handing out organic seals to honey and goji berry producers. The CNCA announced that it was too difficult to trace residues in honey and it is basically impossible to produce organic goji berries when the new standards require zero tolerance residue requirements.

Certification: All the above changes are applicable to imported organic products. Any products, brandishing an imported organic seal would not be allowed to be marketed as organic in the retail sector. CNCA also published a notice where the word “organic” and the foreign organic seal must be excluded, blacked out, or covered up by the retailer if they do not obtain the Chinese organic certification. The requirement is imposed on the importers, but CNCA promised to strictly enforce it at the retail outlet level threatening to seize product, fine retailers and even temporarily close down retail outlets based on the severity of the violation. CNCA believes these requirements and the new standards will ensure consumers that the organic products sold in the China market are trustworthy and give credence to the organic label.

Cost of Certification: According to the Organic Food Development Center under the Ministry of Agriculture, the average cost to USDA Organic producers to license under China’s label is \$2,380 (or 15,000 yuan) for processed products. Note this figure does not include travel expenses incurred during the certification process.

Strategies

Equivalency: CNCA claims they did not lockout others from China's organic market and contend that the United States or Europe behaves the same when Chinese organic products apply for entry into their respective markets. CNCA said they had tried to talk to with United States for an equivalency of the organic standards five years ago, but their voices were not heard. According to CNCA, the United States just has an agreement with Canada and Europe which took over four years to achieve. The amount of ground work required to be completed should the States pursue an equivalency agreement is incalculable. For U.S. organic exporters the waiting period that they are shut out of the China market might also be costly on the other hand.

Certification: CNCA said there were 64 imported organic products which had obtained the Chinese organic label and could be sold on the market legally. Most of these were dairy products from Europe, Asia and Oceania countries. The melamine scandals and endless milk safety issues prompted these exporters to invest heavily in China's organic market. However, most of the U.S. organic producers are small to medium sized companied which do not have the budget to fly China's organic auditors to the United States frequently to receive the required annual certification. Although obtaining a China organic seal is the only legal way to marketing organic products in China at present moment.

Two non-ideal solutions may be considered: One, to negotiate a "bulk" certification package with a couple of certifiers for a group/sector discount on volume business. Auditor's trip expenses and time can be coordinated and shared so to reduce the final price to a single U.S. organic exporter. This effort required a significant amount of coordination and cooperation from the Chinese side. Secondly, U.S. certifiers could partner up with China certification agencies to share resources and use U.S. staff to conduct China's organic certification in the United States.

Labeling: Should a U.S. exporter chooses not to market products organic in China, all the "organic" wording would need to be blacked out or covered. According to a major retailer based in Shenzhen currently involved in these practices, these practices can also be costly and highly labor intensive. Some local importers are even trying to convince their U.S. manufacturers to change the label for China market by taking out all the "organic" terminology on the label. Both the methods require consumer education and marketing campaigns to communicate the real product value or "hidden" organic benefit to consumers.

Marketing Campaigns: All stakeholders, the Organic Trade Association, U.S. food manufacturers, importers and the ATO Guangzhou can coordinate continuous marketing educational projects to explain to consumers why they would find some blacked out or covered labeled products in supermarkets. At the same time, media outreach is important to emphasize the superiority of the USDA organic products and why consumers find less imported organic products in the market. Printed materials, newspaper inserts, product websites and other learning tools should be developed and ready for consumers who pick up the products.

ATO Guangzhou will spare no efforts to assist U.S. organic exporters to tap into this blossoming market for U.S. organic products, while bilateral agreements are being worked out at the government level. In fact, the current market in China, Post has not seen any imported organic products with blacked out USDA organic labels in any of the major retail chain outlets headquartered in South China. Though CNCA recently was cited as explaining that products produced before July 1, 2012 can continue to be sold as usual, more products with the French word "Bio" (Organic) are widely found in supermarkets. The Chinese law enforcement teams have not yet started cracking down on products stating organic in

other languages yet. In order to stay in the market or play legally, Post suggests U.S. exporters either acquire Chinese organic labels or prepare to invest more on marketing the product verbally by hiring sales promoters, printing leaflets and informing consumers of their products via websites. If a U.S. organic exporter needs more market information or would like additional suggestions, please contact ATO Guangzhou for further market support.