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BioFach China 2009 and Updates on Organic Market in Shanghai

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Report Highlights:

The 3rd BioFach China, China's largest international organic and natural products exhibition, was held in Shanghai in May 2009. It was the first time since the show began in 2007 that the U.S. Agricultural Trade Office, together with Organic Trade Association, participated in BioFach China. A wide range of U.S. organic products were displayed at the ATO-OTA joint booth. Baby food, soymilk, and snack food generated the most interest. In addition to the exhibition, ATO organized an organic farm and retail tour, an industry reception, and arranged for NOP and OTA experts to speak at the BioFach Conference. Some large Chinese domestic players are stepping into the organic industry with considerable consumer education activities. Major US organic food manufactures are also tapping into the Chinese market. However, trade policy related challenges impeded the marketing of imported organic products.

Background

Steady increases in exports and domestic consumption signal the emergence of the Chinese organic market. According to the latest statistics available, the value of organic product exports reached \$300 million in 2007. Meanwhile, the domestic market is also growing, with total sales of \$0.9 billion in 2007. In 2005, the Chinese government issued regulations on organic food products, laying a solid foundation for the development of the domestic organic market. By 2008, 5,026 Chinese organic certifications had been issued, twenty-seven certifying companies had been established, and 2 million hectares (5 million acres) of agricultural land had been certified organic. Increased awareness of nutrition, health and food safety issues as well as expanding disposable incomes are the main causes driving domestic demand for organic products. The organic market has also received a lot of political attention from the government. Organic farming generates higher income for farmers and stimulates exports of agricultural products. Therefore, organic trade shows are starting to become more important in China. International organic trade shows are beginning to grasp this untapped opportunity. One of the most influential organic trade fairs worldwide, BioFach, made its debut in China in 2007.

Show at a Glance

BioFach China 2009	
Date	May 27-29, 2009
Venue	INTEX Shanghai
Organizer	NurnbergMesse GmbH and China Green Goods Development Center, under the Ministry of Agriculture

Show Summary

The 3rd BioFach China, one of China's largest international organic & natural products exhibition, was held in the International Exhibition Centre INTEX Shanghai, from May 27-29, 2009. It was the first time that the U.S. Agricultural Trade Office, together with the Organic Trade Association, participated in BioFach China. A wide range of U.S. organic products were displayed at ATO's booth. The products that generated the most interest include: baby food, soymilk, and snack food. ATO arranged an organic farm tour and retail tour for OTA prior to the show. In addition, ATO hosted a reception, which offered opportunities for U.S. organic experts from NOP/USDA to meet with Chinese organic certifying organizations, distributors and retailers.

Statistical Summary

Total Exhibiting Net Space (m2)	2,529
Total Exhibitors (China/Overseas)	238 (211/24)
Number of U.S. Exhibitors	1
Exhibitors carrying U.S. products	3
Total number of trade visitors	10,375

Despite the global economic downturn, 238 companies and organizations exhibited at the show. About 18% of total exhibitors were overseas companies, and represented 12 countries and regions. About 24 international companies from Germany, U.S.A., Italy, Australia, France, Malaysia, Korea, New Zealand, Thailand, exhibited at the show. The three-day show attracted about 10, 375 visitors, up 30% from that in 2007. One highlight of Biofach China was the 17 professional seminars running in parallel with the show. Laura Batcha, Marketing Director of Organic Trade Association delivered a presentation on U.S. organic market. Richard Mathews and Guo Ruihong from NOP briefed Chinese certifying bodies on the U.S. National Organic Program.

A Two-Way Trade Show

Before BioFach China started in 2007, NurnbergMesse China, the show co-organizer, considered holding a trade fair exclusively for organic products focusing on the domestic market. However, after extensive discussions with export-oriented local organic producers, the show organizers adjusted their strategy to a more balanced profile of exhibitors, with some targeting the domestic market and others searching export opportunities. A number of international companies were also interested in exporting their organic products to China.

Generally speaking, organic products from European countries enjoyed a larger presence than those from the U.S. at the show. This is partly due to the recruiting ability of the show organizer. This year, for the first time, with the support of the Federal Ministry of Food, Agriculture and Consumer Protection of Germany, eight German companies had the opportunity to present themselves under the umbrella of a German Pavilion.

Products at the show that generated the most buyer interest were: vegetable and fruit products, health food and delicatessen products, meat/dairy/seafood products, beverages, baby foods, natural cosmetics and personal care products.

ATO and OTA Debut at BioFach China



A wide assortment of American organic products displayed at ATO booth.

To showcase the availability and diversity of US organic products, ATO Shanghai negotiated with the show organizer and obtained two free booths at the show. Post took the lead in communicating with OTA, the U.S. organic industry representative, which is now interested in exploring business opportunities in China. We then offered space in the booth to U.S. exporters looking for importers in China and those already in the market. Post succeeded recruiting five companies to exhibit at the ATO-OTA joint booth. OTA was able to bring another three US companies' products to the show. Altogether, 60 SKUs of US organic

products were displayed at the booth, covering baby foods, beer & beverages, candies, cereals, dried fruits, sweetness, seeds and tea. Brands presented include Arrowhead Mills, Donimo, Earth's Best, Go Naturally, Happy Baby, Imagine, Nature's Path, O Organics, Nature's Flavor, Rice Dream Taylor, and West Soy. Exporters of Nature's Flavor and Taylor products also had representatives at the booth, handling inquires and developing contacts. With enhancement funds from OTA, ATO was able to recruit a local vendor to design and decorate the booth.

Contacts developed at the show were mainly from independent specialty shops, online-shops and food distributors, with a demand for packaged products. A few food processors showed interest in organic ingredients, like sugar and grains. The majority of these contacts would prefer to buy from existing importers in China, while a handful can import directly. Although the range of products needed might be wide, the quantity demanded will probably be small at the beginning.

US Experts Speaks at BioFach Conference

One highlight of BioFach China was the 17 professional seminars which ran in parallel with the show. The conference attracted an international, top-ranked array of participants. Mr. Ma Aiguo, Director-General of Bureau for Quality and Safety supervision on Agri-products, China's Ministry of Agriculture, delivered opening remarks. The International Federation of Organic Agriculture Movements (IFOAM) provided information about international organic food markets, while the Food and Agriculture Organization of the United Nations offered an insight into the Asia-Pacific region. The themes at the conference extended from future perspectives for organic industry in China, to international trade regulations related to organic products, and to rising opportunities in natural personal care and textiles segment.

Post connected the show organizer with the National Organic Program in USDA. For the first time, NOP officials were invited to speak at the BioFach China. On the second day of the conference, Mark Bradley, Chief of Standards Developments & Review and Ruihong Guo, Chief of Compliance & Enforcement, delivered a two-hour presentation on the USDA National Organic Program and organic standards. The seminar was well attended. About forty representatives from certifying organizations and food companies joined the seminar. Post believes it served as a helpful platform to educate the audience about US organic standards. The aim was to both ensure that products exported to U.S. comply with the standards and to educate the audience about the US organic system.

In addition, Post introduced the Organic Trade Association to the show organizer. As a result, Laura Batcha was invited to give a presentation on the U.S. organic market at the conference. OTA delivered first-hand information to educate Chinese traders and their counterparts about the availability, quality and credibility of U.S. organic products. The information on market development and trends in the U.S. shed light on the future of the market in China.

A 360° Probe into the Shanghai Organic Industry

Taking the advantage of having OTA Marketing Director and NOP/USDA officials coming to Shanghai for the show, Post organized a well-rounded series of activities to create interaction between the U.S. industry representatives and their Chinese counterparts.

Organic Farm Field Visit

Prior to the trade show, ATO organized organic farm field visits for OTA representatives to Biofarm and City Garden. Biofarm, a small family-based organic farm, was started in 2004 by the founders of Ostore, the first organic specialty store in Shanghai. Cityshop organic farm, namely City Garden, is a farm with 1,000 acres. Both farms have been granted the organic certificate from OFDC (Organic Food Development Center). City Garden supplies Cityshop supermarket as well as 5-star hotels and high-end restaurants in Shanghai.



Farmer's Market in Biofarm attracts families on weekends and holidays.

Organic insiders speak the same language regardless of where they come from. Laura Batcha owns an organic CSA (Community Supported Agriculture) farm and intensively discussed the idea of CSA with Biofarm owner Ms. Tian. Likewise, Biofarm operates on the same CSA concept and sells its organic

vegetables on an annual membership basis. Farmer's Markets, farming practices, and lifestyle issues were the main topics during the farm tour.

Retail Tour



Wide assortment of imported organic foods are sold at Cityshop store.

To help OTA staff get a feel for the relatively small but fast growing organic retailing segment in Shanghai, ATO staff coordinated a retail tour to Cityshop and Hiquality organic specialty shops. Cityshop is a chain of high-end grocery stores in China. Over 80% of Cityshop's SKUs are imported products. It has 9 outlets in Shanghai and 1 outlet in Beijing. Cityshop has its own trading company which can import products directly from U.S. In the last few years, Cityshop has been expanding their organic products portfolio. In Cityshop's flagship store, a separate organic food section

covering a wide range of imported organic foods amazed OTA visitors. Hiquality organic specialty shops have 15 stores in Shanghai, mainly to serve the local upper-class neighborhoods. Over 90% of HiQuality Foods are certified organic products and about 20 percent are imported products. As of February 2010, Hiquality has 20,000 registered members and is sourcing more imported products.

Industry Gathering

On the second day of the trade show, ATO Shanghai hosted a reception, which included U.S. organic experts from NOP/USDA, Chinese organic certifying organizations, distributors and retailers. Participants from the Chinese side included Directors from China Organic Food Certification Center (COFCC), Organic Food Development Center (OFDC), organic advocates from Biofarm, organic retailing experts from Hiquality organic specialty shops, importers who bring in U.S. organic package foods, BioFach China show organizers, and a professor who specializes in organic agriculture. This networking event connected the stakeholders in the field of organics, both from U.S. and China. USDA's relationship with Chinese counterparts and industry insiders was also further enhanced.

By conducting the three activities mentioned above, NOP/USDA and OTA got a better understanding of the organic industry in China, from farm to fork and from paper to practice. NOP/USDA officials established relationships with two major certifying organizations: China Organic Food Certification Center (COFCC) and Organic Food Development Center (OFDC). Post believes this is beneficial to USDA because it facilitates dialogue on American and Chinese organic certification standards. OTA is excited about the up-and-coming organic farming and retailing sector in Shanghai.

Updates on the Organic Marketplace



Some giant Chinese domestic players are stepping into the industry and rolling out massive consumer education activities. COFCO, the largest oils and food importer and exporter in China, and a leading food manufacturer, launched its “Lohas” brand in January 2009. Similar to the literal meaning of “Lohas”, Lifestyles of Health and Sustainability, COFCO’s “Lohas” brand is targeted at a market segment focused on health and fitness, the environment and sustainability. “Lohas” brand features two product lines, natural fruit and vegetable juice and organic honey. In May 2009, COFCO kicked off its online advertising through [www. Kaixin.com](http://www.Kaixin.com), a social networking service (SNS) and reached 5 million members within the first twenty days. The “Lohas” brand targets consumers aged 28-40, with a monthly salary above 4,000 RMB (580 dollars), which falls into the demographics of [Kaixin.com](http://www.Kaixin.com).

Later in 2009, COFCO launched a second wave of consumer education programs through television advertisements during prime time.

The timing is just right for COFCO to make a move towards promoting healthy food and lifestyle. Environmental protection and sustainability are hot topics in the international arena and have almost become household words. Food safety is a top priority for consumers after the melamine scandal occurred in 2008 and continued in 2009. Thanks to COFCO’s commitment to promote natural and organic products, large scale marketing activities are being implemented through main-stream media and new media. Consequently, more and more consumers will get a better understanding of what natural and organic products are and what benefits they can generate in terms of health and the environment.

Almost at the same time COFCO launched their first natural & organic product lines, Lucerne Foods in the U.S., identified a partner in China to import the Safeway “O Organic” and “Eating Right” range. In the first stage, Lucerne Foods is selling 100 Skus of the “O Organic” range and 20 Skus of “Eating Right” products to Shanghai. Post helped Lucerne Foods and its importer in China to better understand some of the key issues that may influence their product sales, which include the overall organic market in China and general organic regulations and their implementation. Post also provided information on market entry techniques. For more information on the Shanghai organic retail market, please refer to

GAIN Report CH8821 .

However, challenges remains for the exports of U.S. organic products to China. In 2005, the Standardization Administration of China (SAC) and the General Administration on Quality Supervision, Inspection and Quarantine (AQSIQ) jointly issued the National Standards for Organic Products, GB/T 19630-2005. For an unofficial translation of the current organic standards in China, please refer to **GAIN Report CH5054**. China does not allow foreign assessment bodies, such as USDA, to accredit certifiers. Nor does it allow equivalence agreements with other countries. US producers, even though they are USDA certified, will not be allowed to use the Chinese term for organic unless they receive Chinese certification.

In the case of “O Organic”, although the packaging bears the USDA certification logo, the importer cannot claim the product is organic on any Point of Purchase promotional material unless they obtain Chinese Organic certification from a certifier accredited by Certification and Accreditation Administration of China (CNCA). Without Chinese certification, the O Organic products cannot be officially sold as organic. This put Lucerne Foods and its importer into a dilemma. As “O Organic” is a new brand in China, it requires some education and the credibility of being certified organic. It will be essential to market the products using the organic label as a selling point. However, the importer is not allowed to do so openly.

Nevertheless, the importer believes it is not very practical for them to apply for the Chinese organic certification even for part of the “O Organic” products, if not all, because of several factors. First, it is too early to tell which ones will be successful in the China market. Second, the cost of applying for the organic certification for one product is not cheap- about 20,000 RMB (US\$3,000) every year, plus the cost of travel and accommodation for the inspector. Third, the 100 Skus of O Organic products are produced in a number of different facilities, which makes certification less cost effective.

Usually, given the relatively low volume of imported organic products sold in China at the moment, local importers and distributors avoid Chinese organic regulations by not claiming that the imported products are organic. However, some exporters, with a longer-term view, have applied for Chinese certification to better market their products. For example, some French organic wineries have applied for the Chinese certification and some German exporters are doing the same. One of the solutions for small-to-medium organic food manufactures is that they could apply for Chinese certification through the same certifier at the same time. The travel cost could be shared among the different manufactures.

Conclusion

BioFach China has gained a firm foothold, and has enjoyed a steady increase in both exhibitors and trade visitors over the past three years. It is now the biggest and most influential international organic trade show in China. To attract foreign exhibitors, Post suggests that the show organizer offer value-added services to foreign exhibitors. These could include setting up buyer meetings and introducing importers/distributors to the exhibitors. In addition, consultations on market entry, especially organic certification issues, would be useful. The conference running in parallel with the show is a good platform to keep updated with the latest market trends in China and to educate Chinese counterparts and consumers about the U.S. organic industry, regulations and product availability.

If more giant Chinese food manufactures step into the organic industry, investing large sums of dollars in consumer education, U.S. organic food exporters may benefit from the accelerated expansion of the Chinese organic industry. However, policy issues on equivalency or recognition of other countries' regulation need to be worked out to allow smoother trade and marketing.

Cost and Contributions

Item	Expense	Budget Source
reception	\$ 1,200	ATO Shanghai
booth decoration	\$ 500	OTA
booth assistant/interpreter	\$ 450	OTA
car rental	\$ 120	OTA
Total	\$ 2,270	

Contact Information and Useful Websites

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