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### **Health and Nutritional Food in China**

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**Report Highlights:**

Functional foods are making inroads into Chinese diets with their promises to improve health and nutrition, and reduce the risk of chronic health problems. Growing at an average rate of 15% annually, the total sales of nutrition and health foods in China reached an estimated RMB 200 billion (USD 32 billion) in 2011.

In this report we try to describe this dynamic and fast growing market, analyze the strengths and opportunities of U.S. health foods, functional foods, dietary supplements and ingredients in this market. We also provide a road map for U.S. exporters interested in making their products available in China.

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## **Executive Summary**

Functional foods are making inroads into Chinese diets with their promises to improve health and nutrition. Dietary related health problems are on the rise in China, and Chinese consumers are becoming increasingly health conscious.

Today, Chinese consumers are more willing to choose nutritional and healthy food to maintain general health and reduce the risk of chronic health problems such as diabetes and obesity. Increased disposable income is making health and nutritional food more affordable. Improved distribution channels, education and marketing campaigns are also contributing to the fast growth of the health and nutrition food market.

Growing at an average rate of 15% annually, the total sales of nutrition and health foods in China reached an estimated RMB 200 billion (USD 32 billion) in 2011. Continued strong growth is forecast. This is due to strong government support and steadily growing demand from Chinese consumers.

There are different definitions of health and nutrition food in China, and definitions also vary by country. In this report, we divide nutrition and health food into three categories: 1) Health Food (in Chinese Bao Jian Shi Pin), 2) Dietary Supplement, and 3) Better For You (BFY) products. We also analyze the strengths and opportunities of U.S. health foods, functional foods, dietary supplements as well as ingredients in China. These include dairy, tree nuts, fruit and fruit extracts and soy products. We try to describe this dynamic and fast growing market. We cover its size, the competition, trends, and provide a road map for U.S. exporters interested in making their products available in China.

## Section I Market Summary

### 1.1 Definition and Categories of Nutrition and Health Food in China

Rapid economic development and an ever increasing health consciousness among Chinese consumers have fueled the nutrition and health food market in China during the past twenty years. More consumers are making a direct link between diet and health, and seeking out foods that can help with weight control, disease prevention and stress management. In this report, we divide nutrition and health food into three categories: 1) Health Food (in Chinese Bao Jian Shi Pin), 2) Dietary Supplement, and 3) Better For You (BFY) products.

According to the Decree of the State Food and Drug Administration issued by China's **State Food and Drug Administration (SFDA)** in 2005, there are two categories of nutrition and health food products – the “Health Food” and “Dietary Supplement”. Both must register with SFDA and be evaluated by its authorized facilities before they are launched.



“Health Food” (Bao Jian Shi Pin) refers to a food claiming that it has certain health-improving functions or is able to supply vitamins and minerals. It is good for a particular group of people and able to adjust body functions. But, it is not used to cure diseases. It will not have any form of harm whether it is acute or sub-acute or chronic. Currently there are 27 functional claims permitted to be printed on the labels of these products. “Health Food” must register with SFDA so that they can print the logo of “Bao Jian Shi Pin”, or the so-called “blue cap” on its label, together with the functional claims.

“Dietary Supplements” refer to products that supplement vitamins and minerals instead of energy. Its function is to supplement the routine diet to prevent the deficiency of certain nutrients and lower the risk of certain chronic and degenerative diseases. Dietary Supplements cannot claim any functions on their labels.

Apart from health food and dietary supplements, there is a third category of products, the so called “Better for You” (BFY) products. BFY products are manufactured as ordinary food with Quality Safety (QS) certifications, and they claim that the products are “low in”, “high in”, “fortified” or “free from” on the label. They include lower sugar beverages, vitamin-enhanced fruit juices, probiotics drinks, infant formula, foods for diabetics, organic products, Vitamin A-fortified wheat flour, herbal tea, herbal liquor, and donkey-hide gelatin.

The common features of the three categories of nutrition and health foods products are that they claim to maintain and enhance the wellness of people via dietary intervention. In this report, we will analyze the markets, competition and trends in China's nutrition and health food industries, and opportunities for U.S. products both as ingredients and as branded products in this dynamic market with huge growth potential.

### 1.2 Market Overview

Dietary related health problems are on the rise in China. Meanwhile, Chinese consumers are becoming increasingly health conscious. As a result, functional foods are making inroads into Chinese diets with their promises to improve health and nutrition.

Today, Chinese consumers are more willing to choose nutritional and healthy food to maintain general health and reduce the risk of chronic health problems such as diabetes and obesity. Increased disposable income is making health and nutritional food more affordable. Improved distribution channels, education and marketing campaigns have also contributed to the fast growth of the health and nutrition food market.

Growing at an average rate of 15% annually, the total sales value of the nutrition and health food in China reached an estimated RMB 200 billion (USD 32 billion) in 2011. There are over 16,000 manufacturers of nutrition and health food in China. About 1,300 have the Good Manufacturing Practice (GMP) certification to produce Health Foods defined by SFDA. They have registered products with SFDA, so that they can print the so called “blue cap” with “health food” wording on the label. At the same time, there are around 15,000 manufacturers producing “Better for You” (BFY) food products in China.

According to the statistics from the official website of SFDA, the number of registered domestic health food with the “blue cap” is 11,653, and the registered import health food items was 665 at the end of August 2012. It is estimated that the number of food products with fortified nutrition but without the “blue cap” was around 30,000 in mid of 2012.

### 1.3 Major Players in the Market

Domestic nutrition and health food manufacturers are mainly located in east China; 50% of them operate in the top six production bases of Beijing, Guangdong Province, Shandong Province, Zhejiang Province, Shanghai and Jiangsu Province. The rest are spread throughout central China, such as Hubei province and Jiangxi province, and north China, such as Liaoning province and Heilongjiang province.

#### Major health food manufacturers in China 2012

Company	Main Products	Sales (Million USD) Jan-June 2011	Growth % over same period 2010
By-Health Biotech Co., Ltd.	Proteins/vitamins/minerals	102	90.32%
Jiangzhong Group	Functional drinks/multi-vitamins/ginseng and ganoderma lucidum products/digestion tablet	89	87.71%
Zhejiang Conba Pharmaceutical Co., Ltd.	Bee Propolis/nutrition supplements	18.4	48.10%

San Jing Pharmaceutical Co., Ltd.	Bee Propolis products/functional drinks/ herbal extracts	75.4	41.30%
Real Nutraceutical	Amino Acid tablets and drinks/ protein powder/herbal tea	266	32.55%
Shandong Dongeejiao Group	donkey-hide gelatin products	360.5	26.12%
Hangzhou Tianmushan Pharmaceuticals	Herbal extracts	6.9	25.71%
Joincare Pharmaceuticals	Functional drinks/American ginseng products	54.8	23.84%
Ziguang Guhan Group	Functional drinks	39.7	17.76%
Neptunus Biotech Group	Colostrum/American ginseng/baby functional food	51.7	13.89%
Shanghai Jiaoda Onlly Ltd.	Functional drinks	44.7	12.25%
Bishengyuan Tea Group	Herbal tea	131	-4.37%
Harbin Pharmaceutical Group	Functional drinks	105	-14.16%
Hainan Yedao Co., Ltd.	Herbal wine	65.7	-20.72%
Kingworld Medicines Group	Fish liver oil/American ginseng/vitamins	3.5	-45.00%

Source: China Health Care Association

Some large-scale health food and dietary supplement manufacturers are focusing on OEM manufacturing for overseas customers. Rongcheng Baihe Bio Group, for example, is the leading OEM manufacturer with annual production capacity of over 8 billion pieces. They produce over 1,200 categories of nutrition supplements in soft capsules, tablets, hard shell capsule and pills for customers from over 40 countries. In the last two years, they launched their own brands -Hongyangshen and Baihekang- targeting the domestic market.

Leading international players entered China in the 1990s. Amway broke ground for its first plant in Guangdong Province in 1992, and brought the dietary supplement concept into China. Their Nutralife health food products portfolio has gained high popularity among Chinese consumers. In 2010, Amway China's sales exceeded USD 3.5 billion, making China Amway Group's biggest market.

Wyeth introduced Centrum multi-vitamins into China as early as 1993. Since then, its health food products, including infant formula, have achieved huge success and became one of the leading brands in health food and baby food in China. Wyeth has invested over USD 530 million and established state-of-the-art plants to manufacture health food in China.

NBTY landed in China officially in 2006, and established the NBTY China Trading Company which introduced the Nature’s Bounty, MET-Rx Engineered Nutrition and American Health portfolios to the China market.

After the failed merger with Shanghai Bright Food Group, the biggest food processor in east China, GNC entered China and established a trading company in Shanghai in 2011. So far GNC has 77 SKUs health food products in 13 categories. These include herbal supplements, vitamins, collagens, proteins, dietary fibers are being imported as ordinary food products, and are available at pharmacies, chained retailers and online food stores.

Some other American brands’ dietary supplements have been imported into China in recent years. These include Vitamin E soft gels from Warner Health Products, Inc., Crangel from America Advanced Nutritional Technology Inc, cranberry concentrate and grape seed extract with vitamin C from Schiff Nutrition International, and colostrum tablets from U.S. Hill View Pharmaceuticals Inc. The list of the imported dietary supplements is available on the website of SFDA ([www.sfda.gov.cn](http://www.sfda.gov.cn)). In addition, RICHLIFE from Singapore and DHC from Japan are also expanding aggressively in China.

#### **1.4 International Trade of nutrition and health food and ingredients**

The U.S. is the biggest producer of dietary supplements in the world, and China is the biggest health food ingredients supplier in the world. It is estimated that 60-70% of the dietary supplement ingredients in U.S. are supplied by Chinese manufacturers.

The United States’ Dietary Supplement Health and Education Act of 1994 expanded the definition of health food to include vitamins, herbs and other botanicals used to supplement total daily intake, and created a positive environment for the development of herbal medicines. The most frequently purchased herbal supplement ingredients in U.S. market include Ginkgo, Garlic, Aloe Vera, Echinacea, St. John’s Wort, Green Tea, Saw Palmetto and Black Cohosh.

U.S. is the main herbal extracts importer from China. The main herbal extract that China exports to the U.S. is licorice extract products. In addition, some other plant extracts with medical functions also enjoy good sales and growth potential in U.S. During Jan-May 2012, 414 Chinese enterprises exported herbs and Chinese medicines that valued nearly USD 136 m.

#### **2011 China Health Food and Ingredients Import & Export (USD million)**

Product	Import	% growth v.s. 2010	Export	% growth v.s. 2010
Health Food	145	62	206	115
Extracts	221	68	1,129	47
Herbs and products	349	36	997	18
Total	715		2,332	

*Source: China Chamber of Commerce for Import & Export of Medicines & Health Products*

Meanwhile, China's imports of health food and ingredients are also growing rapidly. U.S. suppliers of both branded products and ingredients enjoy competitive advantages in extracting technology, processing safety, and quality. For example, Yangshengtang Group headquartered in Hangzhou, Zhejiang Province, a leading Vitamin E soft capsules manufacturer in China market with over 50% market share, insists on importing Vitamin E from U.S. suppliers. Rongcheng Baihe Bio Group also keeps importing soybean lecithin from U.S. suppliers for its soybean extract soft gel products.

Section V of this report will discuss other U.S. health foods and ingredients, including dairy, tree nuts, fruit and fruit extracts and soy products.

## **Section II Consumption trend of Nutrition and Health Food in China**

More and more Chinese consumers are regularly consuming nutritious and healthy food. The most important factors that influence the decision-making of Chinese consumers when purchasing health food products are effectiveness and safety, a trustworthy brand, user-friendliness, and pricing. While a large portion is for self use, many buy these products as gifts for their family members, friends and business customers. Therefore packaging is also important to consumers.

### **Key Trend 1: Improved Living Standards and Government Support Continue to Drive Market Development**

Rising disposable incomes, enhanced health consciousness among consumers, improved distribution and better educated consumers all contribute to the constant growth in nutrition and health food market of China.

Research indicates that in China, urban populations have a higher demand for health food and consume these products more regularly than rural populations. According to statistics from China's Ministry of Human Resource and Social Wellness, the urban population reached 51.27% in China's total population at the end of 2011. This is creating huge demand for nutrition supplements and health food.

At the end of 2011, the health food sector was listed among the key industries to develop in the Food Industry 12<sup>th</sup> Five-Year Plan. For Nutrition and Health Food, the target is to have the output value amount to RMB 1000 billion (USD 160 billion) by 2015 with annual growth rate of 20%. They also want to see more than ten enterprises emerge with annual sales value exceeding RMB 10 billion( USD 1.6 billion), and the top 100 enterprises' production take at least 50% of the total industry in China. With government intervention, it is predicted that the sector will continue to grow rapidly and steadily, and consolidation of manufacturers will be encouraged over the next five years.

### **Key Trend 2: Food Safety Concerns Steer Consumers towards Safe Products**

A series of food contamination scandals in China have fueled demand for safe processed food and beverages. Imported foods from developed countries have enjoyed robust growth thanks to Chinese consumers' confidence in them. An import food label indicating the products are made in U.S, Europe

and Japan sells itself to high-end consumers - especially in first-tier cities. Famous brands and large manufacturers with a long history are regarded as a guarantee of the food safety.

In Aug 2012, local press reported that a subsidiary of the public-listed Joincare Pharmaceutical Group used reprocessed cooking oil – otherwise known as ‘gutter’ oil – to make a widely used antibiotic in China. Jiaozuo Joincare Biological Product, a unit of Joincare, reportedly bought 14,700 tons of gutter oil, or the recycled cooking oil from a company called Huikang Grease Co., which is facing prosecution over its alleged processing and selling of thousands of tons of gutter oil in 2010 and 2011. The recycled oil is much cheaper than the more expensive soybean oil which is used to make 7-aminocephalosporinic acid, or 7-ACA, a chemical for produce cephalosporins. While this report is being written, SFDA is still investigating the charge after media released this “secret”.

Joincare is not only a pharmaceutical giant, but also owns several famous health foods brands, including functional drinks and tablets. Despite the statement from Joincare that it didn't know the oil was made from recycled oil, consumers’ confidence in the Joincare brand was seriously damaged.

### **Key Trend 3: More Consumers Read Labels before They Buy**

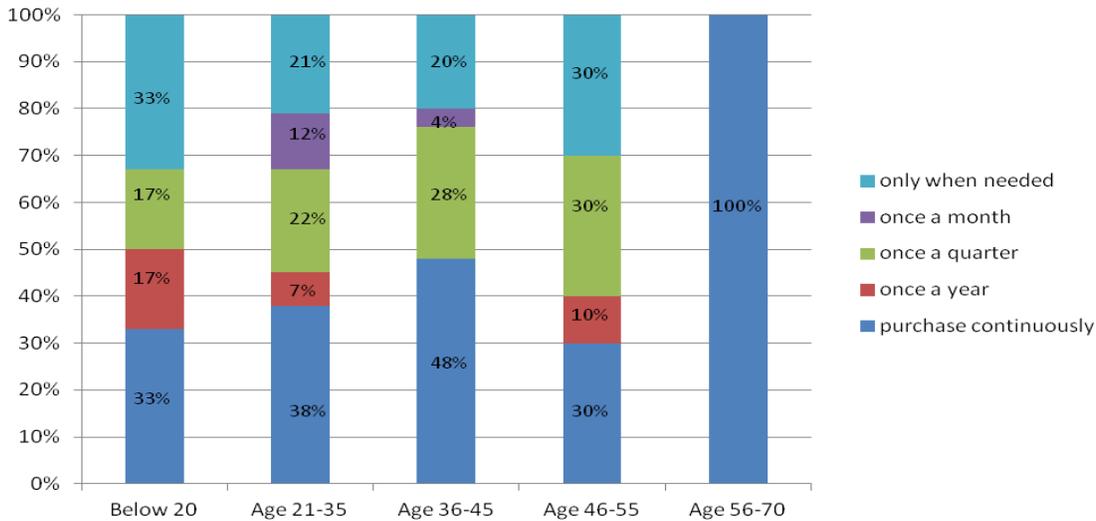
Although most people learn about health food from media advertisements in television, radio, newspapers, magazines, and the internet, food labels are still considered the most useful source of health and nutrition information for better educated consumers.

Interest in natural foods and ingredients is becoming a trend that powers innovation in BFY food and beverages. The wording “no food additives”, “no fragrance”, “no preservatives”, “organic”, “green”, “no trans-fat acid”, “0 cholesterol”, “whole-grain” are seen more and more frequently in packages, more and more consumers carefully check nutrition labels on packages to find signs to convince them to buy – low-sugar or sugar-free, low-salt are favored.

### **Key Trend 4: Senior Nutrition – the Key Driver in Health Food**

According to a survey conducted by the China Health Care Association in 2009, nearly half of the consumers between the ages of 36 and 45 purchase health foods continuously. This group of consumers normally are making the highest incomes in their lives, but meanwhile are under the multiple pressures from their work, raising teenage children and taking care of their elderly parents, hence more likely to have sub-health problems. The group aged 56 and higher almost all consume health food regularly. This group of consumers normally pays more attention to their health than other expenditure items such as housing, clothing and dining out. A large portion of their health and wellness food is given by their family members as gifts.

Health product consumption habit by ages



Source: China Health Care Association 2009

China’s population of citizens over the age of 60 exceeded 185 million at the end of 2011, accounting for 13.7% of the total population. It is estimated that the aged population will continue grow and amount to 400 million by 2033. Demand for products that protect the heart, help with Anti-hyperlipidemic conditions, improve bone and joint health, and improve sleep will remain high.

**Key Trend 5: Kid’s Nutrition – Huge Potential**

In China, around 16 million babies are born every year. The One-Child Policy, which allows most Chinese families only to have one child or face stiff penalties, ensures that the majority of families only have one child. Attention is lavished on those children both by their parents and grandparents. This means that spending per child is relatively very high.

According to Euromonitor, baby food witnessed 22% value growth in 2011, with total retail sales exceeding RMB 68 billion (USD 10.8 billion). Although sales of baby milk formula accounted for about 90% of the value of sales in the baby food sector, prepared baby food saw the most dynamic growth in value -- 27% in 2011. It is predicted that baby food will see on-going dynamic growth in the coming years; baby foods that improve brain development and immune system of babies, and cater well to consumers’ needs convenience and easy-to-serve features will be especially welcomed.

In this much less price-sensitive sector, imported baby food and food made of imported ingredients that can guarantee safety sell well. This has driven some large domestic manufacturers, such as Bright Dairy and Wahaha Group, to contract manufacture their products in Australia, New Zealand, and European countries and then import the products into China.

**Key Trend 6: Save the Sub-Health Population**

Consumption of health products targeting those that suffer from health problems, usually the white-collar population, are growing the fastest in China.

It is estimated that 70% of Chinese are suffering from some sort of sub-health deficiency. They do not have organic or functional diseases and disabilities, but feel uncomfortable, fatigued, inactive, and are always in a state of anxiety and annoyance. Physicals may find higher blood pressure, blood sugar, blood viscosity, being overweight, or an under-active immune system. This creates demand for relevant health food and dietary supplements that can ease or prevent such symptoms.

This section of consumer needs energy foods and drinks that are easy-to-serve, good dietary fibers to help with weigh-management, and improve their sleep and memory. Female consumers are normally very willing to spend money on those products that bring them “beauty inside and outside”. That explains why collagen products and anti-oxidant fruit and herbal extracts are increasing on retailers’ shelves.

### **Key Trend 7: Consumers Need Help with Digestion**

About 30% of Chinese citizens suffer from functional dyspepsia to some extent. More women than men suffer dyspepsia. There is high awareness among Chinese consumers that dietary fibers and probiotic products help with digestion.

While traditionally yogurt has a very positive image in China, dairy manufacturers are working to transform yogurt into a Super Food with function to improve digestion and control weight. Functional yogurts can include probiotic or pre-biotic cultures. Active cultures are promoted as protection for the immune system and aides to digestion. Furthermore, functional yogurts are frequently further fortified with fiber such as whole grain and fruits, additional levels of calcium or antioxidants to increase their health benefits, so that they can gain more popularity among consumers.

### **Key Trends 8: Service with a Product Creates Competitive Edge**

With the fast development of the health food industry, competition has also intensified. Innovative new health food products keep being created and launched. Although China has a long history of manufacturing health food with herbs and traditional Chinese medicine ingredients, the health benefits of many new ingredients and new format health food are unknown to many consumers. Education and value-added service can help manufacturers differentiate themselves from competitors.

The Chinese government strictly controls health food enterprises that adopt multi-level marketing (direct sales), and issues permits very cautiously. However, once they get a permit, “direct sale” health food enterprises can grow dramatically, thanks to the unique mode of one-on-one communication about the benefits of the products.

As pricing information is becoming more and more transparent and distribution channels increase, good services help drive the choices of consumers in China, educate consumers, raise awareness of the health benefits of the products efficiently, provide in-time guidance on and easy access to the products, and creates loyalty.

### **Section III Distribution Channels**

There are four main distribution channels for health products in China, and the growth rate of these channels varies. In China, the traditional mass market channel that includes mass merchandisers, drug store chains, supermarkets, convenience stores and club stores still dominates the distribution of Health Foods with the “blue cap” and dietary supplements.

The growth of the direct sales industry (multi-level marketing), which uses the person-to-person mode of communication for elaborating the benefits of supplements, is also driving the growth of nutritional supplement market. The Chinese government issues licenses very cautiously to companies focusing on this distribution channel, but once they procure such licenses, these enterprises can develop rapidly.

Chinese consumers are beginning to seek nutritional advice from professional nutritionists at hospitals. This is driving the development of the health practitioner channel as a new channel for nutritional supplement sales.

#### **Traditional Channels – Mass Market (Supermarket & Pharmacy)**

The traditional channels at supermarkets, pharmacies and shopping malls remain the most important distribution channels for health food, dietary supplements and BTY foods in China.

Chongqing Tongjunge Chain Drugstore, Shanghai Huashi Pharmacy, Shenzhen Nepstar Chain Drugstore, Wal-Mart, City Super, City Shop, Sam’s Club, OIE, and Watson’s are the leading channels for retail of the nutrition and health food products.

#### **Professional Health Food Stores**

Professional health food stores are emerging as an important distribution channel for health food and dietary supplements. Most of them are sales centers established by health & nutrition food manufacturers, such as Tongrentang, Tonghanchun, and NBTY. Some third party professional stores have gained consumer confidence, for example, Richlife under OSIM International Ltd. from Singapore. Having entered Shanghai in 2008, Richlife now has stores in over twenty cities in China; they offer 100% imported nutritional supplements that are made in U.S., Europe, Japan and Taiwan.

By 2011, there were around 30,000 professional health food outlets in China.

#### **Multi-level Marketing (Direct Sales)**

Multi-level marketing, or called “Direct Sale” in China, is developing under strict government control. The structure is easily abused and turned into illegal pyramid selling - a way of selling goods or services through distributors by promising to pay commissions through two or more levels of recruits, also known as network marketing or matrix marketing. The government holds a very cautious attitude toward this distribution channel. By July 2012, China’s Ministry of Commerce had issued licenses to 30 enterprises to conduct multi-level marketing in China market. American enterprises including Amway, Avon, Mary Kay, NU Skin and Herbalife are in the list.

#### **E-Commerce and Mail Order**

China has the largest internet population in the world. According to China Internet Network Information Center (CNNIC), internet users in China exceeded 538 million by the end of June 2012. E-commerce users amounted to 193 million by end of 2011, and are forecasted to reach 300 million by 2015-- with sales value of up to USD 350 billion.

Of the top 100 retail chains operating in China, 59 had online stores at the end of 2011. E-commerce has emerged as an important channel that cannot be ignored.

Many health food and dietary supplement brands, whether focused on the traditional channel, or on professional health food stores, have opened online stores as an important supplement to the main distribution channels. Herbalife and GNC all have very nicely designed online stores; they not only provide easy access to internet users, but educate consumers about the benefits of their products with a large amount of health information.

Mail order, TV and telephone, combine with advertising on traditional media play important roles in health food distribution.

**Section IV Market Entry**

**4.1 The Relevant Supervision Regulation System**

China is working to strike a balance between the need for consumers to have access to and information about safe and effective dietary supplements, while also protecting the public from unsafe products and misleading claims.

The regulatory system on health food has experienced three periods since 1996.

<b>Period</b>	<b>Laws &amp; Regulations</b>	<b>Regulatory Authority</b>
1996-2003	The Administrative Measures for Health Food	Ministry of Health (MOH)
2004 to date	The Administrative Measures for Health Food Registration (Interim)	State Food and Drug Administration (SFDA)
2008.9 to date	Food Safety Law (2008) Food Safety Law Implementation Regulations (2009) Health Food Supervision Administrative Regulations (not effective yet) Health Food Registration Regulation (not effective yet )	State Food and Drug Administration (SFDA)

The English translation of the Administrative Measures for Health Food Registration (Interim), provided by Office of Agricultural Affairs of FAS China, can be found at <http://www.fas.usda.gov/gainfiles/200506/146130070.pdf>

**4.2 Functional Health Food Claims**

There are 27 functions that can be claimed according to regulations from SFDA. These function claims will be reduced to 18 with the merging of certain claims and the elimination of others at the end of 2012, according to the new regulations by SFDA published on its website.

Original Functional Claims (27)	Intended New Functional Claims (18)
1. Strengthening the immune system	1. Help Strengthening the immune system
2. Auxiliary Anti-hyperlipidemic	2. Auxiliary Anti-hyperlipidemic
3. Auxiliary hypoglycemic	3. Auxiliary hypoglycemic
4. Anti-oxidant	4. Anti-oxidant
5. Protection against chemical liver injury	5. Help to lower liver injury by alcohol
6. Alleviate physical fatigue	6. Help alleviate physical fatigue by sports
7. Auxiliary lower blood pressure	Intended to be abolished
8. Lose weight	7. Help to lower body fat
9. Improve the nutritional anemia	8. Help improve the iron deficiency anemia
10. Promote excretion	9. Help improve gastrointestinal functions
11. Improve intestinal flora	
12. Protection of gastric mucosal	
13. Promote digestion	
14. Increase bone density	10. Help increase bone density
15. Improve sleep	11. Help improve sleep
16. Promoting excretion of lead	12. Help excretion of lead
17. Improve memory	13. Help improve memory
18. Promote lactation	14. Help improve lactation
19. Alleviate eye fatigue	15. Help alleviate eye fatigue
20. Removing chloasma	16. Help promote health of face skin
21. Removing acne	
22. Clear throat	17. Clear throat
23. Improve anoxia tolerance	18. Help improve anoxia tolerance
24. Improve skin moisture	Intended to be abolished
25. Improve skin oil content	Intended to be abolished
26. Improve body growth and development	Intended to be abolished
27. Auxiliary protection against radiation hazards	Intended to be abolished

### 4.3 Import Health Food Registration

All imported health food must be registered with SFDA. Appendix I shows the application form, which is available at <http://eng.sfda.gov.cn>. The applicants for the health food product must be the manufacturer's branch facility or their agents in China.

The documentation that an applicant must provide includes one original and eight copies of the product formula, the list of functional ingredients, contents, and testing method for functional ingredients, the manufacturing process, product quality specifications, test certificate issued by testing institute, product package including labeling, and documents indicating that the product has been allowed to be produced and sold in the manufacturing country or region for at least one year. Two samples of the smallest retail package of the product are also required to be provided together with the application documentations.

First, before registering with SFDA, the product must pass the examination and evaluation by designated institutions authorized by SFDA. Currently the institution is Chinese Center for Disease Control and

Prevention (CDC) and its branches in different provinces of China. The specific agency to handle the examination is the Institute for Nutrition and Food Safety under CDC. The examination includes toxicology testing, functions testing (animals/human), stability testing, and hygiene testing.

After the product passes the examination, the applicant will be able to submit the application to the Service Center of Administrative Admissibility of SFDA, who will review the application within 85 days upon receiving it. A technical review conference with scientists and experts with various technical backgrounds is normally held once a month by SFDA. The expert panel will review the application documentation and provide comments. The applicant is granted five months to supplement the documentations during the evaluation period.

After gaining approval, the products will be issued an import health food permit certificate, and can enter China market with the “blue cap” and the GuoShiJianZi wording on its label.

The whole application period varies from half a year to two years, and the cost ranges from USD 4,500 to USD 24,000.

The certificate is valid for five years. Enterprises that need to extend the validity of the approval certificate for health food should apply to SFDA three months prior to its expiration.

The application takes a long time and the cost is relatively high for both domestically manufactured and imported health foods. Because of this, some enterprises have taken the approach of manufacturing and importing health foods as an ordinary food without applying for the “blue cap”. Some products and ingredients - for example, grape seed extracts, blueberry extract, dried prunes, colostrum, lycopene, and wheat germ oil - that have already gained high awareness of their health benefits among consumers, enjoy stable demand in the market even if they do not have the “blue cap”.

However, trade sources report that the authorities will restrict the import of health foods and dietary supplements in tablets and capsules, and will not allow them to be imported without applying for the “blue cap”. It is not clear when the new measures will take effect, nevertheless, these rumors have discouraged some importers from importing more new varieties of health foods.

#### **4.4 Novel Health Food Ingredients**

If the ingredients for a health food are ordinary food ingredients, they are under the administration of the National Food Safety Standard for Nutrition Labeling of Pre-packaged Foods (TBT/N/CHN/734), Safety Standards for Food Additives Usage (GB 2760), and Safety Standards for Food Fortifier Usage (GB 14880). Please refer to GAIN Report CH 10022 prepared by OAA Beijing of USDA/FAS China for details on nutrition labeling.

Health food may contain new ingredients that are not allowed in ordinary food products as long as the new ingredients are approved according to the Administrative Measures on Food with New Resources issued by MOH in 2007.

According to these Measures, China will examine and approve the ingredients of the food rather than the food itself. Enterprises or individuals that are going to use novel ingredients must submit their product to MOH for examination and approval prior to the initial appearance of the food in China. MOH publicly posts the list of approved new ingredients on its website. No application is required for those that are essentially the same as the announced food ingredients.

The Measures also simplified the examination and approval procedures of food with novel ingredients. Enterprises are not required to submit all testing reports, but only to supplement corresponding materials based on the appraisal of expert evaluation committees.

**Section V: Strengths and Opportunities for U.S. Health Foods and Ingredients in China**

In addition to SFDA-certified health food ingredients, the U.S. supplies a variety of Better For You (BFY) foods and ingredients to the Chinese market, including dairy, tree nuts, fruit and soy products.

**5.1 Dairy Ingredients**

The U.S. is currently a major source of dry dairy ingredients in China with BFY properties, particularly whey products, which enjoy an increasingly robust market in China. U.S. suppliers also enjoy growing opportunities for milk powder, while U.S. colostrum products face challenging regulatory conditions that threaten to limit market expansion opportunities.

An efficient protein source, whey serves as a key ingredient in numerous health and functional food products. Chinese manufacturers of infant formula and children’s dairy drinks are major purchasers of U.S. whey products, as well as lactose, which are used to help mimic the nutritional content of breast milk. In 2011, the collective value of U.S. whey and lactose exports to China exceeded USD 270 million. Such products include sweet whey powder, whey protein concentrate (WPC) of 34% and 80% protein contents, and whey protein isolate (WPI).

*U.S. Dairy Ingredients Exports to China, 2007-2011(by Value, in Thousands of USD)*

<i>Product</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
<i>Whey Products (WPC, Dried Whey, Modified Whey)</i>	82,932	76,544	70,346	113,729	173,309
<i>Lactose Products</i>	28,964	16,609	25,476	37,300	100,156
<i>Non-Fat Dry Milk</i>	20,385	45,831	11,585	38,255	47,902
<i>Natural Milk Products NESOI (includes Colostrum)</i>	609	302	625	530	2,582

*Source: USDA*

Sales of U.S. whey and lactose products are poised to increase in the China market. U.S. whey and lactose ingredients, as well as milk powder, are also used in an increasing array of functional beverage and yogurt products. At the same time, whey’s advantage as an efficient protein source positions it for increased applications in China’s fitness and health care industries. U.S. whey as a nutritional supplement is increasingly sold in gyms and boutique health food stores in first-tier Chinese cities.

U.S. colostrum serves as a cautionary tale for the Chinese BFY dairy product market. Colostrum is low in fat, high in protein, and rich with nutrients to promote immune system health. In China, it is predominately used in infant and toddler health products. Although New Zealand has traditionally been China's top colostrums suppliers, U.S. colostrum products were gaining ground in the market. However, in April 2012, China's Ministry of Health issued a ban on the use of imported infant formula with colostrum and children's health products made using colostrum powders in China citing health and safety concerns. The ban went into effect on September 1, 2012.

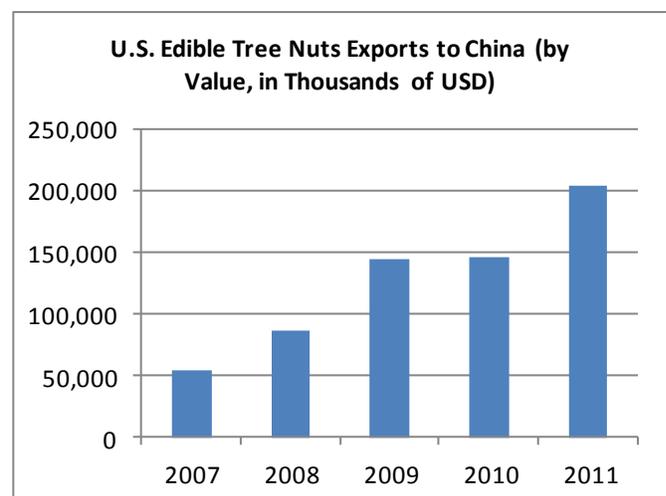
## 5.2 Tree Nuts

Tree nuts, including almonds, pecans, pistachios and walnuts are increasingly popular BFY health foods in China due to their well-known nutritional properties. The U.S. is the leading supplier of these nuts, with sales in China increasing four-fold from 2007 to 2011. U.S. tree nuts are a popular health food in China for three reasons. First, Chinese consumers are aware that these nuts have an FDA-approved health claim, "Scientific evidence suggests, but does not prove, that eating 1.5 ounces per day of most nuts, as part of a diet low in saturated fat and cholesterol, may reduce the risk of heart disease." Second, Chinese consumers trust the quality of imported products over domestically produced nuts. At the same time, tree nuts have long been used in Traditional Chinese Medicine (TCM); Chinese consumers naturally regard such nuts as possessing health properties.

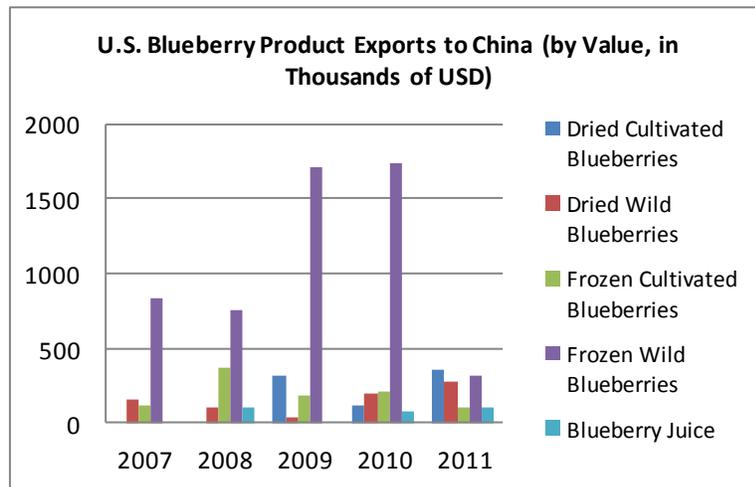
All four nuts are primarily imported into China still in the shell, where they are then roasted, seasoned, repackaged and sold to Chinese consumers in a snack format. Typically around 70% of the nuts will be used for this purpose, while 30% are processed into baked and confectionary goods. The new packaging will almost always indicate, in Chinese, the nuts' place of origin as the United States. Sales of the nuts are most robust during Chinese New Year. A brief description of the strengths and opportunities each nut is as follows:

**Almonds:** U.S. almonds differ from locally produced almond varieties due to their larger size and more mild taste than domestically-produced bitter almonds. There is growth potential for almonds' use as an ingredient. Due to their mild flavor, U.S. almonds and almond powder are ideal for combining with other flavors in beverage products and healthy breakfast porridges. Porridge is a traditional Chinese breakfast food, and Chinese value eating hot porridge made from a mix of grains and nutritious ingredients. Such products mostly target China's large and growing elderly demographic.

**Walnuts:** Although China also produces walnuts domestically, U.S. walnuts are typically of a larger and fleshier variety. U.S. walnut sales are most robust during the Chinese New Year, and they are an increasingly popular filling for moon cakes eaten during the annual Mid-Autumn Festival. There is strong potential for the use of U.S. walnuts as an ingredient in healthy breakfast porridges tailored towards the middle aged and older demographics.



**Pistachios:** U.S. pistachios exports to China have increased nearly 200% since 2007. The Chinese name for pistachio, *kaixinguo*, meaning “happy nut” has also helped establish pistachios’ popularity in China. The U.S.’ main major competition in China’s pistachio market is Iran. However, most Iranian pistachios are bleached when processed, which diminishes their nutritional content, whereas U.S. pistachios typically not bleached. U.S. pistachios in China will continue consumed primarily in snack are to be form. However, as China’s health-conscious middle class continues to grow, sales of U.S. pistachios are expected to rise in proportion. to new



**Pecans:** Pecans are relatively to China; consumers frequently conflate them with walnuts. However, Chinese consumers are increasingly aware of pecans role as one of the healthiest and most anti-oxidant-rich tree nuts available. Although pecans are traditionally harvested between October and December, growers are attempting to adjust the plating schedule to ensure the nuts are harvested and shipped to China in time for Chinese New Year.

### 5.3 Fruit and Fruit Extracts

U.S. blueberries, cranberries, prunes and raisins are BFY foods known to Chinese consumers for their health and nutritional properties, including high levels of anti-oxidants. U.S. pomegranate products will soon enter the Chinese market.

**Blueberries:** American blueberries are known to Chinese consumers for their high levels of anti-oxidants and beneficial properties for eye health. American blueberry products exported to China primarily consist of frozen blueberries and processed blueberry products. China currently has a restriction on imports of fresh blueberries from the U.S.

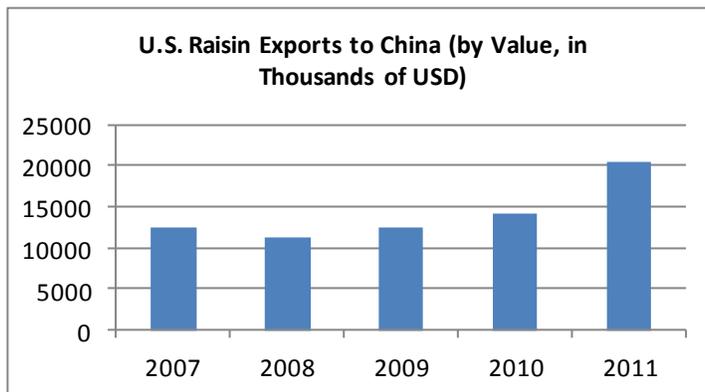
The U.S. produces two distinct types of blue berries. The first is wild, or low bush, blueberries primarily grown in the state of Maine. The other type is cultivated, or high bush, blueberries grown on farms in Michigan, Washington, Oregon and California. The latter primarily produces larger a larger berry that are sold to consumers as fresh blueberries. The former are usually smaller in size and are primarily processed into frozen blueberries for the export market. Wild blueberries are also considered to have a higher level of antioxidants that cultivated blueberries.

Frozen wild Maine blueberries have significantly decreased in the last two years due to the increase in Chinese blueberry cultivation, high tariffs, and Chinese certificate requirements. Future opportunities for U.S. blueberry products will primarily be in beverage manufacturing. From 2001 to 2011 the number of new products containing blueberries in China grew 11-fold and is expected

to continue developing. Blueberries' growing use in nutra-ceutical production also presents opportunities to U.S. blueberry suppliers.

**Cranberries:** Cranberries are native to North America and full of beneficial properties including high levels of anti-oxidants. U.S. cranberry products in China include juice and cranberry ingredients, the latter being primarily sweetened dried cranberries (SDCs) and cranberry concentrate. SCDs are typically either sold to consumers as a snack or used as an ingredient in the production of baked goods. The major supplier of cranberry juice and SDCs in China is the Massachusetts-based Ocean Spray, a cooperative accounting for 60 to 70 percent of global cranberry production.

U.S. cranberries will continue to find opportunities in China's beverage and snack markets. An increasingly number of Chinese beverage companies offer drinks manufactured with cranberry concentrate. While conducting research for this report, ATO Shanghai encountered functional drink manufacturers that either already purchased cranberry concentrate from the U.S. for their beverages and others that were currently developing products with cranberry concentrate. At the same time, as Chinese consumers are increasingly concerned with health and food safety issues, sweetened dried cranberries will likely continue to be a popular snack in China.



**Prunes:** American prunes, also known as American dried plums, are increasingly popular in China as a healthy and functional food ingredient. Chinese consumers are increasingly aware of prunes' digestive health properties, as well as their anti-oxidant and multivitamin content. China is now the third largest market for U.S. prunes, and U.S. prune exports to China have increased nearly over three-fold since 2009. U.S. prunes supply around 96% of the prune market in

China.

Prune products in China primarily consist of three types-- dried prunes, eaten as a snack, prune juice, drunk as a functional beverage, and prune concentrate, used in a variety of health drink formats for flavor and functional properties. The "all natural" characteristic of U.S. prunes distinguish them from domestically produced dried plums and other fruit with added sweeteners.

U.S. prune suppliers will benefit from prunes' increasing use in functional beverages. For example, prunes are a key ingredient in a new type of "beauty" beverage product sold in drug stores, such as the "Fu Mei Ying" line of drinks. The maternal products market also offers increasing opportunities to U.S. prune suppliers, as women look to prune products for their natural laxative properties during pregnancy.

**Raisins:** Traditionally U.S. raisins were destined for China's bakery industry. However, as California raisins are a natural, sun-dried food beneficial to oral health, they are gaining ground as a healthy snack option, particularly for children. An increasing number of Chinese firms are importing U.S. raisins and repacking them to sell in Chinese retailers.

Chinese raisins are typically produced in the northwest region of China from white or light green grapes. U.S. raisins, on the other hand, have a distinct dark color, a unique taste, and as an imported product, allay Chinese consumers' concerns of food safety. Furthermore, U.S. raisins have long been imported into Hong Kong, and as a consequence are frequently known on the mainland by their Cantonese name *tizigao*, which further distinguishes U.S. raisins as high-quality food products from domestically-produced raisins.

**Pomegranates:** Although China already produces several pomegranate varieties domestically, U.S. producers are intent on entering the Chinese market. Given the difficulty in procuring import protocol and licenses for fresh pomegranates, U.S. suppliers will likely see more opportunities in supplying pomegranate concentrate to high-end beverage manufacturers in China.

Although U.S. pomegranate concentrate is more expensive than Chinese pomegranates, U.S. pomegranates produce a much sweeter and anti-oxidant-rich concentrate that is ideal for juice drinks. High-end Chinese beverage manufacturers increasingly produce new concept juice drinks focusing on natural ingredients with functional and healthy properties. Once beverage manufacturers in China are consistently using U.S. pomegranate concentrate, the market may open for other U.S. pomegranate-based health products and ingredients. These include pomegranate powders for use as a nutria-ceutical containing polyphenol, an anti-oxidant.

#### **5.4 Soybean Products**

Although soy ingredients like soy protein concentrate (SPS) and isolated soy protein (ISP) are common ingredients produced in the U.S., the Chinese market for U.S. food soy products is limited. U.S. soy imports are crushed and used as edible oil and feed for livestock.

However, there are opportunities for U.S soy-based health products in the fitness industry. GNC and other supplement providers make prepackaged protein supplements containing soy that is manufactured in the U.S. and sold in boutique health food stores and gyms in China. At the same time, a health food manufacturer in Jiangsu province reported sourcing soy lecithin from the U.S.-based company Solae. A subsidiary of Du Pont, Solae is one of the world's leading soy ingredients manufacturers.

## APPENDIX I: Application Form for Import Health Food Registration

Acceptance number: GuoShiJianShen J
Acceptance date: ____ (Month) ____ (day), ____ (year)

Application Form for Registration of Import Health Food

Chinese Name of Product \_\_\_\_\_

State Food and Drug Administration

### Instructions

1. Copies (photocopies) of this Form are not valid.
2. This Application Form and all submitted materials must be printed.
3. This Form should be complete, clear and without modifications.
4. Before filling out this Form, applicants are advised to read related regulations of application and acceptance. The product application will be rejected if it does not comply with the application requirements.

Name of product	Chinese		
	English		
Manufacturer	Chinese		
	English		
Manufacturing country or region		Address	
Applicant			
Address			
Telephone		Postal code	
Fax		Contact person	
Health functions claimed			
<p>Guarantee of applicant</p> <p>We guarantee that any contents or attached materials associated with this Form are correct and lawful, and that any data in the attached materials are results of research and tests conducted on the Fungus. If any wrong information is found within this Form and the attached materials, we are willing to be held responsible for it accordingly and be ready to take its consequences.</p>			
<p>_____ Manufacturer (Signature and Seal)</p>		<p>_____ Legal representative (Signature and Seal) (Month) ____ (day), ____ (year)</p>	
<p>_____ Applicant (Signature and Seal)</p>		<p>_____ Legal representative (Signature and Seal) (Month) ____ (day), ____ (year)</p>	

Attached materials (please check submitted materials with a "✓")

- 1. Application Form for Registration of Import Health Food
- 2. Product formula and evidence
- 3. Functional ingredients, contents, and testing methods for functional ingredients
- 4. Manufacturing process and a flow chart describing them
- 5. Product quality specifications (enterprise specifications)
- 6. Test certificate issued by testing institute
- 7. Product package including labeling
- 8. Product insert sheet
- 9. Trust deed that demonstrates that the applicant is empowered to act for whom it works for
- 10. Documents that show that the product is allowed to be produced and sold in Manufacturing Country or Region
- 11. Other materials that might be helpful for application review
- 12. One pack of sealed sample product

Other issues to be specified: