



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 11/10/2008

GAIN Report Number: CH8821

China, Peoples Republic of

Organic Products

Shanghai Organic Retail Market Profile

2008

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Report Highlights:

The organic market in China has been growing at an annual double digit rate over the past decade. The growing population of middle class in Shanghai is taking the lead in purchasing organic food products. Regular retailers, along with organic food specialty shops, are able to offer a wide range of organic products to keep up with consumers' changing lifestyles and mindset. Increased awareness of nutrition, health, ever expanding incomes and the latest worries over food safety are the main factors in driving the demand for organic products in Shanghai. For most U.S. organic food exporters, exhibiting organic products at trade shows is an effective way to promote the U.S. organic products and test the market. Price differences compared with conventional products and competition with imported organic products from other countries remain the major challenges for U.S. organic products.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Shanghai ATO [CH2]
[CH]

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Background: organic markets in China

The organic market in China has been growing at an annual double digit rate over the past decade. The early stage of organic farming in China was initiated by the demand from foreign countries. In 2005, the Chinese government issued regulations on organic food products, which laid a solid foundation for the sound development of the domestic organic market. Increased awareness of nutrition, health, and food safety issues and ever expanding disposable incomes are the main factors driving the domestic demand for organic products. According to the Organic Food Development Center (OFDC), total sales of organic products in China reached \$500 million in 2007.

Focus on Shanghai

Overview

As the financial and business center of China, Shanghai is one of the fastest growing cities in China. With a population estimated at around 20 million (including long-term residents), Shanghai's GDP reached US\$160 billion in 2007. Per capita GDP in 2007 was US\$9900, significantly higher than the national average of US\$2,490. This has provided a suitable environment for the growth of organic products. In early November 2005, the first organic shop *O-store* had its grand opening in Shanghai, offering organic products to expats in Shanghai. Aside from the retail products, *O-store* also included an organic restaurant, organic coffee shop and organic soybean shop in its 400 square meter shop. However, *O-store* closed its business in 2007 partly due to the conflict of interests between the investors and managers and partly because the timing for a high-end organic shop was not right. But the failure of *O-store* did not cool down consumers' demand for organic products nor prevent other companies from getting a foothold in the organic market in Shanghai.

The Changing Lifestyle: Back to Nature, Be Good to Nature

The past few years have witnessed a rise of Nong Jia Le, or "Vacation in the Countryside". City dwellers in Shanghai flock to the countryside during weekends or holidays and stay for a day or two. Having an organic meal, harvesting fruits and vegetables and touring the local farms have become popular Nong Jia Le events. Many patrons believe that they can live a healthy life by getting closer to nature and eating something grown in a natural way.

Changes are also beginning to be seen in people's mindset about the environment. Starting June 1st, 2008, free plastic bags were banned in retail stores, shopping malls and wet markets. During the transitional period, dozens of media campaigns were arranged to raise awareness about environmental protection and sustainability. As a result, more and more consumers are bringing their own bags when shopping and retailers are offering environmentally-friendly bags instead.

The typical example of this changing lifestyle is the emergence of LOHAS.

LOHAS is an acronym for Lifestyles of Health and Sustainability, a market segment focused



Harvesting organic vegetables at Nong Jia Le shows indicates the ever-increasing pursuit of healthy diet and lifestyles of city dwellers.

on health and fitness, the environment, sustainable living and social justice. LOHAS consumers, sometimes referred to as Lohasians, are interested in products covering a range of market sectors and sub-sectors, including: organic food and clothing, eco-tourism, green buildings and energy efficient electronics/appliances. Being a Lohasian has become a fashionable lifestyle in Shanghai. One famous local media even set up a weekly program to introduce the hot topics related to LOHAS in Shanghai, Hong Kong and Taiwan. With the help of such media exposure, more people will be familiar with the organic concept.

Consumption

As most of the industry people would suggest, the targeted consumers of organic products are mainly middle class people with a high level of health awareness. This group includes, but is not limited to young professionals, pregnant women, wealthy married couples, and people who like sports and promote LOHAS. In essence, the right consumers for organic products are people who can afford organic products and are willing to pay a premium to benefit their health and the environment.

According to Rock Wing Co. Ltd, an organic consulting company in Shanghai, about 90% of the total sales of organic food products come from produce, while 5% comes from domestically processed food and the other 5% come from imported products. Other industry sources also indicate that organic vegetables, fruits, and grains are the most popular products among all categories.

Retailing: Big boxes vs. Organic specialty shops

Organic foods are being distributed in multiple retail channels in Shanghai, among which supermarkets and organic specialty shops are taking the lead. Major retail chains like *Carrefour*, *E-Mart* and *Lianhua* started selling organic products several years ago. Organic vegetables and grains are usually placed in separate areas with eye-catching signage to highlight their organic attributes. Other intermediate products including poultry, meat, eggs, honey and mushrooms are displayed among the conventional food items. Processed organic food or value-added organic food are not often found in these big-box retailers.



Organic specialty shop operates in high-end residential areas to meet the growing demand for everyday organic products.

Meanwhile, specialty shops dedicated to organic and natural food have sprung up in the past few years, offering a wide range of organic products. The number of this kind of shop has grown from zero to 27 in the past three years. Many of them are chain stores, including *High Quality Organic Food*, *Lohaocity and Gold Food*, while others are individual stores. The percentage of organic food sold in these stores varies from 50%-90%. Interviews with store managers reveal that as most of the shops are located in high-end residential areas, the selling strategy, therefore, focuses on food necessities which are consumed on a daily basis. Milk, grains, fruit spreads and juices, vegetables and poultry are the most popular products.

Store managers also pay special attention to customer relationship building. Half of these shops spend a lot of effort in educating their members about organic products and in general, how to maintain a healthy lifestyle. By taking their members for an organic farm visit, for example, they can dispel customer's uncertainty about the credibility of the organic products and thus develop a more loyal clientele.

Retailer	Number of Stores	Business Started
High Quality Organic Food	15	2006
Lohaocity (Le Huo Cheng)	1	2006
Xi Bu Zi Yuan	5	2005
Organic (Ou Ge Ni)	2	2007
Gold Food (Hui Tian Ran)	3	2008
Health Organic (He Xin)	1	2008

Source: ATO market survey

Regulations and Labeling

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/T19630.1. This regulation is divided into four parts: production, processing, labeling and marketing, and management systems and became effective on April 1, 2005.

On June 2, 2005, the Certification and Accreditation Administration of China (CNCA) published the Implementation Rules for Organic Product Certification with immediate effect. These rules stipulate certification fee collection, approval procedures, suspension, and cancellation of certification, requirements for organic labeling, and dispute settlement procedures.

For an unofficial translation of the current organic standards in China, please refer to **GAIN Report CH5054**.



This standard label is required to be printed or attached to the packages of organic products.

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 affixed to the packaging materials of the organic products;
- Products produced according to national standards for organic products and awarded with an organic product certification can be labeled as "Organic";
- Products processed with the organic ingredient content equal or higher than 95% can be labeled as "Organic";
- Products processed with organic ingredient content lower than 95% but equal or higher than 70%, can be labeled as "Manufactured with Organic Ingredients";

- Products processed with an organic ingredient content lower than 70% must be stated with the certified organic ingredients as "organic" in the ingredient list;
- 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 to organic;
- Producers of organic products have to apply for a sales permit and the sales volume can not exceed the approved limit;
- The organic certification is valid for one year. Producers or farmers must apply for certification renewal each year.

According to the national standards and implementation rules, imported organic products need to comply with the requirements of organic product certification and standards of China. In other words, imported organic food products sold in China should be certified by a Chinese certification body or an overseas certification body authorized by CNCA.

The cost of applying for the organic certification for one product is about 20,000 RMB (US\$3,000) every year. Since there are no accredited certification bodies in the U.S., the inspector from China needs to travel to the U.S. to conduct an on-site inspection, which brings about extra cost of travel and accommodation for the inspector. Given the relatively low volume of imported organic products sold in China at the moment, local importers and distributors managed to avoid this regulation by simply not claiming the imported products as organic ones. In practice, when they stick the Chinese label on the products, which is required for all imported products, they will not include the word of organic on it, otherwise, they will be fined and required to withdraw all products from the shelf. Therefore, imported organic products are currently entering China and being distributed without Chinese organic certification.

Labeling requirements and implementation of regulations in China tend to change frequently, so it is recommended that before actually exporting the organic products, U.S. exporters should consult with local importers/distributors on the necessary documents and proper Chinese labels.

Trade shows: gateway to the market

Exhibiting organic products at trade shows is an effective way to promote the new-to-market organic products, especially the imported organic products. In Shanghai, there are two major trade shows for organic and natural products: Organic & Natural Products China and BioFach China. Dating back to 2005, ONP-CHINA is the first professional exhibition of both organic and natural products in China and almost all of the exhibitors are domestic producers, except for the certifying companies. Besides offering the usual trade show services, the show organizer of ONP-CHINA can set up meetings for exhibitors upon request, and introduce importers and distributors to the exhibitors. However, facing fierce competition from BioFach China, which takes place just one month later, ONP-CHINA has seen a shrinking number of exhibitors the last two years. On the other hand, BioFach China is enjoying a steady increase in both exhibitors and trade visitors. As a comparison, the scale of BioFach China is 100% larger than ONP-China. More international products were exhibited at BioFach China. About 29 international companies from Germany, the U.S., Canada, France, Belgium, Malaysia, India, Portugal, SAR Hong Kong and Taiwan exhibited at the show this year.

Table 2. Snapshot of Organic Trade Shows in Shanghai		
	ONP China 2008	BioFach China 2008
Date	April 12-14, 2008	May 29-31, 2008
Organizer	Shanghai Jialing Exhibition Co.,Ltd Organic Food Development Centre, under the Ministry of Environmental Protection	NurnbergMesse GmbH China Green Goods Development Center, under the Ministry of Agriculture
Total Exhibiting Area (m2)	1,500 (ATO estimate)	2,800
Total Exhibitors (China/Overseas)	100 (ATO estimate)	242 (213/29)
Number of U.S. Exhibitors	1	4
Total number of trade visitors (China/Overseas)	4,500 (4,400/100) (ATO estimate)	9,143 (8,510/633)

Opportunities and Challenges

The recent scandal involving melamine-tainted dairy products and eggs triggered consumers' deeper concerns about food safety issues in China. Melamine-tainted milk supplies have sickened over 300,000 children, caused four deaths and led to global recalls of goods produced with Chinese dairy products. The food scandal widened when some brands of eggs were found to contain melamine (melamine is a nitrogen-rich chemical that was added illegally to milk or animal feed to increase protein levels in testing). These cases are fueling Chinese consumers' concerns about domestically produced food products and at the same time, creating opportunities for safe and reliable imported products.

The food scandal is also posing some challenges for the growing organic industry in China. As food recalls are occurring seemingly one after another, consumers start to lose confidence and trust in the food regulatory system. Increasing doubts has arisen about whether domestic organic products are really organic or not. Do they really meet all the standards, and do the certifying bodies test the products under scrutiny? Once the credibility is lost, it is very difficult to win it back.



Consumer education on specified organic products and organic labels is very helpful to boost sales in organic specialty shops.

Price differences are another major constraint for the organic industry. The price difference between domestically produced organic products and conventional products is about 200-400%, compared to 30-100% in the U.S. According to a recent consumer survey, around 80% of consumers are willing to buy organic products only if their prices are within 20% of the conventional ones. As the price difference becomes greater, consumers' willingness to purchase organic products decreases.

Product	Conventional (USD/kg)	Organic (USD/kg)	Premium
Pepper	0.75	2.9	287%
Eggplant	0.58	2.84	390%
Cucumber	0.55	2.3	318%
Garlic	0.78	2.54	226%
Ginger	0.99	3.03	206%
Onion	0.49	2.49	408%
Tomato	0.64	2.55	298%
Carrot	0.59	2.46	317%

Source: OFDC study

Competition also exists among the imported organic products. The U.S. is taking the lead in organic breakfast cereals not only because of abundant choices but also with competitive pricing as compared to the conventional cereals. Within the liquid milk category, the U.S. is competing closely with Australia in soy/rice milk while Australian products are dominating the organic milk market. With regards to fruit juice, European products are doing quite well. The following chart shows detailed information on the best product prospects.

Product	Origin	Unit	Price in RMB	Price in USD
RICE DREAM rice milk	U.S.	946 ML	35.0	5.1
SOY DREAM soy milk	U.S.	946 ML	35.0	5.1
PUREHARVEST organic rice milk	Australia	1 Liter	32.8	4.8
PUREHARVEST organic soy milk	Australia	1 Liter	32.8	4.8
ORGANIC VALLEY organic milk	Australia	1 Liter	29.8	4.4
VITA VERDE organic orange juice	Germany	750 ML	34.0	5.0
ARROWHEAD MILLS Spelt and cranberry flakes	U.S.	306 g	36.0	5.3
ARROWHEAD MILLS maple flakes	U.S.	340 g	36.0	5.3
ALARA organic branberry muesli	U.K.	300 g	52.0	7.6
ALARA organic rich muesli	U.K.	300 g	52.0	7.6
NATURE'S PATH organic original hot oatmeal	U.S.	400 g	56.0	8.2

Source: ATO market survey

Table 5. Best Product Prospects	
Product	Notes
Breakfast cereals	Major retailers see growing demand for these products, although considerable competition exists from sources such as Germany and Australia.
Soy/Rice milk	As a result of the food safety concerns triggered by melamine-tainted dairy products, expats and well-off consumers are turning to imported milk as an alternative. Considering the shelf life of milk products is relatively short, UHT milk with a one-year shelf life is most favorable and practical.
Fruit juice	Fruit juice, especially specialty fruit juices, like cranberry and blueberry, sell well in the organic specialty shops.
Baby food	Chinese parents are willing to pay a premium for high-quality foods for their children but are rather particular about the brand name. More marketing efforts are needed to boost the sales in this category.
Dried fruits and nuts	Urban residents in Shanghai have a habit of consuming dried fruits & nuts and regard them as healthy snacks.
Fresh produce	Shanghai is the largest organic produce market in China; 60 percent of the city's residents are willing to pay more for certified organic products than ordinary produce. Cold chain management and the extra cost thereof remain the biggest challenges for imported fresh produce.
Grains	Both major retailers and organic specialty shops carry a wide selection of organic grains. For frequent users of organic products, organic grains are a daily necessity. Strong competition exists in this food category.
Biscuits	With the ever quickening pace of life, the demand for wholesome and tasty biscuits is growing.

Contact Information and Useful Websites

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