

CHINA FOOD REPORT

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Introduction

CHINA'S food industry is huge and growing. In 2004 the industry generated income of US\$193.4 billion, a 300% increase from 1997, and the figure for 2005 is expected to exceed US\$241.8 billion. Its post-Communist market is being driven by the increased spending power and the changing food habits of the country's ever-wealthier people.

China's population is 1.2 billion plus (about one fifth of the world's total) and its GDP in 2005 reached US\$1,649 billion (the world's 7th largest).

With such increasing affluence, gone (or going, at least) are the days of limited choice and flavour, and a strict adherence to the Chinese diet. In its place are emerging a wide variety of colourful brands and tastes previously denied the Chinese. With the increase in exposure to international attitudes (through satellite television, other media influences and increased overseas travel) the Chinese are getting more and more familiar with, and fond of, 'foreign' foods.

Western foods, like Western cars and Western clothes, are among those gaining popularity. The Chinese are discovering the labour-saving delights of ready-packed meals, frozen foods and quick and easy pasta.

The US Department of Agriculture (USDA) has reported that foreign brands of soft drinks, yoghurts, sausage, crisps, breakfast cereals, wines, and other foods and drinks comprise about 5% of products in Chinese supermarkets, but many of them are manufactured with local ingredients. The presence of these goods represents exciting, if challenging, opportunities for international food ingredient suppliers.

Western food processing firms, importers and exporters are already flocking to the country to meet the demand and fuel further growth, and, no doubt, take advantage of cheaper labour and capital costs by producing western foods in China for export.

The boom has been assisted by the rapid growth in modern supermarkets. According to research by USDA, the number of Chinese supermarkets "skyrocketed from just one outlet in 1990 to approximately 60,000 stores, with an estimated US\$71 billion in sales, by 2003, according to the Chinese Chain Store and Franchise Association".

USDA said supermarkets enjoyed initial success promoting packaged foods and processed food staples like rice, flour and cooking oil but have also played a key role in boosting consumption of milk products, other beverages, snacks and convenience foods. Refrigerated, frozen and ready-to-eat foods are widely available; and almost 90% of urban Chinese households now have home refrigerators.

Chinese supermarkets now sell roughly US\$4 billion worth of fruits and vegetables to Chinese consumers - about twice China's exports in that category to the rest of the world.

Direct exposure to non-Chinese foods also means direct exposure to possibly different food processing techniques and standards, many of which China is embracing in a bid to match competing nations.

China's growing role as a member of World Trade Organisation (WTO) since it joined in December 11, 2001, means transitional protections against Chinese export growth have begun to fall away.

Findings from WTO's 2004 World Trade Report showed that international trade in processed food products between 1990 and 2002 expanded significantly faster than those of semi-processed and unprocessed agricultural products. Developing markets, particularly in Asia, were highlighted as offering strong growth, and China was highlighted as a key player.

There was a big increase in the share of processed products in China's agricultural imports up to 1996, followed by a marked decrease thereafter. Among the unprocessed products, import increases were particularly strong in oilseeds (tenfold increase between 1992 and 2001). Also noticeable was a steep decline in imports of vegetable oils (a processed good) since 1997, which contributed significantly to the country's declining trend for processed goods at the end of the 1990s.

The rise and rise of food processing has continued to the present. According to the Chinese government's Quarterly Update in August 2005, the sector was the only non-heavy industry sector to make profit growth. It sat alone amid voracious and hugely profitable mining and energy companies.

There are, of course, significant risks in striving for opportunities in an emerging market of this size, complexity and relative immaturity.

The main one is food safety. There are fears that with increasing production to feed the nation having been the main goal during the past few years, not enough has been done to safeguard food health and safety.

China is frantically trying to upgrade its food safety programmes to reduce pesticides, among other issues, and get in line with international regulations in order to cash in on valuable food product exports. The country has made tremendous progress so far and continues to do so.

Another much-talked about risk is avian flu. The risks of a pandemic are real according to the World Health Organisation, and as China is in the firing line, the food processing industry can expect some stringent quality testing and a potentially damaging lack of global consumer confidence.

As well as the safety and quality risks, there are a few cultural ones. Food processing companies new to China ignore Chinese habits and traditions at their peril. The consumer market is an immature one. Customers have little brand loyalty (although it is growing) and are easily swayed to one product or another by the latest adverts and promotions. TV and mass media advertising are crucial for many products to resonate.

There is also a lingering and strong belief in some food sectors that keeps the Chinese buying Chinese made produce. Milk and beer are two examples where foreign firms have so far failed to make a dent in the market.

Export opportunities

As China has emerged from relative trade isolation, transitional protections against Chinese export growth have begun to recede. This freeing up of trade opportunities will certainly continue, and allow for the easier outflow of Chinese-made food products from China to the world.

The WTO believes increased trade opportunities means China should be able to capitalise on its emerging Western food production industry, which will give it significant export status.

The US Department of Agriculture (USDA) reports that the integration of China into multinational retail chains may open more avenues to its market.

"The world's largest food retail chains - such as Wal-Mart, Carrefour, Metro and Tesco - are now buying from and selling to China," said a report in the Department's AgExporter magazine. "Wal-Mart's procurements from China are already so huge that the amount exceeds the gross national product of many countries, and Wal-Mart's sales in China are increasing as well."

The new ASEAN-China free trade zone is another boost to food producers and exporters in China. Agriculture and food processing have been flagged as the first sectors to benefit from the agreement.

However, while the prospects are good, exporting food from China (raw and processed) is fraught with difficulties and could remain so for some years. As the competitiveness of Chinese products grows, China's exports expand, and the country races to catch up with the hugely successful and long-established food producing countries of the West, the situation is likely to remain complex and turbulent.

As the China Daily newspaper reported in February this year, tariff escalation is making it harder for developing countries such as China to export processed agricultural products.

"Developed countries have also increasingly resorted to sanitary and phytosanitary measures for animal and plant health and technical barriers to trade to block agricultural imports, which has seriously affected China's exports of its agricultural products with their comparative advantage," the newspaper said.

"Technical barriers have resulted in huge direct losses for China's agricultural exports. The indirect losses are even more enormous. In 2001, about US\$7 billion worth of Chinese exports were affected by technical barriers. In early 2002, the EU began to ban imports of Chinese animal derived food, seafood and aquatic products, resulting in a 70% slump in China's aquatic product exports during the second half of that year."

A detailed report by Robert Wisner, Professor of Economics at Iowa State University in the US, in 2000, argued that the US-China agreement "may reduce Chinese corn exports over the next several years because it requires China to phase out export subsidies". He continued: "The amount of decline in its corn exports will depend on supply trends and changes in China's domestic farm subsidies....China's inefficient soybean processing industry is expected to be hurt by WTO, partly as the US-China agreement favours increased US exports of soybean products to China. Reduced support prices on wheat and corn are shifting more land to oilseeds, and may temper US soybean export gains."

Last year China's food exporters were on notice again. As part of ongoing efforts to fight bio-terrorism, the US announced the implementation of more regulations on food imports, requiring all businesses that manufacture, process, pack, transport,

distribute, receive, hold or import food to create and maintain records to facilitate tracing suspicious shipments of human or animal food.

As well as punching its diplomatic weight at the trade tables, the Chinese government is also making headway with these safety and security issues. The China Food Safety Strategic Research Report (November, 2004) said agencies had been increasing the safety supervision of exported food, and highlighted the enhanced quality of pork exported to Hong Kong over the past few years.

Raw materials

The world's demand for raw materials for processed and semi-processed foods is growing, and according to WTO will continue to expand in the foreseeable future. China is already a large and growing producer of agricultural raw materials.

China's Quarterly Update in August 2005 announced that the Government has pinpointed agriculture as one of its key 2005 budget targets.

According to a report last year in the Peoples' Daily newspaper, China wanted to pioneer commercial production of GM rice, offering a ready supply of the diminishing Asian staple foodstuff for eating and as a raw material for food processing.

With resistance to GM produce still strong in many importing countries, the sales emphasis must surely be on a domestic rather than an export market, which could be fortuitous as USDA is predicting worrying declines in rice production in China and some other Asian nations.

Another step forward was taken by the China Securities Regulatory Commission (CSRC), which announced in 2004 that it had approved the opening of a commodity exchange to trade corn futures.

The Dalian Commodity Exchange is the first food futures product approved by the Chinese authorities since 1998, and promises to boost activity in the corn sector, which delivers roughly 120 million tonnes per year, and enhance China's ability to determine corn prices overseas.

The real headaches come when food processing companies and exporters examine grain, production of which is weakening and in danger of shrinking further.

Grain demand has increased significantly in the past 20 years, chiefly from the animal feed sector, according to the Chinese Academy of Engineering.

The Academy's Ren Jizhou (quoted in the Beijing Review in October, 2004) said that the food the Chinese are eating - especially well-off city-dwellers - is undergoing a historical change, and would continue to do so.

"In the past 20 years, grain consumption has not risen. In fact, it has dropped, while animal products such as meat, eggs and milk have more or less displaced it," said Ren Jizhou.

"In 1984, the total grain production reached 400 million tonnes, 394 kg per capita, meeting basic demands for both humans and animals.

"Of the 400 million tonnes of grain produced that year, humans ate 280 million tonnes, while 120 million tonnes of it went to livestock. After 20 years, grain demand has increased about 100 million tonnes to reach 506 million tons, 300 tonnes for dinner bowls and 200 million tonnes for barnyard troughs," he told the paper.

In response to the weakening grain production capability the Ministry of Agriculture launched a project to enhance national food safety, increase farmers' incomes, and promote the international competitiveness of Chinese grain. China's total grain product dropped 5.8% in 2003 and China raised its food grain price for the first time in six years.

Professor Robert Wisner, in his 2000 report, accurately predicted that "with its huge population and expanding economy, China will be a large influence on world grain markets for the next several generations".

In a more recent report from Professor Wisner, written with his colleague economics professor, Phil Baumel, in September 2004, they echo a view that China is shifting from a large exporters of corn to an importer.

"If that happens," the professors predicted, "China would become a new market for US corn. At the same time China's corn customers would likely turn to the US for supplies.

"This possible scenario raises the question of whether US corn acreage can be increased enough to meet anticipated new sources of demand. Rapidly expanding ethanol-based demand for corn is almost certain to continue for several more years. However, corn users should note that considerable uncertainty still exists about China's future corn exports or imports.

"Eight years ago, the USDA and many other analysts predicted China would be permanently out of the corn export market. A year later, the Chinese proved them wrong. If China does drop out of the corn export market, US corn supplies are likely to be much tighter in the years ahead.

"The corn industry would then be faced with challenges of how to reverse the downward trend in US planted cropland and how to increase corn plantings. That scenario also would raise questions about which users could bid most strongly for limited supplies: livestock and poultry feeders, corn processors, or foreign buyers?" asked the professors

Lester R Brown, Founder and President of the Earth Policy Institute, a US-based think-tank for an environmentally sustainable economy, earlier this year painted a vivid picture of future-China.

"Among the five basic food, energy, and industrial commodities - grain and meat, oil and coal, and steel - consumption in China has already eclipsed that of the United States in all but oil," he said.

"China has opened a wide lead with grain: 382 million tonnes to 278 million tonnes for the United States last year. Among the big three grains, the world's most populous country leads in the consumption of both wheat and rice, and trails the United States only in corn use.

"If the Chinese consume resources in 2031 as voraciously as Americans do now, grain consumption per person there would climb from 291 kilograms today to the 935 kilograms needed to sustain a US-style diet rich in meat, milk, and eggs," he said.

"In 2031 China would consume 1,352 million tonnes of grain, far above the 382 million tonnes used in 2004. This is equal to two thirds of the entire 2004 world grain harvest of just over 2 billion tonnes," said Mr Brown.

Semi-processed foods

The opportunities for an increase in the number and variety of semi-processed food manufacturers and exporters in China are considered good.

Dutch firm DSM, one of the world's leading suppliers of vitamins and carotenoids to the feed, food, pharmaceutical and cosmetic industries, has opened its first R&D centre in China on September 8, 2005.

The Shanghai base will include its food specialties division making savoury ingredients, preservatives and enzymes.

Deputy Chairman of DSM's managing Board of Directors, Jan Zuidam, said: "This is a true milestone for us as it gives us the opportunity to integrate better with China's science and technology community and to get embedded into the Chinese business value chain."

DSM said in addition to carrying out product and applications development work, the centre will track market trends, proactively respond to the needs of customers, and interact with universities, scientific research institutes and industry. DSM Nutritional Products, DSM Food Specialties and DSM NeoResins will be the first three DSM businesses to operate facilities at this R&D Center.

Deputy Chairman of DSM's managing Board of Directors, Jan Zuidam, said: "DSM began its first phase of long-term growth in China through technology licensing activities in the 1960s. For the past decade DSM has made significant investments in the country the second phase of long-term growth. With the opening of the DSM R&D Centre China, DSM begins its third phase," he said.

A DSM spokesman said the company was seeking partnerships with research institutions in China to develop products and solutions that meet the needs of Chinese customers. "The company's various R&D units already have contacts with several leading Chinese universities. DSM and Fudan University's joint lab was due to open in late September this year (2005). The partnership will give the renowned Chinese institution the financial, technological, manufacturing and management support needed to exploit innovations to the fullest," he said.

Professor Robert Wisner observed in his 2000 report that China's government was "meeting increased protein needs in ways other than just with western diets".

"It is emphasizing farm produced, and to some extent greenhouse produced, seafood. Protein sources include fish, shrimp, pork, chicken, beef, tofu, eggs, frog legs, turtle meat, eel, and even snake meat. Some farms also produce fungus from decaying trees, which reaches harvestable size in approximately two weeks," he said.

He also noticed a slightly reduced emphasis on pork, with efforts to shift demand to poultry and seafood, where less grain is required per pound of meat produced. Also, improved genetics and nutrition continue to increase feed conversion efficiency in the Chinese pork industry.

Milk and dairy

The China Daily newspaper has noticed that "foreign food firms are somewhat perplexed by Chinese consumers' attitudes towards their products". In a recent article, it said: "Although they are willing to pay a premium of up to 100 percent for imported processed foods, they seem to prefer local brands when shopping for more basic foodstuffs."

The newspaper said the phenomenon is best illustrated in China's burgeoning milk market with fresh milk remaining the domain of domestic firms. Despite not being part of the traditional Chinese diet, milk consumption is rapidly increasing.

Figures from the Dairy Association of China show that fresh milk consumption has increased rapidly since 1996. The total output value of China's milk industry was US\$5.5 billion in the first 11 months of 2003 with profits totaling US\$336.9 million for the year - an increase of 51.89% from 2002. In comparison, milk production in 1996 was negligible.

With the fresh milk market is tightly sealed and shared between six chief domestic companies, foreign milk producers have had to buy their way into the market by taking an equity interest in domestic market leaders. The same situation is occurring in the beer sector with domestic brewers retaining their dominance of the market.

Speaking to the China Daily newspaper, the China Dairy Market Consultancy in Beijing said there is a combination of factors behind the retreat of these foreign dairy companies.

Most foreign companies do not operate their own dairy farms in China, the Consultancy explained. And Chinese consumers do not consider imported milk to be as fresh as milk produced by domestic companies, which raise dairy cattle on large farms.

Foreign companies, despite their massive financial resources, have also failed to gain access to the lucrative distribution network extending into every city, street and community.

Pricing is another major issue that has sidelined foreign producers. Retail analysts say that foreign producers have largely misread the buying habits of urban consumers, leading to the incorrect positioning of their products.

There is, however, plenty of room for growth in the Chinese dairy market. The average consumption of dairy products is 9.7kg per person, compared with 200kg in Europe and the global average of 100kg.

The Consultancy predicts in the next five years, the dairy market will maintain an average two-digit growth every year, and that foreign milk producers will make a big comeback in the Chinese market.

Meat

It is believed China has more than 400 breeds of animal raised for meat (pigs, cattle, sheep, rabbits, horses, donkeys and camels) and roughly 31,000 animal breeding zones located nationwide. Several of these zones have spawned large operations for breeding and meat processing.

This adds up to represent the most comprehensive meat market in the world. Little surprise then that meat production in China is widely expected to top US\$123 billion this year.

In his prediction for China's meat market, the Earth Policy Institute's Lester R Brown said: "Although eating hamburgers is a defining element of the US lifestyle, China's 2004 intake of 63 million tonnes of meat has climbed far above the 37 million tonnes consumed in the United States."

"While US meat intake is rather evenly distributed between beef, pork, and poultry, in China pork totally dominates. Indeed, half the world's pigs are found in China," he said.

For his future-view he assumed an 8% annual economic growth rate.

"To reach the US 2004 meat intake of 125 kilograms per person, China's meat consumption would rise from the current 64 million tonnes to 181 million tonnes in 2031, or roughly four fifths of the current world meat production of 239 million tonnes," he said.

Processed foods

China is probably already on the radar of food processing companies trying to identify potential markets but if not then WTO's 2004 World Trade Report would have put it there for sure. The report found China witnessed one of the largest shifts away from unprocessed and towards more processed agricultural products.

It stated that exports of processed agricultural products expanded significantly faster than those of semi-processed and unprocessed agricultural products between 1990 and 2002. The share of processed products showed a clear upward trend throughout the 1990s, rising from 42% in 1990-91 to 48% of global agricultural trade in 2001-02.

"The empirical evidence of a shift from unprocessed to more processed agricultural products is consistent with a well-known trend in world trade - the shift to an increased share of manufactures at the expense of primary products," said the report's authors.

About three quarters of the countries for which United Nations data were available in recorded an increase in the share of processed goods (imports and exports) in their agricultural trade between 1991 and 2002. Developing nations in Asia were dominant.

The report said China was among other countries in identifying "two factors favour[ing] the expansion of processed goods over unprocessed goods".

"First, processed goods have a larger potential for intra-industry trade and offer more possibilities for product differentiation than unprocessed goods. Cocoa-producing countries will not see much bilateral trade in cocoa beans, for example, while chocolate-bar/snack producing countries can exchange their products, satisfying a broad variety of different tastes.

"Second, the potential to increase value added for a given consumer food product is, in general, far larger than for unprocessed foods. As per capita income levels increase, consumers appreciate a larger variety of similar products and increasingly buy goods with a brand label.

"In developed countries, the trend to smaller household size and an increase in participation by women in the labour force strengthens consumption trends towards more processed food at the expense of unprocessed food," said the report.

However, China also represented a statistical anomaly when it came to imports. Whereas most countries showed a shift in favour of processed goods, China's imports of unprocessed goods were greater than processed products.

China's total agricultural exports as a percentage increased from 28% in 1991 to 42% in 2002, while imports eased back slightly from 20% to 19% during the same period.

There was a big increase in the share of processed products in China's agricultural imports up to 1996, followed by a marked decrease thereafter. Among the unprocessed products, import increases were particularly strong in oilseeds (tenfold increase between 1992 and 2001). Also noticeable was a steep decline in imports of vegetable oils (a processed good) since 1997, which contributed significantly to the country's declining trend for processed goods at the end of the 1990s.

On the beverages front (considered 100% processed by the WTO), Lipton's tea recently entered China's US\$1.2 billion ready-to-drink market through a 50-50 joint venture between PepsiCo and Unilever. PepsiCo's bottling plants and distribution network will produce Unilever's Lipton tea brand. Guangdong Province in South China, will be the first entry point for the products.

According to Loic Tardy, managing director of Unilever Foods (China), the alliance started with black tea because Unilever "believed it has a very good reputation for the product, built by its black tea bags".

In China's market, the first targets for the new product are Guangzhou and Shenzhen, its neighbouring city. The two cities were chosen because they are among the segment markets where PepsiCo says it performs best in China.

According to a 2004 USDA report from Anita Regmi and Mark Gehlhar (Processed Food Trade Pressured by Evolving Global Supply Chains) "growth in large-scale retailing in the developing countries has coincided with new investments by foreign food manufacturers. In 2002, Heinz expanded its plant capacity by 15% in China and opened a new plant in the Philippines. The Kellogg Company now has manufacturing plants in China, India, Japan, South Korea, and Thailand for supplying retail chains in Asia."

Manufacturers

An increasing number of food processing and related industries have set up shop in China, and more are showing interest.

One of the boldest incomers has been Ireland. In January 2005 Ireland sent its biggest trade mission to date to Beijing to investigate opportunities. The trip was a success, highlighted by China and Ireland signing four bilateral agreements as part of a bid to strengthen co-operation in agriculture, biotechnology and husbandry, among other sectors.

The countries' leaders also signed a protocol agreement to regulate Irish pork exports to China. The Irish Prime Minister, Bertie Ahern, said he wanted to intensify the trade in meat products and maybe expand the dialogue and protocols to include Irish beef.

One of the largest pork producers in Ireland, Glanbia Meats, told Business Weekly in January 2005 that it would begin business with lower-valued products in China. Glanbia's chief executive, John Madden, was quoted as saying his company exports 10,000 tonnes of meat to Japan and 6,000 tonnes to Hong Kong annually but wants to shift the Hong Kong tonnage to the mainland "since the profit there is even higher".

"Pig tails, feet and internal organs are profitable in China due to the different diet, compared to the European market," he said. "While we export pig bellies to Europe, there is still a huge amount of lower-valued products available. We aim to seek a balance in our production and sales."

"If the business goes smoothly, we will think of introducing a production base in China," he told the magazine.

According to the China National Meat Association imported low-end products are about 20 to 30% cheaper than domestic ones, which attracts foreign companies to the market.

Although it is difficult to assess China's meat trade accurately, statistics from the Association indicate it accounts for more than 28% of worldwide meat production, and it contributes 34% of China's GDP, so a rough estimate would be US\$561 million.

China imported 640,000 tonnes of meat and exported 470,000 tonnes in 2003. Since China only exports high-end products and imports mainly low-end products, the trade surplus reached US\$120 million.

Packaged Food

Keeping the Irish flavour in China, the food group Kerry is also gaining a foothold in the country, recently announcing a US\$24.8 million investment programme to expand its presence in the country.

The ingredients company, with roughly US\$5 billion in annual sales, is venturing into China's US\$35 billion packaged food market, which is growing at about 7% a year.

Chief executive of the Kerry Group, Hugh Friel, said on his company's website that the programme will expand the Group's asset and customer base in China through the acquisition of Hangzhou Lanli Food Industry Company Limited, and the establishment of a new world class multi-processing manufacturing facility and technical centre on a 16 acre greenfield site in the HEDA Economic Zone (Hangzhou Economic and Technological Development Area).

Mr Friel said: "Since the Group opened its first Representative Office in Shanghai in 2000, our Kerry Ingredients and MasterTaste (flavours and fragrance) divisions have progressively expanded the Group's customer base in China.

"More recently our new Kerry Bio-Science division, established following the Group's acquisition of Quest Food Ingredients in May 2004, has also further developed its presence and technology offering in the region.

"Building on our localisation strategy - in terms of successfully serving our multinational and local customer requirements in all major global consumer markets - the administrative, technical and logistics headquarters for all Kerry businesses in China will also transfer to the new facilities in Hangzhou - thus serving as an important platform for the Group's planned market development in one of the most rapidly evolving consumer markets in the world embracing potentially 1.3 billion consumers.

"This will be further supported by satellite commercial/application centres in Beijing, Shanghai and Guangzhou," Mr Friel added.

Maintaining the packaged meals theme is Danish natural colours firm Chr Hansen, which is operating a new food colour factory in Tianjin, about an hour's drive southeast of Beijing. The plant, which uses Chinese raw materials, was built to meet a rise in local demand, and marked the first step in a raft of investments in the region.

Chr. Hansen China's General Manager, Grace Xu, said the company has seen the changes in eating habits, and reacted to it.

"A transition from homemade to ready-to-eat meals is underway, requiring the Chinese food and beverage manufacturers and their suppliers to change accordingly. This is why we have chosen to focus even more on our activities in China," she said.

"There is an increased demand for natural colours among Chinese consumers. It becomes more and more common to look at the ingredient label before placing a food product in the shopping cart. Producers have to act on this and they have realized that natural colours are both competitive on price and quality, and have health benefits," said Ms Xu.

Chr. Hansen said some of the main Chinese ice cream and confectionary producers have already started to use the

company's natural colours in their production.

Quality and Safety

There are fears that with increasing production to feed the nation having been the main goal during the past few years, not enough has been done to safeguard food health and safety.

A study by China's Ministry of Commerce found that the rate of excessive content of pesticide residue in market vegetables is 7%. The Chinese Academy of Engineering said problems associated with food safety are becoming increasingly prominent and since the country joined WTO and had to be much more stringently checked, higher pesticide residues have hobbled potentially lucrative food exports.

Never before has the country had so many checks and balances on its foods.

Considerable research and expenditure is going in to the latest technology to redesign and refine production systems in a race to catch up with the relative sophistication of Western nations' food processing industries.

The China Food Safety Strategic Research Report (November, 2004) said agencies had been increasing the safety supervision of exported food, and highlighted the enhanced quality of pork exported to Hong Kong over the past few years.

In January this year the China Daily newspaper reported that the Ministry of Agriculture was working on a series of technical standards to minimize pesticide residues and other hazards in food and fabrics.

Ministers told the paper they were putting the final touches to 69 national standards to cap chemical residues and other hazards in agricultural products in the course of production, processing, storage and transport.

The China National Institute of Standardization described as "unprecedented" the efforts to set up technical benchmarks and testing procedures for primary agro-products in China cater to the public's appetite for safer farm produce and higher quality food.

"It also facilitates the implementation of a market access system for food products and serves the country's intention to expand agricultural trade," the Institute said.

A Ministry of Science and Technology statement said most of the standards will be completed and effective this year and should assist food producers and processors to work in a way that strikes a balance between environmental protection, and social and economic benefits.

The Ministry said "half of the standards in the pipeline set maximum residue limits for rice, corn and tea; target hazardous substances such as ochratoxin (a cancer-inducing toxic compound) that may taint wheat, soybean and peanuts when stored and transported; and puts a ceiling on heavy metals in irrigating water".

Some standards highlight maximum residue limits of new crop pesticides.

With the guidance of the preventive system, Chinese researchers examine and analyze every stage of farm produce production and processing, to determine potentially unsafe links - known as 'critical control points' - at which action is required to control identified hazards.

The China Food Safety Strategic Research Report was released just 8 months after the 2004 Draft Plan for National Economic and Social Development was released, allowing the import of genetically altered crops into China.

The report stated that the new policy "formalizes earlier interim agreements with export businesses that had been granted temporary certificates of permission to trade genetically modified crops, such as soybeans, maize and cotton".

The Government also awarded its first batch of safety certificates for foreign GM crops used for processing purposes in China, said China Daily.

Organics

According to an article on the Foodnavigator.com website there is also a growing organic movement in China. The North East of the country is establishing itself as a leading centre of organic food production and processing.

Organic fruit and vegetables are already popular, and organic meat is catching on, in western regions. Authorities currently estimate more than 300 businesses are producing foods accredited with the national organic standards.

It's good news for exporters too with shipments growing steadily from near zero to a healthy US\$200 million in 2003. It is still

less than 1% of total food exports but organic movement is on the rise as western market demand increases, said the database.

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