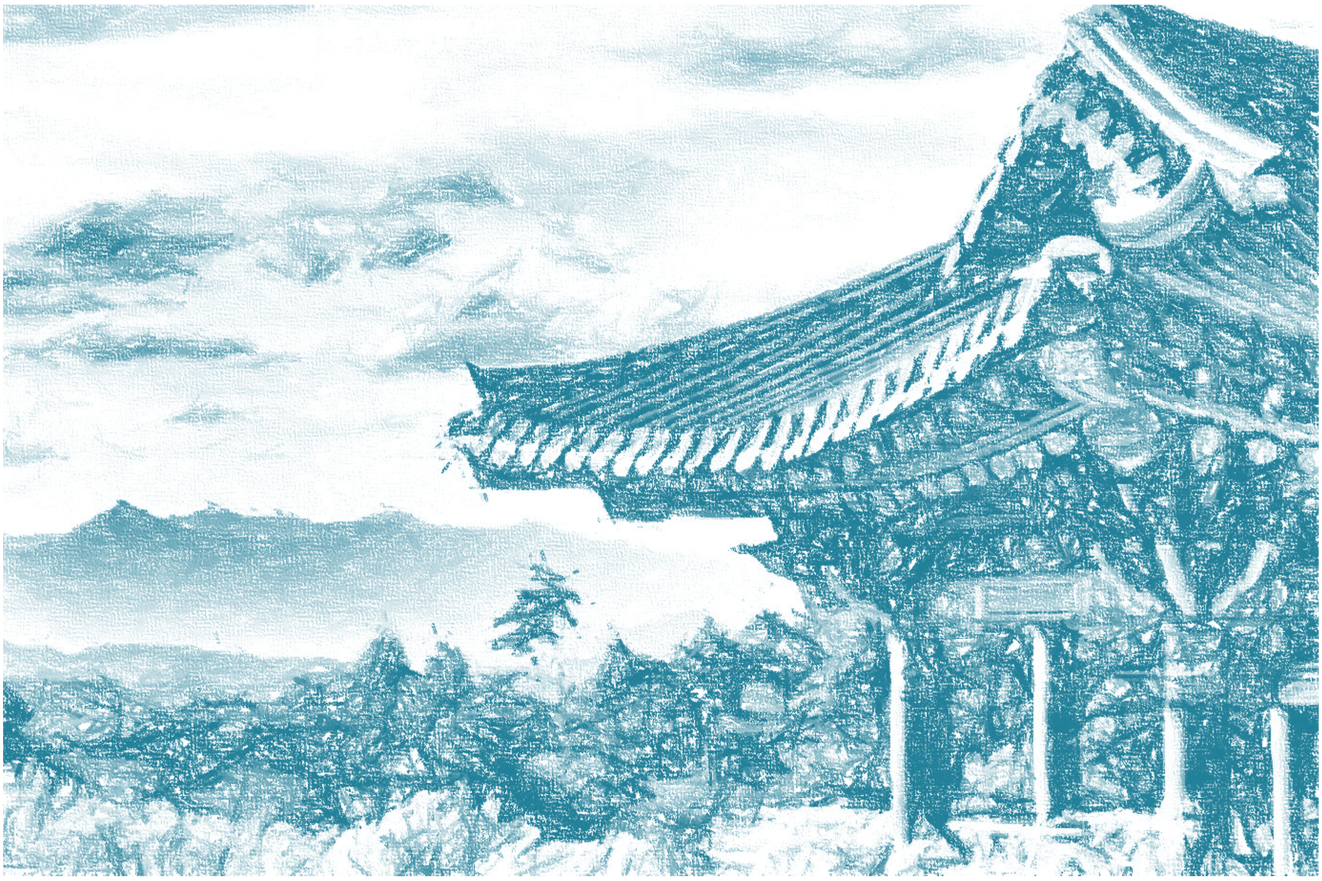
SOIL ASSOCIATION TRADE SUPPORT | EXPORT SUPPORT PROGRAMME



TERRITORY GUIDE | ASIA

Introduction

Organic food is catching on in a big way in Asia. This guide gives an over view of the main legislatively differing territories in detail – Japan, South Korea and Japan. As we will be attending Natural & Organic Products Asia, we also have included a section on Hong Kong, though currently there are no barriers to export there. We will be updating this document to include other countries in the region.

With the Asia are set to see an increase in uptake of organic in the future, it will become an increasingly attractive area to find markets for products.

Contents:

China

Introduction

The consumer in China is turning increasingly to organic food. The most recent figures show the market was estimated at around $3 to $ 5 billion US dollars(1) or 21 billion Yuan. According to SIAL this could be as much as $9 billion as soon as the end of 2015 (2). Imported product is a small percentage of this. As China is increasingly looking to overseas sources for organic products, there has never been a better time to export. However, China also represents probably the biggest challenge from an organic legislative point of view.

China is on course to becoming the 4th largest organic consumer country in the world. Once mainly a net exporter of organic products, the increase in demand has meant that increasingly domestically

produced organic products are no longer bound overseas, rather are sold domestically. A driver for this, over and above the food scandals is the increase in the growing middle classes who are well educated and increasingly affluent. Consumer awareness of environmental issues is becoming another motivation. There are variations across China with those in the East and large metropolitan areas most likely to purchase organic.

Despite the potential for the market, the challenges are such that few UK operators have achieved certification. This is because ALL ingredients in organic products need to meet Chinese organic standards with a requirement to be inspected and tested at EVERY stage. There is now an easier way for licensees to gain certification for dairy products. See the *Certification and Regulation* section below.

Although the growth of the market is likely to increase above the world average with a rise in the number of certified operators, the types of products remain largely single ingredient products, such as fresh produce, dairy, eggs, meat and olive/vegetable oils. At the more complex end of the spectrum, baby food, cheese and wine are the most common multi-ingredient products.

(1) ref SIAL and Biofach china)
(2) SIAL

Upcoming events activity

2015 sees an even more exciting time at NOPA, with a Soil Association Certification pavilion.

See the 2015 preview of NOPA:

http://www.naturalproducts.com.hk/beta/

We hope you will join us at NOPA in Hong Kong. Meanwhile there are a number of other China based events. These include:

Biofach Shanghai, China – 18 – 20th May 2015

http://www.biofachchina.com/en/home.php

The Beijing Organic Food Expo – 16th – 18th April 2015

http://en.gnfexpo.com/

SIAL http://www.sialchina.com/

Market structure

Partly due to the low number of overseas operators with the appropriate certification, the Chinese organic market is largely domestic.

A lack of a significantly developed existing supply chain has meant, that to this point, mostly only very short supply chain products have been a consideration for most. Also, in China the large scale wholesaling and distribution infrastructure is yet to be fully established, so it is mainly smaller scale importers and wholesalers that feed into retail outlets, though it is likely to change quickly as the infrastructure develops.

Organic is not niche anymore, and many dedicated shops now exist which primarily sell organic, albeit typically less processed products. A visit to a dedicated retailer in Nanjing saw mainly fresh produce, eggs, wine and olive oil on the shelves. Non-dedicated supermarkets are also increasingly selling organic products. Also, similar to the box-scheme model in the EU, especially in major urban centres home delivery is becoming a popular way to purchase organic.

Around 50% (3) of the market is made up of smaller scale producers, shops and farm gate sales, with larger scale increasing

(3) Source Organic Food Development and Certification Centre, China (OFDC)

With the slow uptake in certified exporters to China, and the increase in the demand from domestic producers, there could become an increase in popularity of other health or production claims, so this could be a crucial time to maintain momentum.

Certification and regulation

As of 2015 there is no organic equivalency agreement between the EU and China, nor is one expected in the foreseeable future. China is in equivalency discussions with the EU and trade missions are being organized, but this is unlikely to be relevant to or exporters for some years.

China has Government mandated standards introduced in 2005 - products for sale on the Chinese market must be certified by a CNCA approved certification body. In April 2014, SA Certification partnered with Organic Food and Certification Development Centre China (OFDC).

The Chinese organic certification process has been perhaps the most complex in the world. While food fraud is a driver for the growth of the organic industry, the standards that have been developed to combat this do have an impact on the ease of export there.

The strict system is combined with anti-fraud labelling affording trust amongst the consumer. The antifake labelling means that each INDIVIDUAL product has a unique identification number, on some this includes a scratch panel with the same number beneath, and a QR code linking into an online verification system. Once certification is gained, these anti-fake labels will be provided by the certifier.

Simplified dairy certification

For dairy products, it is now possible to inspect a sample of the supply chain equal to the amount exported, rather than all farms that make up the supplier base.

So, as an example, if an operator wanted to export 100,000 litres of milk a year for the Chinese market, but has a single processor producing 2,000,000 litres a year from a variety of farms, it would just be necessary to inspect a sample of farms needed to make the 100,000 litres, even though in practice, the milk may come from any of the farms in the supplier base, not just those inspected and certified to the Chinese standard.

It would still however be necessary that the inspected farms meet the Chinese standards. This would include the proportion of dry matter feed that is brought in over 10% of the herds diet (10% of feed can be just EU organic, the rest must be from the farm, or Chinese certified feed). Any processors would need to be certified also. Hauliers would also need to be inspected, this potentially be covered under the processor licence.

How SA can help

SA's partnership with OFDC means that we are able to coordinate organic inspections to reduce costs, as well as liaise with OFDC to ensure that the process is a smooth one.

An application for Chinese certification is partly summarised in a management plan type format – we can do some of this for you to save some work, and OFDC can help with translation. Analysis of air, soil and water quality need to be submitted in advance of an application, however, if local authority analysis is available, this could potentially acceptable.

In order to enquire and to obtain a quote and application forms, please forward details of the products that you would like to get certified, with a map of the supply chain stages that require certification. We will then be able to forward a quote on this basis.

We also have access to details of a limited number of EU based suppliers of GBT products that could help to shorten the supply chain certification requirements.

Further information can be found on the OFDC website:

http://www.ofdc.cn/en/

info@ofdc.org.cn

GBT – Chinese standards for processing and production.

Product should be listed on the Catalogue of organic product certification.

References/sources

Biofach China
SIAL
Organic Food and Certification Development Centre China (OFDC)
The website (http://ffip.cnca.cn/ffip/publicquery/certSearch.jsp) and the book （Organic Industry Development Report, issued by the CNCA. . Both of them are issued by CNCA, the governmental authority of supervising and managing the organic industry.
http://www.organicfoodinchina.org/ accessed 24/7/13

Japan

Introduction

Japan represents an interesting prospect for importers, as organic is still yet to catch on in the same way as it has in Europe, the US and other parts of Asia. Domestic organic production is very low indeed, so it is almost exclusively an import market. Still, the market is growing, and an equivalence agreement exists which facilitates ease of export there. There are some specifics to be aware of however, as products that are marketed in Japan must carry the JAS seal, which can be done in a variety of ways.

Japan is a major importer of food in general, though competition with other certification/product claims is part of the challenge in Japan.

The most popular products that are imported into Japan tend to be coffee, nuts and soya products.

Certification and regulation:

The equivalence agreement is just for plant based products, however there are other exclusions that apply as far as marketing products with the JAS seal.

There is an exclusion for alcoholic beverages, but this does not preclude export. As there is no local standard for these products, they can be exported with organic claims under SA/EU certification without need to for the JAS seal to be applied. It may still be necessary for SA to endorse an export certificate, however.

Strictly speaking, the agricultural origin of products would need to be from a country recognised by the JAS standards. In practice this can be difficult to demonstrate, with the final processing of the raw materials occurring in the EU being a requirement.

Barriers to export also include GMO derived packaging, such as PLA or ESBO so care should be taken that such products are not exported to Japan, as they will not maintain status.

Applying the JAS seal without certification:

You can set up an agreement with your importer, so that your company can apply the JAS seal. Your importer would train applicable staff on the application of the JAS seal. You would need to have a nominated person in charge of the logos who has confirmed they understand all of the rules relating to the application of the JAS seal. There would be a contract that would be signed between yourselves and the importer. Check with your importer whether the training can be remote, such as a webinar etc.

We do not participate in this process, as it does not require input from an EU certification body, so it would be a question of contacting your importer to arrange.

The product is imported into Japan, without the JAS seal, but this is applied by the certifier at destination.

An export certificate needs to be endorsed for each shipment. Please contact your certification officer for a copy of this form.

Market:

Currently, the market is estimated at $1.3 to $1.4 billion in 2010 (1) vs an estimate of the general 'natural' market of $6 Billion, the potential is there. It was estimated that the market would grow 12% by end of 2014 (1) Prices are comparatively higher for organic products than in the EU or US.

Some processors import directly though it is usually that product is imported by wholesalers.

Supermarkets will sell ad-hoc organic products among mostly non-organic offerings, there is yet to be a major supermarket or dedicated chain that has really started to push organic. Brands are becoming more developed though. That said, organic is not just to be found in specialist health food shops, though these are starting to become more common, rather it is widely available, if not largely so. Mother's Organic Market is an example of a more dedicated slant. Cooperative Unions are also coming into being with some of these importing products for sale to their members.

Consumer

Typically of the region, food safety and health are among the main motivators, however there is a significant slant towards the quality seeking consumer also. A survey found that although almost all consumers are aware of the term 'organic' just 5% of interviewees had an accurate understanding of the term. (1)
Of those that purchase organic products, the reduction in food additives was the biggest reason for buying at 44%, food safety at 41% and taste/quality at 36%. Around two thirds of consumers used
organic products at least once, and about 20percent a minimum of once a week and likely to increase their spending.

How Soil Association can help

SAC is able to carry out the inspection to the JAS standard to allow the application of the JAS seal in the UK, if the option for this to be controlled by the importer is not possible. The nearest show that we are supporting/are in attendance of is the Natural and Organic Products Asia in Hong Kong, which attracts companies from Japan and beyond.

JAS seal can either be applied through direct certification, whereby SAC carry out the inspection and our current partner JCS the rest of the certification process. For the inspection as an add on to the annual would be £100 plus VAT, the cost from JCS can vary, so should be checked directly.
www.pure-foods.co.jp

References and links: (1) Organic Market Research

Project (OMRP)" survey conducted in collaboration with the International
Federation of Organic Agriculture Movements Japan

South Korea

Introduction

A new equivalence agreement for processed products has made access to the Korean market possible. The market is set to grow, with increased demand for overseas organic products likely over the next few years at least. Consumers are increasingly looking for food they can trust with younger consumers becoming more engaged in food provenance and thus forming the basis of solid demand in years to come. There is an established market set up for the sale and distribution of organic products.

While there is a preference for home grown produce, and the equivalence agreement reflects this, there is still a demand for overseas goods especially those that are not commonly available there.

Those that have historically exported to Korea will be aware that recent changes in legislation led to a period where export was not possible, this has now been amended for processed products.

Certification and regulation:

As of 1st February 2015 an equivalence agreement was reached, which means that processed product can be exported to Korea. This covers all processed products except aquaculture.

The definition of processed, is either a multi-ingredient product, where ingredients are mixed together, or have additives added to them. Salt and water are not regarded as additives in their own right so salted nuts for example, do not count.

Single ingredient products need to be sufficiently processed that their original form cannot be recognised such as powders or purees.

Unprocessed products such as fruit, vegetables, cuts of meat, nuts and seeds are not covered by the equivalence agreement.

Korea also has an existing equivalence agreement with the US.

Other conditions:

Products must be processed in the EU to count. It does not matter if the product was produced before the 1st February, these can still be exported.

Only products labelled as organic (>95%) can be exported, products with derogations, with hunting or fishing components, aquaculture ingredients, or <95% organic products are not covered by the agreement.

For a Q&A on the agreement, please see the following link (the link within this does not work for the Korean import certificate, this can be accessed here:

http://ec.europa.eu/agriculture/organic/eu-policy/eu-rules-on-trade/non-eu-trading-partners/countries/korea-organic-equivalency-arrangement-qa_en.pdf

Korean export certificate:

A Korean import certificate should be completed. SAC will endorse these, please send to coi@soilassociation.org before 3pm, Mon-Fri and they will be endorsed the same day.

If you are an SA brandholder, but do not physically take possession of the product, then we still endorse the Korean import certificate. The manufacturer details are entered to the relevant box also.

Labelling

The Korean labelling standards need to be adhered to, this includes: translation into Korean, a telephone number for a Korean importer, the address of the manufacturer, country of origin. The use the MAFRA logo is optional. At the time of writing, official guidance is being drafted by the EU commission, as this is yet to be fully confirmed.

Un-processed products.

For products that are not regarded as processed, such as raw plant materials, cuts of meat or roasted or dried nuts, full supply chain certification is necessary.

If you want to go ahead with this, your supply chain would need to be certified back to farm level. Soil Association Certification can carry out the inspection in partnership with ACO, Australian Certified Organic who carry out the certifications and product approvals.

Certification to the Korean standard is £1500 plus VAT. Standalone inspections are likely to be a full day, and those added to existing inspections should take half a day extra. The inspection is carried out to a management plan format, which we can help put together.

Regulations and implementation

The South Korea organic market has been developing for a number of years – much work was done by pioneering IFOAM certifiers and related projects to kick start the market development. Regulations were developed over a number of years and after a couple of false starts, regulations were brought into force at the start of 2014. For a number of years SA Certification had product accepted into South Korea on the basis of a list of approved certifiers which we were added to when SAC were IFOAM accredited – this list was not updated, despite changes in IFOAM status until approx. 2012.

Consumer

The main motivation is with many countries in the region is for safer, healthier products. Food scandals and concerns over production methods are by far the greatest concern, more so than in Europe. Availability too means that a wide range of outlets stock organic products from large chains and supermarkets to a significant number of health food/dedicated organic shops. As with many countries on line sales are growing in popularity.

Despite a preference for locally produced products, farm gate sales are not as typical as in Europe, with box schemes yet to catch on significantly.

Market

The market for organic food in Korea is set to grow by to US$6 Billion by 2020, with 10% of the food industry represented by organic. This growth figure is against the most recent estimate of US$3.1 billion in 2009 (2)

The most commonly imported processed products are processed products, such as cereal, beer (alcoholic beverages are covered under the agreement), vegetable oils, herbs , spices and sauces, confectionary and an increasingly, baby food.

Though not covered under the agreement, fruit and vegetables comprise a considerable part of the market, these though are often domestically produced. Dried fruits are also popular, but for these to not require full supply chain certification, they would need to be products such as raisins with vegetable oil, or mixed dried fruit products.

Around 25%(1) of organic products are sold in the two largest stores – NACF Hanaro Mart/Club. A significant amount of the remainder is found at discount supermarkets. The most common arrangement to start with is a trial based set up between the purchaser and supplier, usually for a set period of time. After this if things look promising a more formal arrangement is usually entered into.

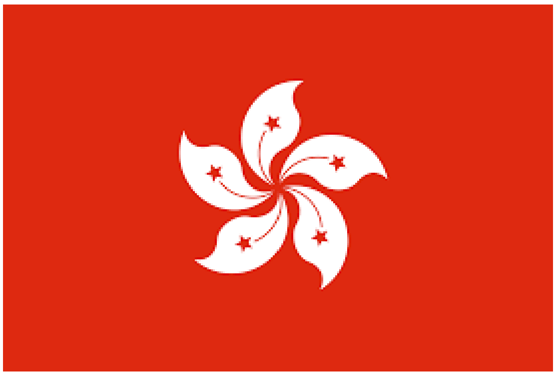
The domestic retailers tend to operate via established importers, the international chains more often have existing ones, in some cases retailers may import larger volumes directly. Retailers often expect some promotional products from suppliers. It is probably best to seek local guidance as many aspects of a products appeal locally could differ somewhat from the market at origin, such as organoleptic profiles and pack quantities.

Links and references:

(1) Gobal Organic Trade www.globalorganictrade.com

(2)GAIN report, USDA http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Organic%20Produts%20Market%20Brief%20Update_Seoul%20ATO_Korea%20-%20Republic%20of_3-17-2011.pdf

Hong Kong



Introduction

Hong Kong, with no legal requirement for certification offers a legislatively easy country to export to. Consumers increasingly are looking for food that is trustworthy, safe and free of pesticides which is the main reason for buying organic, with an increasing ecological motivation also. Additionally, a significant ex-pat community bolsters the popularity of UK brands.

Organic has a market in Hong Kong, but the lack of official organic regulation has resulted in some scepticism among consumers as to the reliability of organic claims.

Consumers are looking more to retailers than the traditional wet market (food markets). With a wide range of organic certification symbols on shelf, no overall symbol is recognised universally.

The Hong Kong Organic Resource Centre at The Baptist University are running a number of campaigns to raise awareness of organic in Hong Kong, and over time with the possibility of a local legislative framework for organic.

Events activity:

Soil Association attended the first Natural and Organic Products Asia event based in Hong Kong, which some companies use for accessing markets in South East Asia, including China. 2014 saw the cooperation between OFDC and SAC, announced at NOPA, and there will be more on this in 2015.

Soil Association Certification will again be looking to attend NOPA 2015 with a dedicated pavilion.

http://www.naturalproducts.com.hk/beta/

Certification and regulation

- Free trade for organic, currently no enforced local standard.
- No equivalence agreement necessary.
- No current official requirement for an export certificate to be issued. These may be required on a case by case basis, so it is advisable to check with your importer.

A local voluntary standard does exist, and there is a call for a regulatory requirement to be added in the future. At the time of writing there is no timescale for the implementation of this.

Currently some products are marketed without any certification, meaning that consumer confidence is relatively low, though foreign certifications recognised are Chinese, USDA, JAS, Canadian, local, EU and Soil Association, especially in the expat community.

Market and consumer

Generally there are few large organic importers

Sales to specialist retailers and supermarkets are the main export opportunities, with organic elsewhere being sold in mainstream shops. There are few large organic importers. Wet markets make up a around a quarter of sales though are declining.

35% of the population say they have purchased organic before, of this by far the greatest category is fresh vegetables and fruit. For products with longer shelf life, such as ingredients such as herbs and spices (24%) products and processed (39%) ones(1) with over 75% sold through mostly super markets and also health shops. (1)

Wet markets are still a significant avenue, if declining. It is predicted that the organic market will increase with 15% more shoppers likely to be spend more than HKD500 (around £50) per what. 56% will likely spend between HKD50 and HKD 200 per month (Between £5 and £20 per month).Confidence in organic provenance and price of organic product are the main negative deterrents to shoppers, however, more positively 74.4% of respondents sighted lack of choice as the main reason. (1)

Online sales are becoming more popular, which is also a way of selling directly to the some product to China, depending on the region. Chinese shoppers from local areas also bolster the demand for organic, though may be more inclined to look for the Chinese certification logo.

Not surprisingly for such an urbanised territory with mountainous terrain, the local home grown organic industry is small. Imports therefore comprise the majority of the organic products consumed in Hong Kong.

In the last ten years there has been a fourfold increase in local organic handlers of organic products, most of whom are retailers (ie Yeo's, Vitasoy, Pearl River Bridge). Fresh produce, processed foods and dry goods make up the majority of purchases.

Website purchases form a very small amount of sales but this is growing. The consumer from nearby Chinese regions also makes up an increasing portion of the market.

Refs 1 The Hong Kong Organic Resource Centre at The Baptist University – Organic Consumer Behaviour in Hong Kong.