ChinaNews

FOOD & FOOD INGREDIENT REVIEW
November / December 2005

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Mineral water marries wild fruits

Nongfu Spring Co., Ltd. (Qiandaohu, Zhejiang) [1] and the government of Yili (Xinjiang) have decided to co-operate on the development of the wild fruit resources in the Yili region. (cfin 24/10/2004)

Nongfu (Farmer) Spring has quickly developed into China's leading mineral water during the past few years. With this move, Nongfu is not only diversifying into the realm of fruit juice drinks, it is also following the current vogue in the Chinese food industry of developing local fruit and vegetables. What is special here, is that Nongfu is doing so in co-operation with a region located in the opposite side of China. This could create interesting synergy. Also see the next item in this respect.

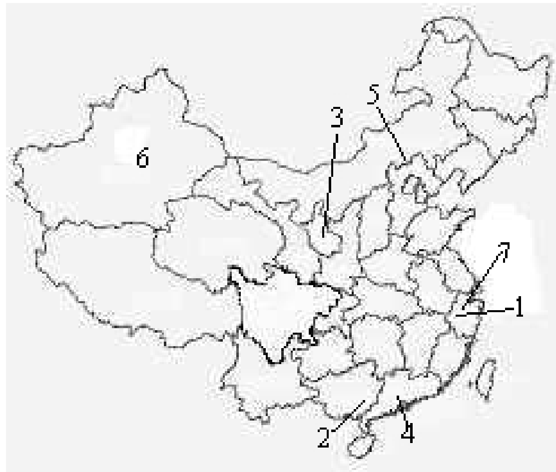
Nongfu is introduced in the Profiles section of this issue.

Distilled liquor decreasing again

China produced 13.336 mio hls of distilled liquor during the first 5 months of 2005, 2.5 per cent less than in the same period of 2004. This decrease is partly attributed to measures by the central government to control the production of distilled liquor. However, the industry is also suffering from imitations.

Distilled liquor is still a popular gift to compensate favours from superiors, officials, etc. This, in combination with the price hikes, has created a lucrative market for fake popular liquors. (tjkx 27/10/2005)

This item should be understood in connection with, for example, the item on the Guangdong wine consumption in the Local section of this issue. Distilled liquors are bound to lose more ground to wine.



Chinese biscuits in Japan

China is the largest supplier of biscuits imported by Japan. Japanese imports of Chinese biscuits amounted to 6,286 t in 2004, an increase of 39.1 per cent compared to 2003. This volume was one quarter of the total Japanese imports of biscuits in 2004. The following table shows the break down of Japanese biscuit imports in 2004 for the main countries of origin (unit: t).

Country	Volume
China	6,286
Malaysia	2,930
USA	2,480
Philippines	2,120

(cfin 26/110/2005)

Notwithstanding the geographical proximity, the main reason for the Japanese preference for Chinese biscuits is that the Chinese industry has been actively developing biscuits with Asian flavors. It is yet another example of the power of localising food products.

New contracts for Malibu-Cola distribution

Calcol Inc., the 100 per cent China subsidiary Malibu-Cola Beverage Co. Ltd. of Beijing confirmed that it has sales contracts now binding and in effect for nationwide rollout to all Wal-Mart, Sam's Club, Tesco and Carrefour stores throughout China to begin early next month (December 2005).

Calcol currently manufactures and distributes in China, primarily in Chinese supermarkets and through local distributors in the 10 major cities in Hebei province, Beijing and Tianjin, Malibu-Cola, Malibu Sunrise Orange, Malibu Surf's Up Lemon Lime, Malibu Very Cherry Cola, and Malibu Lemon Squeeze Carbonated Lemonade, as well as Malibu Diet Dee-Lite Cola in 500 ml, 1.25 litre, 2 litre pet bottles, and 355 ml aluminium cans. The products retail at a discount of 20 per cent-25 per cent below the retail price of other American colas sold in China. 14/11/05

Yili to Shandong

Yili, (Huhhot, Inner Mongolia) [5] China's no.1 dairy company, has signed an agreement with the local government of Pingyang (Shandong) for the establishment of a subsidiary of Yili in that region. Once in operation, the new plant can produce 600 t of drinking milk and 100 t of yogurt per day. All of the current top 3 Chinese dairy players are now active in Shandong, the other two being Mengniu in Inner Mongolia and Bright in Shanghai. (cfin 11/11/2005)

Shandong is itself a major dairy region in China. However, the local dairy industry has never been able to reorganise itself to adapt to the new competitive environment.

Sugar shortage expected

The consumption of sugar in China during the 2005 – 2006 production season is estimated at 11.5 mio t. Domestic production in the same period will be only 9.5 mio t; a shortage of 2 mio t. These figures were published during a sugar industry conference held in Guangxi recently. The demand for sugar in 2007 was estimated at 12.5 mio t, with the following food sectors as the major consumers (unit: mio t).

Industry	Consumption
Beverage	1.15
Canned food	0.2
Pharmaceuticals	0.15
Preserved fruits	0.12

(ssp 26/11/2005)

The table in this item sheds more light on the distinction of the Chinese soft drink industry into sugared and non-sugared types, adopted in an item earlier in this section. Also see the sugar industry special section in this issue.

Weiwei opens plant in Korla

The local subsidiary of China's largest manufacturer of soy bean milk, Weiwei, has signed a joint venture agreement with Dahua Industrial Development Co., Ltd. (Korla, Xinjiang) [6]. The new venture is called Korla Tianshan Agricultural Development Co., Ltd. Weiwei has a 51 per cent majority share in the new company. (cfin 11/11/2005)

The original news item does not specify the products of the new company. However, Weiwei has recently been concentrating its expansion in the dairy industry and Korla is not a soy bean region, so we may presume that it is another dairy plant. It will be Weiwei's second dairy plant in Xinjiang.

Yucheng: probiotics city

The China Light Industry Council has officially designated Yucheng (Shandong) [1] as China's 'Probiotics City.' Yucheng is the home town of three major producers of probiotics: Baolingbao, Futian and Longli. These three together account for 60 per cent of China's total volume of probiotics. All three are also major players on the international market. Moreover, their success has boosted the local farmers as well, through their consumption of maize. (tjkx 25/10/2005)

The growing demand for probiotics and low calorie sweeteners is has been pushing up the demand for maize, and therefore its price, in China. The price of corn cobs has risen from RMB 250 to RMB 350 per ton and higher in a timespan of only one year. This will be reflected in the sales price of products such as xylitol, oligosaccharides, etc. (cfn 25/10/2005)

Clustering of companies producing similar products in the same region is a common phenomenon in China. It is a consequence of the imitative propensity in Chinese culture. Once a company, in this case Baolingbao, is successful in a certain market, other parties in its home region may try to imitate that success. The authorities often encourage this, as is shown by the designation of Yucheng as China's 'Probiotics City.'

Mengniu and Chr. Hansen join hands to promote probiotic bacteria in China

The unveiling of new research results and the future for probiotic bacteria in China. These are just a few of the items on the menu when Mengniu Dairy (Huhhot, Inner Mongolia) [2], China's number one liquid milk producer, further strengthens its already close ties with Chr. Hansen, the world leader in dairy cultures.

Earlier this year, Chr. Hansen and Mengniu formed a strategic alliance with the purpose of promoting probiotic bacteria to the Chinese. As part of the agreement, Chr. Hansen will help train Mengniu's R&D and production staff, distributors, and sales force, and advise on marketing strategy and positioning for probiotics on the Chinese market.

Chr. Hansen in turn is recognized as the preferred supplier to Mengniu, which further underlines the dairy giant's position as primo inter pares among Chr. Hansen's business partners in China.

Probiotics have been going from strength to strength throughout the world in recent years, and China looks likely to be the next nation to experience significant growth. Dairy consumption in China is growing at an average rate of more than 20 per cent p.a., and Mengniu plays an important part in this development. The Inner Mongolia based company has achieved growth rates of 100 per cent each year since established in 1999. (fif 9/12/2005)

The Chinese sugar industry

Sugar is a major food ingredient. The fluctuations of the sugar prices determine the markets of a number of foods, beverages and other food ingredients. The following text is based on a Chinese study published in late 2004, but its contents are still indicative enough to be summarised in this special End of the Year issue.

The number of sugar plants in China exceeds 300, with an average output of 2000–3000 t per day. Guangxi the largest sugar region with an annual volume of 8.8 mio t in 2004, accounts for almost 60 per cent of total Chinese production. 94 per cent of Chinese sugar was produced from sugar cane. The following table lists the production of sugar in China in 2004, broken down in raw material and region (tons).

Cane sugar		
Guangdong	1,477,500	
Guangxi	8,820,000	
Yunnan	2,915,150	
Hainan	611,850	
Fujian	150,000	
Jiangxi	45,000	
Sichuan	120,000	
Hunan	75,000	
Others	30,000	
Total cane		14,153,550
Beet sugar		
Heilongjiang	180,000	
Xinjiang	675,000	
Liaoning	30,000	
Hebei	45,000	
Others	45,000	
Total beet		880,950
Total sugar		**15,034,500**

(Continued on next column)

The Chinese sugar (Continued)

China imports 400,000 – 700,000 t of sugar p.a. The country has an agreement with the Brazilian government to import 400,000 t of sugar from that country alone.

Our previous issue contained an item on the development of what in Chinese marketing terminology is called ‘sugar containing products.’ We will include this item here anew as an indication of the major sugar consuming industries in China. The China Light Industry Council has published the following production figures for these products for the first 7 months of 2005 and their increase compared to the same period of 2004 (units: t and %).

Product	Volume	Growth
Candy	374,500	29.9
Pastry	215,800	22.1
Biscuits	702,000	17.1
Frozen food	639,600	32.0
Dairy products	7,070,900	26.8
Canned food	1,747,000	27.5
Carbonated drinks	4,354,300	14.1
Fruit juice drinks	3,668,300	31.2
Ice cream	938,700	20.8

The average growth of the Chinese food industry has been 15 per cent p.a. during the past few years. The above list indicates that the sugar consuming food and beverages almost all have a higher than average growth ratio.

(Continued on next page column 1)

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An Apple Juice Concentrate plant in China

Editorial

Some time ago we published an Editorial with a title: 'Do they never learn…?' If we were to follow this line of thinking, then the title of the Editorial of this issue should be 'No, they never learn!'

Regular readers may already be able to guess the theme of these remarks: fruit (juice). When Chinese fruit juice concentrate, in particular apple juice concentrate (AJC), started to reach serious volumes, it became a cause of great anxiety among the traditional global players in this industry. Different regions (cultures) tried to cope with this threat in different ways. European countries reacted by increasing a number of specifications (RSK values), e.g. that for the glucose-fructose ratio and patulin, which are indications of the hygienic conditions of the raw materials. US AJC manufacturers did it the American way: they went to court. They accused Chinese exporters of dumping.

The accusations initially worked and most Chinese exporters of AJC to the US were levied high import duties, virtually blocking the way into the US market. However, the Chinese industry managed to unite (this is never easy in China, due to the fierce interregional strife) and contested the decision in the US courts. They won and Chinese AJC started entering the US once more by the end of 2000, after more than a year of anti-dumping measures.

Our 'Do they never…' Editorial was written after the Spanish manufacturers of canned tangerines started accusing their Chinese competitors of dumping as well, trying to convince the EU to ban Chinese products. Although the EU initially seemed to be reluctant to agree, anti-dumping measures against Chinese canned tangerines were levied. This fight is still going on.

During the period covered by this issue, US apple processors have re-launched their dumping complaints against the Chinese industry. An official US delegation has recently visited China to investigate the fruit juice industry. The situation is as tense as in 1999, although the Chinese have now learned the power of litigation: beat the Americans the American way.

This continuing issue shows how little is known about the Chinese industry from an organizational point of view, in spite of the widely published increased openness of the Chinese economy. If you want to really understand the Chinese industry, you need to look beyond the facts & figures. Most Chinese fruit juice plants are collectively owned by local governments, or even groups of individual farmers. Many AJC production lines only work during the apple season, i.e. from late August to March, at the latest. Most of the staff are farmers or farm hands. They tend the orchards when the apples are growing and take care of the harvesting. Once the apples are harvested, they become factory workers, processing the apples into juice and other products. By the time the processing has finished, they have to start working in the orchards again, to take care of the next crop. You do not need to be an economist to realise that this way of operating an AJC plant is extremely low in labour cost, which is exactly the single highest cost in similar plants in Europe and the US.

Chinese AJC is not being dumped, it is simply extremely cheap to produce AJC in China. The rest of the world has to live with the fact that AJC will never return to the price level of (and before) the mid 1990s. However . . . will they ever learn?

Arla in milk powder joint venture in China

Arla Foods and the Chinese dairy company, Mengniu (Huhhot, Inner Mongolia) [4], have signed a joint venture for the production of milk powder in consumer packs for the Chinese market. From October 1, 2005 Arla Foods and the Chinese dairy company, China Mengniu Dairy Company, are setting up a joint venture in which Arla has a 49 per cent stake and Mengniu 51 per cent.

The move into the Chinese market is an excellent example of a combination of export and local production of retail packed milk powder. As milk powder in consumer packs is a strategic core business for Arla Foods and as China is the world's largest market for consumer packed milk powder, Arla Foods has a natural interest in the potential within this market, which is showing clear signs of growth. The increasing imports of milk powder have been a further factor.

The joint venture will undertake local production of milk powder as well as distribution in consumer packs and will also handle imports and distribution of added value Scandinavian produced milk powder. The company is expected to gain a strong position in the Chinese market. (fif 26/8/2005)

See the comments on the previous item.

Bright expands to Guangxi

Bright's daughter company in the Shenzhen Special Economic Zone (Guangdong) has established a subsidiary in Beiliu, Guangxi [8]. The new plant will be developed in four stages, to be finalised in 2010. By that year, it is expected to generate a turnover of RMB 450 mio. (cfin 8/9/2005)

Cheese imports increasing

According to figures released by the China Dairy Association, Chinese imports have been increasing sharply during the past few years, as is shown in the following table (unit: t).

Year	Import
2002	2 533
2003	4 614
2004	7 250

The Association estimates the Chinese consumption of cheese in 2004 at approximately 10,000 t, which means that the domestic production of cheese was about 2,750 t. Cheese is regarded an interesting opportunity for investors. (tjkx 4/9/2005)

A number of cheese projects are already under construction, including one by Land O'Lakes.

Dairy exports of the 1st half of 2005

According to the China Dairy Association, China exported 30,572.17 t of various dairy products during the first half of 2005, generating USD 32.57 mio in hard currency. The following table lists China's main export regions in this period (unit: per cent of the total export value).

Region	Ratio
Hong Kong	56.17
Taiwan	21.06
Birma	12.68
Macao	1.81
Japan	1.75

(cfin 5/9/2005)

DSM opens R&D centre in China

DSM has opened its first Research and Development (R&D) Centre in China. The centre is located in Shanghai. The DSM R&D Centre China will be the company's main R&D base in the country and will form a vital part of DSM's global R&D network.

In addition to carrying out product and applications development work, the centre will support DSM's businesses in several other ways: by tracking market trends, by proactively responding to the needs of customers, and through interaction with the external know-how infrastructure, such as partners in 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 Centre. DSM has always maintained a strong emphasis on innovation.

Throughout its century-long history of transformation and business expansion, innovation, in which R&D plays a crucial role, has been and will stay a top priority. Total R&D expenditures in 2004 amounted to EUR 286 mio, around 4 per cent of net sales.

Worldwide, DSM has approximately 2000 R&D staff organized around a range of competences at the forefront of technology. Consequently, DSM enjoys a competitive technological advantage in fields as varied as nutritional science, biotechnology and materials science.

(Continued on next column)

DSM opens R&D centre (Continued)

DSM also works closely with some of the world's most innovative R&D partners, exchanging scientific and technological knowledge with some 2000 university departments worldwide. DSM currently owns 13000 patents, covering 2500 individual inventions, and some 250 patent filings take place every year.

In China, DSM is very active in seeking partnerships with research institutions 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 will open later this month. The partnership will give the renowned Chinese institution the financial, technological, manufacturing and management support needed to exploit innovations to the fullest. (fif 8/9/2005)

Gansu to be pillar of wine and beer industry

The provincial government of Gansu [2] is taking the production of raw materials for the beer and wine industries as a pillar of the regional economy.

The government expects to be producing 800,000 t of barley by 2010, which will be 18–20 per cent of the total national production. In the same year, a wine grape output of 80,000 t is expected, which will produce 500,000 hls of wine, 6 per cent of the projected national volume. (gsed 17/10/2005)

Ingredient consumption of instant noodle plants

Instant noodle plants are a major boost to the farmers in its vicinity. Jinmailang, a major manufacturer with 71 plants in various parts of China, has revealed its consumption of macro-ingredients in 2004 (unit: t):

Product	Consumption
Wheat	1,800,000
Fresh vegetables	30,000
Dehydrated vegetables	3,000
Beef	5,000
Peppers	1,000
Eggs	2,500

(cfin 9/10/2005)

Another major brand, Chef Kang, reports a consumption of 8 000 tpa of beef for 600,000 t of wheat flour (cfin 10/10/2005). Apparently Chef Kang's beef noodles are more 'meaty' than those manufactured by Jinmailang.

Soy bean flavone up

The Chinese production of soy bean flavone has been gradually developing during recent years.

Insiders estimate the current production at 200 t p.a. The purity of the Chinese soy bean flavone currently varies between 10 per cent and 40 per cent. (cnr 26/9/2005)

Also compare the item on soy bean protein earlier in this section.

Peanut protein technology

Chunqiu Vegetable Protein Co., Ltd. (Ji'ning, Shandong) [5] has developed a new process to produce peanut protein.

The main innovation of this process is that it takes place at low temperatures, which helps preserve the nutrition (vitamins and minerals) of the peanut. (ifood 8/10/2005)

Wangzhihe on the move

One of China's oldest manufacturer of traditional seasoning products, Wangzhihe (Beijing), is moving its production facilities from its old location to the new Yanxi Development Zone in the City's Huairou District.

This will decrease the burden Wangzhihe puts on the environment of the urban region of the capital, while the new plant will also have an increased annual production capacity of 40,000 t of soy sauce and 5,000 t of vinegar. (cfin 20/9/2005)

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Soft drink statistics

The following table shows the monthly Chinese production of alcohol-free beverages in the first half of 2005 (unit mio hls).

Month	Total	Sweetened	Packaged water
Jan.	21.05	14.41	6.64
Feb.	19.73	12.75	6.98
March	31.04	20.98	10.06
April	20.57	9.64	10.93
May	27.71	17.02	10.69
June	34.66	20.16	14.50

(cfin 20/7/2005)

Consumption of packaged water is increasing in line with the increase in temperature. The development of sweetened drinks does not seem to show any regularity.

Foreign injection for Wandashan

Richkeen, a British investment company based in the Virgin Islands, and Uni-President of Taiwan have jointly purchased a 50 per cent share of Wandashan Dairy Co., Ltd. (Heilongjiang) [9]. The deal involves an amount of RMB 1 billion. (sd 20/7/2005)

Wandashan has been ranking among China's top 10 dairy company for years, but recently the company seemed to have problems in sustaining itself in the fiercely competitive Chinese dairy industry.

Fruit juice joint venture

Hengxing (Shaanxi) [7] and Singapore based QAF Ltd. signed a joint venture agreement on July 13 to produce and export fruit juice. Shaanxi currently produces 500,000 t of apple juice concentrate per annum, 90 per cent of which is exported. (cfin 15/7/2005)

QAF Ltd's principal activities are manufacturing, distribution and trading of bread, bakery and confectionery products. Other activities include provision for warehousing logistics for food items, trade and distribution of food, beverages, food related ingredients and commodities, production, processing and marketing of meat, feed milling and trae in animal feed and related ingredients, production, processing and sale of dairy products and investment holding. Its propriety brands include Gardenia, Cowhead, Farmland, Haton and Orchard Fresh. Operations of the Group are located in Singapore, Malaysia, Australia, China, Philippines, etc.

Chongqing brewery increases production in Hunan

The new production facility of Guoren (Changde, Hunan) [10] a subsidiary of the Chongqing Brewing Co., Ltd., started up on July 20. It will add 1 mio hls to Chongqing's total capacity and will make it a direct competitor to other national brewers that moved to Hunan earlier, in particular Yanjing. (hnd 22/7/2005)

Chongqing is currently China's fifth brewer, after Yanjing, Qingdao, China Resources and Zhujiang. This could be partly due to Chongqing's central location right in the heart of China.

Vitamin C candy

Zhongjia Co. (Taiyuan, Shanxi) [5] has launched a new type of candy enriched with vitamin C. It is marketed as a functional food supplementing vitamin C. (tyjzk 12/8/2005)

Alcohol for diabetics

Sangu Industrial Co., Ltd. (Chengdu, Sichuan) [6], in co-operation with China Ocean University (Qingdao, Shandong) and Hong Kong base Govern Liquor Co., Ltd, has launched a new type of alcoholic beverage, which is said to be specially designed for diabetics.

The process has been developed by a group of researchers from the China Ocean University and contains extracts (peptides, polysaccharides, etc.) from sea cucumber, abalone and other sea animals regularly used in Chinese medicine. It is produced using an aerobic fermentation process. It can be consumed alone, or mixed with ice or ice tea. (cfin 17/8/2005)

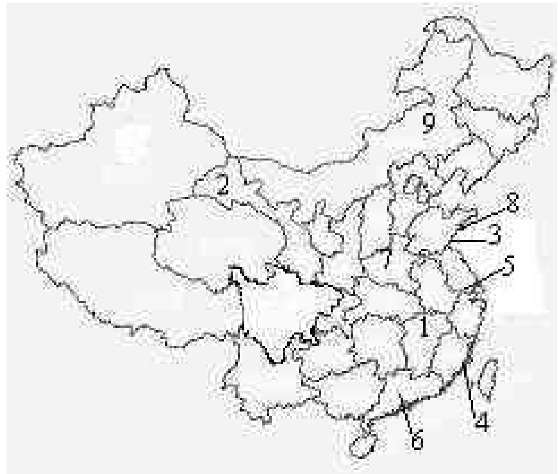
More malt from Jinchang

The Mogao Jinchang Malt Factory (Jinchang, Gansu) [2] has started its new malting plant. With this new plant, Jinchang has a total capacity of 80,000 t of malt per annum. (cabn 7/7/2005)

This will relieve the Chinese demand for barley on the international market. Also see the item on barley imports in the General section of this issue.

Hops forecast

China is expected to produce more than 12,000 t of hops in 2005. More than half of this volume will be grown in Gansu province [2]. (cifn 28/7/2005)
Also see the item on the new malting plant in Gansu above. Gansu is rapidly developing as the major production region for brewing ingredients in China.



Protective coating for strawberries

Tellcan (Taikang) Food Technology Co., Ltd. (Nanchang, Jiangxi) [1] has invented a new type of protective coating for strawberries. It is said to be made of natural edible material. Coated with this products, strawberries remain fresh for 15 days in cooled storage and 7 days in room temperature. (cftn 1/7/2005)

Stabiliser for Coffee Mate

Zhongding Additive Co., Ltd. (Zhangjiagang, Jiangsu) [5] has developed a special stabiliser for Coffee Mate. It is said to increase the solubility of the powdered creamer, creates a better emulsion and enhances the creamy taste. (cftn 28/7/2005)

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Beverages: share and turnover

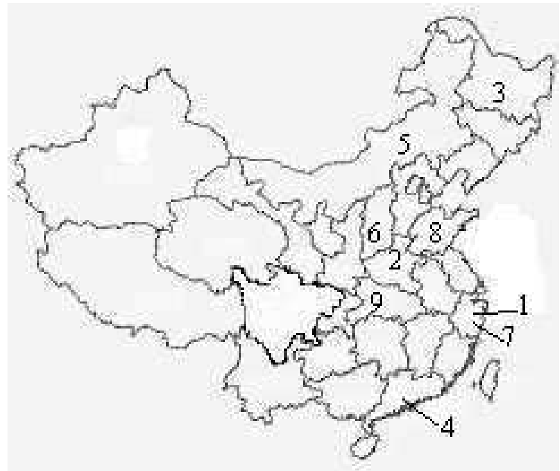
The China Beverage Industry Association has released the following break down of market share and share in the total turnover for the various categories of beverages (unit: %).

Category	Market share	Turnover share
Bottled water	41	10
Soda	23	30
Juice	17	19
Others	19	41

The total Chinese production of soft drinks was 291.2 bio hls, almost 23% more than in 2003. The largest production regions of soft drinks were Zhejiang and Guangdong, both with a share of approximately 19%. Zhejiang accounted for more than 25% of the total national output of bottled water, while Guangdong was the largest region for fruit juice drinks, with a share exceeding 21%. (jb 25/5/2005)

Zhejiang honey to Europe again

Hengliang Honey Products Co., Ltd. (Jiangshan, Zhejiang) [1] has resumed its export of honey to Europe, after the EU lifted the ban on Chinese honey. The Jiangshan region, known as ‘China’s land of honey,’ has been hit severely by the ban. Before that incident, Hengliang alone represented 60% of the EU imports of royal jelly. (zjcn 25/4/2005)



Supermarket Food Safety Committee established

The China Chain Store Association has recently established a special Supermarket Food Safety Committee. A number of national chains, including Wal-Mart, Metro, Hualian, Lianhua, etc., have become members of the committee. (bjan 25/4/2005)

This action has been long due. The Chinese media regularly publish lists of substandard foods discovered during random inspections. These reports not only indicate the manufacturers of the products, but also the retailer where they were found. This is apparently an effective way of involving retailers in the drive for better food safety.

Haitian expands soy sauce production

Haitian Seasoning Food Co., Ltd. (Foshan, Guangdong) [4] has officially announced that its new 1 mio t soy sauce plant is ready to start production. This plant makes Haitian the largest manufacturer of seasoning products in the world. (fsd 29/4/2005)

Haitian has already been China’s largest exporter of soy sauce for a number of years.

Top dairy brands April 2005

The following table shows the top three brands per major economic region of the period April 2005. The statistics have been compiled in one representative city of each region.

Region - City		
1	**2**	**3**
North - Beijing		
Mengniu	Bright	Yili
Central - Changsha		
Yili	Mengniu	Bright
East - Ji'nan		
Jiabao	Yili	Mengniu
South - Guangzhou		
Mengniu	Yili	Bright
Northeast - Harbin		
Wandashan	Mengniu	Longdan
Southwest - Chengdu		
Yili	Huaxi	Jule
Northwest - Xi'an		
Yinqiao	Tianshanxue	Mengniu

(tjkx 27/5/2005)

This table immediately distinguishes the dairy from the non-dairy regions. The Inner Mongolian rivals Mengniu and Yili dominate in the non-dairy regions, while dairy regions prefer the local brands. However, each region has at least one Inner Mongolian brand in its top 3 list. Shanghai-based Bright is a good third.

Yili in Taiyuan

The Yili Group (Huhhot, Inner Mongolia) [5] has entered into an alliance with the Xinle Dairy Co. (Taiyuan, Shanxi) [6]. This move is welcomed by the Taiyuan government, as the existing processing capacity is lower than the local production of raw milk.

The plant will start with processing 40 t of milk per day and sell its products (drinking milk and yoghurt) to Shanxi, Henan and Hebei. During the following stage, a UHT plant will be added and the processing capacity will be increased to 100 t per day. (tyen 11/5/2005)

This is Yili's second plant in Shanxi. The first was established in Shanyin County (North Shanxi) in 2003.

Yanjing starts 5 new breweries

China's top brewer, Yanjing (Beijing) has started 5 new breweries. Four of these are located in the South: Xiantao (Hubei) [9], Fuzhou (Fujian), Yulin (Guangxi) [10] and Foshan (Guangdong) [11]; the fifth in Baotou (Inner Mongolia).

This brings the total capacity of the Yanjing Group to 31 mio hls of beer p.a. (jht 26/5/2006)

Tianjin

Tianjin dairy market

The government of Tianjin is set to make the city's entire dairy industry green, which means that local dairy cattle will be raised under ecologically friendly conditions. For 2004, this was already the case for 70% of the regional herd and this is expected to rise further to 80% this year. Tianjin's production of drinking milk has increased from 518,200 litres in 2000 to 1,814,920 litres in 2004. The following list shows the top three Tianjin dairy companies ranked according to daily milk processing capacity (unit: litres/day).

Company	Capacity
Haihe	2400
Bright Mengde	1800
Wandashan	1300

The list of top three drinking milk brands in the Tianjin regions shows different companies (unit: %).

(Continued on next column bottom)

Henan

Henan 4th food region

The Henan food industry generated a total of RMB 106.78 billion in 2004, making it China's fourth food region. Moreover, Henan ranks first in a number of product groups, shown in the following table, together with the main Henan based brands.

Product group	Brands
Meat	Shuanghui (Shineway), Huaying, Dayong
Instant noodles	Baixiang, Tianfang, Nanjiecun
Seasoning products	Lianhua, Shisanxiang
Quick frozen foods	Sanquan, Sinian, Kedi

(cfn 19/5/2005)

Tianjin dairy market (Continued)

Company	Market share
Haihe	52.3
Mengniu	21.3
Yili	10
Others	16.4

(dac 30/5/2005)

It is interesting to see that Mengniu and Yili, which have no production facilities in the region, rank among the top brands of drinking milk, while Bright and Wandashan, whose head offices are based in Shanghai and Heilongjiang respectively, do have plants in Tianjin, but rank among the 'others' in the list of locally preferred drinking milk brands. Apparently, marketing is more important in gaining market share than having a local production facility. Moreover, the real local brand, Haihe, confirms that local brands are preferred in China's traditional dairy regions (see the comments in the General section of this issue). The reason that Tianjin has a relatively high consumption of dairy products can be attributed to the long foreign influence in the region, as Tianjin is one of China's largest international port cities.

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Newly approved additive applications

The following new food additives and/or application areas have been recently approved by the Chinese authorities.

Additive	Application	Dosage
Calcium hydroxide	Infant formulae	As needed
Potassium hydroxide	Infant formulae	As needed
Sodium bicarbonate	Infant formulae	as needed
Sodium pyrosulfite	Preserved fruit	0.35 g/kg
Sucrose ester	Pastry bakery products	3 grkg
Propylene glycol fatty acid ester	Dairy products	5 g/kg
Maltitol	Fruit jelly	As needed
Sucralose	Fruit jelly	0.45 g/kg
Acetylated starch	All	As needed
Vitamin K	Milk powder for pregnant women	34-68 mcg/kg
Potassium chlorate	Milk powder for pregnant women	706-141 mg/kg
Magnesium carbonate	Milk powder for pregnant women	113-226 mg/100 g
Magnesium oxide	Milk powder	0.7-1.1 g/kg

(cftn 18/3/2005)

Degussa increase Chinese production

In January 2005 the Business Line Texturant Systems of Degussa Food Ingredients started the production of texturizing blends in its newly built production unit in Shanghai as it aims to enter more into the growing Asian market.

The new blending unit was built within only 8 months and the production started exactly on schedule. The texturizing blends are mainly used in Chinese dairy, ice cream and confectionery industries.

In March 2005, Degussa AG sold its Fruit Systems business to private equity, Speyside Equity LLC. The food ingredients business is being valued in the region of EUR 750 mio, but no details of a timeline on the sale are being revealed. (fif 18/3/2005)

Protein powder from bones

The Gaoyi Gelatin Factory (Gaoyi, Hebei) [2] has developed a process to extract protein powder (glycogen polypeptide) from fresh bones. The process includes a step of enzymatic hydrolysis. The waste product of this process can be further processed into other value added products such as bone oil. (cftn 14/4/2005)

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Editorial

The monkey gives way to the rooster

Now that the new moon has started, the rooster has taken over from the monkey as the animal of the year in China and most of East and Southeast Asia. We do not dare to predict that this will benefit the poultry breeding and processing industry, but 2005 will definitely be a great year.

The Chinese economy is more vigorous than ever before and foreign investors are almost lining up to enter this market or expand their existing business. The regular reader would have noticed that in our previous Editorial, we had listed recent foreign investment in the Chinese food ingredients sector, however, this issue is laden with news of even more foreign investment. Browsing through the sections, we see names such as Carrefour, Starbucks, Absolut, Nestlé, Heineken, Degussa, Chr. Hansen, Kerry, etc.

2005 appears to become not so much the year of many new developments, but more an accelerated continuation of the developments that started last year.

One of those developments is the incredible growth of the Chinese dairy industry. China is now definitely the fastest growing dairy market in the world. A remarkable aspect of this expansion is the low involvement of foreign companies. Although the dairy industry is something imported from abroad for most Chinese regions, foreign investors seem to play a minor role. Most international players tried their luck in China, but only a few were able to set up shop in China successfully.

A year ago, our reports of the Chinese brewing industry were rather pessimistic, mainly due to sharp increases in the price of raw materials. This industry currently seems to be recovering. The growing purchasing power of Chinese consumers probably plays an important role in this matter. The prices of raw materials are still high, but Chinese consumers are now willing to pay a premium price for high end products. Local and foreign brewers have currently launched high specialty beers for exigent beer drinkers. Qingdao's 'original beer' is a good example of this phenomenon, as it seems to indicate that Chinese consumers are even willing to pay a premium for what sounds like the original version of a product.

On the subject of consumer affluence - if there is one indication of the increase in spending power of Chinese consumers it should be the item on coffee in this issue's General Section. Not that long ago, coffee tasted like 'Chinese medicine' to most Chinese. This brew has developed into a life-style beverage of modern Chinese urban dwellers in only a few years, and they are ready to pay.

A final trend worth monitoring this year is the development of food production regions located in the Central or Eastern parts of China - the export of apple juice from Gansu, coffee production in Yunnan, tomato puree from Xinjiang, etc. The Chinese food industry is no longer concentrated around the three main urban centres of Beijing, Shanghai and Guangzhou. If you want to be active in this market, you need to travel. And there is a lot of travelling to do, before you have covered this country.

The next major event is FiA China, which will be held in Shanghai in early March, followed by FIC two weeks later. The developments described in this Editorial call for similar developments in the ingredients market. Visiting these shows will therefore be exciting, and will be reported extensively in our second issue of 2005.

Jiangxi food additives association

Jiangxi province [3] has established its own food additives association on January 18. During the ceremony, it was revealed that the provincial food additives sector had generated a total turnover exceeding RMB 700 mio in 2004 and earned a further USD 36 mio from exports. (jsd 20/1/2005)

Most Chinese provinces have already established such associations. The addition of this regional association in one of the poorer provinces is yet another proof of the enormous development that is currently taking place in the Chinese food ingredients industry.

Chr. Hansen starts production of food colour in China

Food and beverage manufacturers in China soon will have easier access to natural food colour that is specifically suited to their market.

On January 18th 2005, Chr. Hansen opened a food colour factory in Tianjin [5] using Chinese raw materials. Chr. Hansen is experiencing a rapid increase in food colour sales in the Chinese market. As a result, it has decided to strengthen its current presence in China by establishing a factory that mixes and manufactures food colour solutions, tailor-made for the Chinese market. This is just one year after Chr. Hansen officially established a sales office in Beijing. (fif 20/1/2005)

Also see the other item on Chr. Hansen in the next column.

New stachyose line

Dapeng Biotechnology Co., Ltd. (Xi'an, Shaanxi) [4] has started construction of a new stachyose production line, that is set to become the largest of its kind in Asia by 2009, with an annual volume of 1000 t. Dapeng has developed a unique process to extract stachyose from a local plant called Diling. The company's R&D department is also engaged in the bio-engineering of Diling, increasing its stachyose content. (cfip 24/1/2005)

Dapeng is introduced in the Profiles section of this issue.

Chr. Hansen links up with Mengniu

Chr. Hansen and China's top dairy producer Mengniu (Huhhot, Inner Mongolia) have entered into a strategic alliance under which Mengniu will fortify its yoghurt with probiotics from Chr. Hansen.

Moreover, a laboratory for the local production of the cultures will be established within Mengniu's plant. (eo 19/2/2005)

Also see the other item on Chr. Hansen in the adjoining column.

Yunnan plans to be big in flavors

Yunnan has always been an important production region of spices in China. On the basis of the available resources, a local industry for the production of flavors and essences has been developing since the establishment of the Kunming Flavor Factory in Kunming, the provincial capital, in 1959. Yunnan presently boasts almost 50 flavor manufacturers, which, together, account for 30% of the national production and 15% of the national export of natural flavors, generating a turnover of more than RMB 600 mio. (tjkx 18/2/2005)