

Exploring the Potential for Developing Exports of Kava to China: A Snapshot View

Technical Report #078

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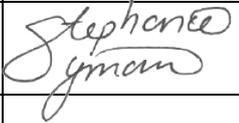
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Acronyms

Abbreviation	Description
AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
CNCA	Certification and Accreditation Administration of China
CIQ	Entry-Exit Inspection and Quarantine Bureau (AQSIQ)
ETCN	Export to China (import and export information)
F&B	Food and Beverage
GACC	General Administration of Customs
HS	Harmonised commodity description and coding System (tariff nomenclature system)
LDC	Less Developed country
MAWG	Market Access Working Group
mt	Metric Tonne
NESOI	Not Elsewhere Specified Or Indicated
OTC	Over the counter
PHAMA	Pacific Horticultural and Agricultural Market Access Program
PIC	Pacific Island Country
PRC	People's Republic of China
PT&I	Pacific Islands Trade and Invest
SAC	Standardization Administration of China
TCM	Traditional Chinese Medicines
USD	United States Dollar

The authors would like to thank Mr Frost Tuauu for assisting with the field work.

Executive Summary

China is renowned for its consumption of herbal or traditional medicines, while kava is recognised as an herbal medicine to treat anxiety and insomnia. Given this and China's huge consumer base, the Fiji Market Access Working Group was interested in determining the potential of exporting kava to China.

This feasibility study, undertaken by Pacific Trade and Invest Beijing notes that, before approaching the Chinese market, it is important to clearly map out what the scope of the export product is (kava dried root raw material or kava powder etc.) and what the current and future supply capacity is expected to be.

It found that there are opportunities for kava to be exported to China:

- New attitudes towards self-medication present opportunities to export a herbal medicine product that could be sold over the counter in pharmacies. Given the lack of knowledge about kava, working with the universities that specialize in Chinese medicine or with a group of TCM practitioners could be a possible strategy for introducing kava into the herbal medicines market in China and growing awareness in the market about the product.
- Kava could also be introduced into the food and beverage industry as either a finished food product or for use in food production to develop a functional food product whose benefits stem from the unique properties of kava.
- Growing expenditure in healthcare in rural parts of China present opportunities in developing a herbal medicine product for second or third tier cities in China.
- China's growing aging population also presents opportunities as a target market.

There are, however, two key challenges to consider:

- There is a need to address the lack of consumer awareness in China about the benefits of kava and the negative perceptions of the product as a result of the previous ban by certain European countries. This will require a concerted marketing effort and sufficient marketing budget.
- New entrants also need to find the right local partner to navigate the geographic, sociological and governmental complexities of the country.

1.0 Introduction

The Pacific Horticultural and Agricultural Market Access (PHAMA) Program is an aid for trade program, funded by the Government of Australia, and designed with the goal of increasing exports of high value primary products from Pacific Island Countries (PICs), thereby contributing to increased economic growth, private sector development and improved rural livelihoods in these predominantly agricultural-based small country economies.

Each of the Pacific Island countries participating in the PHAMA program has a Market Access Working Group (MAWG) which is responsible for prioritizing the market access activities for PHAMA support, and for overseeing implementation of these activities.

The Fiji MAWG has requested that PHAMA explore the potential for kava exports from the Pacific Islands to the China market.

Pacific Islands Trade & Invest (PT&I) is the regions' lead export facilitation, investment and tourism promotion agency. It is tasked by regional leaders to develop, grow and promote industry and the businesses of all 14 Forum member countries in export, investment and tourism promotion across international markets.

It is recognized that a structured collaboration between PHAMA and PT&I would strengthen the coordination of work on joint areas of interest and effective use of available resources and expertise, particularly when activities being considered or developed through the PHAMA program relate to markets where PT&I has an in-country presence.

PT&I have a regional office based in Beijing, China. It has been in the market for over ten years and in August 2014, PT&I Beijing undertook a study consisting of 30 interviews¹ with industry representatives in China and desk based research, exploring a range of questions as directed by PHAMA² relating to the potential for kava in the China market.

2.0 Market Overview

Kava is used in herbal medicine to treat anxiety and insomnia. The active ingredients are called kavalactones and it is commonly prescribed by herbalists and alternative medicine practitioners for all types of anxiety disorders. Kava is also a traditional beverage and can be considered to be food. For the purpose of this report, the potential of kava in China's pharmaceutical industry will be the main focus.

China, with its large consumer base, continues to be a market of interest. With a focus on consumption led growth there are opportunities for kava in both the food and pharmaceutical industry. In the case of the latter, analysis by IMS Consulting Group predicts that China is likely to be closer to being the second largest pharmaceutical market in the world if traditional Chinese medicines (TCM) are included.³

1

Chinese Academy of Tropical Agricultural Sciences, Hainan; China Council for the Promotion of International Trade; Sanyuan Tianyu Biological product Co.Ltd; Shaanxi Pioneer Biotech.Co., Ltd; Ms Jiang Shan; Xi'an Plamed Green Science Limited; Xi'an SR Bio-Engineering Col., Ltd; Xi'an Rongsheng Biotechnology Co., Ltd; Shaanxi Rebecca Bio-tech Co., Ltd; Xi'an Jiatian Biotechnology Co., Ltd; Xi'an Haoxuan Biotechnology Co.; Xi'an Realin Biotechnology Co., Ltd; Xi'an Yuensun Biological Technology Co., Ltd; Run Shaanxi Days of Biological Technology Co.Ltd; Shanxi Jinye Biotechnology Co., Ltd; Hunan Kanglu Biotech Co., Ltd; Changsha Huir Biological-Tech Co., Ltd; Changsha Huakang Biotechnology Development; Nanjing Zelang Medical Technology Co., Ltd; Wuxi Gorunjie Natural-Pharma Co., Ltd; Shenzhen Naturactive Inc.; Hangzhou New Asia International Co., Ltd; The Hutong; Baoya Pharmacy; Guozong Pharmacy; Kangji Tangda Yaofang; World Health Store; Beijing Yong An Tang Pharmacy Chain Store Co. Ltd; Watsons Sanlitun; Jinkelong Sanyuanli

2

What products containing kava are currently on the wholesale and retail market in China? Are there any particular trends in demand and/or wholesale & retail prices? What processing of kava is done in China? Is there any domestic production of kava in China? What raw material for processing is imported into China and in what form(s)? What countries are currently exporting kava/kava products to China; any details on particular ports of entry? What are the official or government import requirements for kava/products containing kava? What is known about the commercial requirements and standards for importing kava/products containing kava? What potential opportunities are there for exporting kava/kava products to China?

3

IMS Consulting Group. (2012). Growing pains – China's new pharma realities, and the necessity of an informed strategy in bridging the gap between assumed and realized growth.

Government reforms around health care are expected to contribute to growth in China's pharmaceutical industry. Under the Central government's 12th Five Year plan (2011 – 2015) concerted efforts are being made towards expanding basic medical insurance cover. Healthcare expenditure in rural parts of China is rising with the proportion of expenditure increasing from 3.2 % to 7.2% between 1990 and 2009.⁴

China also has an aging population with health care needs to be catered for. Research undertaken by the Boston Consulting Group states that in 2020, 33% of the total population will be 50 years or older, up from 24% in 2010. The Government's Healthy China 2020 plan will also see US \$1.4 trillion invested in pharmaceuticals by 2020, further driving growth.⁵

Both modern and traditional Chinese medicine are practiced alongside each other, servicing China's 1.3 billion consumer base. Kava, as an herbal medicine, could find a place in China's TCM sphere. In 2007 traditional Chinese medicine accounted for 40% of total pharmaceutical sales in China with TCM revenue at approximately US\$21 billion⁶, generated mainly through hospitals.

Outside of the hospitals, TCM features strongly in Over the Counter (OTC) pharmacy sales. Within the list of OTC drugs covered by the Government's basic medical insurance plan, TCM makes up approximately 80% of OTC drug sales, and are often the first option for many Chinese consumers due to cultural familiarity, and the perception that they have fewer side effects and lower toxicity.⁷

Despite China's rich history of herbal remedies, they only have a 5% market share of the global TCM market⁸, which implies potential for much growth in the future. TCM will continue to be a growing industry due to growing urbanization and new attitudes towards self-medication.

China also has strengths in pharmaceutical manufacturing and often contract manufactures for foreign companies. Kava was mainly imported into China as raw material for processing and export rather than for the local market. In this case, demand for kava is determined by the level of demand abroad.

China is working towards moving up the value chain with government incentives being introduced to support movement towards being a research and development base for the world.

China is considered to be the most important emerging pharmaceutical industry and the challenge for kava exporters in the Pacific Islands is not a case of opportunity, but one of determining where and how to compete in China. China is a market that is challenging to navigate and there would be no reward without risk.

3.0 Regulatory Requirements

Successfully navigating the regulatory requirements at the border will be the first point of order for exporters. All plant products entering China are subject to inspection. An "inspection first, and customs declaration second" model is applied at the point of entry.

Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) is responsible for the inspection and quarantine clearance of all products entering China and also manages the administration of standardization, certification and accreditation work of the Certification and Accreditation Administration of China (CNCA) and the Standardization Administration of China (SAC).

⁴ Deloitte. (2011). The next phase: Opportunities in China's pharmaceuticals market.

⁵ http://www.pimchina.com/index.php/industrial-market-insights/pharmaceutical_industry/

⁶ As cited by Price Waterhouse Coopers. (2009). Invest in China's Pharmaceutical Industry – 2nd Edition

⁷ Deloitte. (2011). The next phase: Opportunities in China's pharmaceuticals market.

⁸ http://www.chinadaily.com.cn/business/2010-10/25/content_11453741.htm

Within AQSIQ are 35 Entry-Exit Inspection and Quarantine Bureaus usually referred to as CIQs. AQSIQ through the local CIQs will undertake an inspection upon arrival and check that all the necessary documentation is in order.



3.1 Pre-Export Documentation Requirements

Applicable regulations and documentation requirements for kava will depend on the nature in which the Kava product will be utilized, and will often be determined by the buyer or importer, based on their requirements for the product. Discussions with industry representatives in China suggest that the current view of kava is as either: a) an edible vegetable product; OR b) an herbal product.

Details of applicable regulations and documentation requirements for each pathway are noted in the table below. These documents should be organized in advance by the Importer in China.

Imported as a ...	Applicable Regulations	Governing Authority	Documentation Required
Edible Vegetable Product under	<ul style="list-style-type: none"> Commodity Inspection & Quarantine 	<ul style="list-style-type: none"> Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) 	<ul style="list-style-type: none"> After-Inspection Certificate for Entry of Goods
	<ul style="list-style-type: none"> China Food Safety Law (applies if exported as a packaged food) 		
Herbal Product under HS Code 1211	<ul style="list-style-type: none"> Commodity Inspection & Quarantine 	<ul style="list-style-type: none"> AQSIQ 	<ul style="list-style-type: none"> After-Inspection Certificate for Entry of Goods
	<ul style="list-style-type: none"> Drug Import and Export Management 	<ul style="list-style-type: none"> China Food and Drug Administration 	<ul style="list-style-type: none"> Drug Import Customs Clearance Form

Source: ETCN

3.2 Commodity Inspection and Quarantine

All plant products are subject to inspection upon arrival. Currently there are no import restrictions in place for kava under the two pathways mentioned above, so the standard inspection process applies. The importer in China will need to book a quarantine inspection with the relevant CIQ and will require the exporter to provide the following documentation: Commercial Invoice, Packing List, Airway Bill or Bill of Lading, Declaration regarding the inclusion or non-inclusion of wood packing materials and Certificate of Origin if preferential terms are applicable.

The local CIQ at the port of entry may have additional documentation requirements therefore exporters are encouraged to work closely with their China based importer or buyer to ensure that documentation requirements are in order before dispatching the goods to avoid any costly delays. If the documentation requirements are in order, goods will be inspected to ensure that they are free from soil, pests and harmful organisms or plant diseases.

An After-Inspection Certificate for Entry of Goods will be issued upon the satisfaction of CIQ.

Figure 1: Sample Copy of an After-Inspection-Certificate




中华人民共和国出入境检验检疫
入境货物通关单

After-Inspection Certificate for Entry Goods under Entry-Exit
Inspection & Quarantine of the People's Republic of China

1. 收货人 Consignee		5. 标记及号码 Mark & No.	
2. 发货人 Consignor			
3. 合同/提(运)单号 Contract/Bill No.	4. 输出国家和地区 Exported From (Country/Region)		
6. 运输工具名称及号码 Conveyance Name & No.	7. 目的地 Destination		
9. 货物名称及规格 Goods Name & Specification	10. H.S. 编码 HS Code	11. 申报总值 Total Value Declared	12. 数/量, 包装数量及种类 Number/Quantity, Pack Quantity & Type
13. 证明 Certifying 上述货物业已报检/申报, 请海关予以放行。 Goods herein have gone through entry declaration, inspection and quarantine, and thus are available for customs clearance.			

3.3 Drug Import and Export Management

All herbal or health related products must be accompanied with a drug import customs clearance form. However, products that are imported as raw medicinal material to undergo approved processing for export are exempted from the drug import customs clearance requirements but are not permitted to be sold locally in China.

All imported drugs, including traditional Chinese medicines must be approved by the China Food and Drug Administration. Applicable drug import clearance requirements are commonly organized by the Importer as the processes within China are complex and using a Chinese firm may often make the process easier.

3.4 China Food Safety Law 2009

Where kava is being exported to China as a packaged food product then China's Food Safety Law will apply. China's Food Safety Law was adopted on 28 February 2009 and was made effective from 1 June 2009. It seeks to improve food safety in China through stricter monitoring and supervision, tougher safety standards, recall of substandard products and severe punishment of offenders.

The new laws are applicable to both imported and domestically produced food and cover production and trading of food and food additives; packing materials, vessels, detergents and disinfectants for food and equipment used in food production; food additives and food-related products used by food producers and traders; and safety management of food, food additives and food related products. Under the Food Safety Law, all imported packaged food products, food additives and food-related products are subject to the national food safety standards of China.

No pre-packaged foods may be imported into China without appropriate Chinese labels. Packaging labels must be provided to authorities in advance and these will be checked off to ensure that they comply with the Food Safety Law and that they match the labels of the products being received at the border.

All foreign food distributors and producers that import food products into China must be registered with the state entry-exit inspection and quarantine authorities. Importers must record the foods imported and distributed in China, and must keep the records for at least two years.

3.5 Assessment of Duties and Taxes Payable

Upon completion of the CIQ inspection, **General Administration of Customs in China (GACC)** will also review the accompanying documentation. This includes commercial invoice, packing list, airway bill or bill of lading, certificate of origin if applicable and declared values. They will determine applicable duties, taxes payable and provide a memo for payment. If required, they may also inspect the goods to make an assessment regarding the validity of the declared value.

Discussions with industry representatives in China suggest the following Harmonised commodity description and coding System (HS) codes as being applicable to kava:

0712.90 - Dried vegetables, whole, cut, sliced, broken or in powder, not further prepared: Other.
and

1211.90 - Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered: Other.

The applicable tariffs for the PICs are noted below:

0712.90.99 - Dried vegetables, whole, cut, sliced, broken or in powder, not further prepared: Other

Type of Tariff and Tax	PICs with Diplomatic Relations with PRC (includes Fiji)	PICs with no Diplomatic Relations with PRC	PICs with LDC status or are transitioning (Samoa and Vanuatu)
Most Favoured Nation	13%	N/A	N/A
General Tariff	N/A	80%	N/A
Value Added Tax	13%	13%	13%
Less Developed Country (LDC)	N/A	N/A	0%

Source: ETCN

1211.90.39 - Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered: Other – used primarily for pharmacy.

Type of Tariff and Tax	PICs with Diplomatic Relations with PRC (includes Fiji)	PICs with no Diplomatic Relations with PRC	PICs with LDC status or are transitioning (Samoa and Vanuatu)
Most Favoured Nation	6%	N/A	N/A
General Tariff	N/A	20%	N/A
Value Added Tax	13%	13%	13%
LDC	N/A	N/A	0%

Source: ETCN

1211.90.50 - Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered: Other – used primarily for perfumery.

Type of Tariff and Tax	PICs with Diplomatic Relations with PRC (includes Fiji)	PICs with no Diplomatic Relations with PRC	PICs with LDC status or are transitioning (Samoa and Vanuatu)
Most Favoured Nation	8%	N/A	N/A
General Tariff	N/A	50%	N/A
Value Added Tax	13%	13%	13%
LDC	N/A	N/A	0%

Source: ETCN

If all the documentation requirements and applicable payments are in order, then upon verifying the After-Inspection-Certificate from CIQ, Customs will then release the product.

Documentation requirements are strict and will vary from product to product. Exporters are encouraged to work closely with Chinese importers to ensure that the documentation requirements are met before shipping, as failure to do so could result in either rejection of the product at the border or costly delays in the product entering the country.

4.0 Competitive Landscape

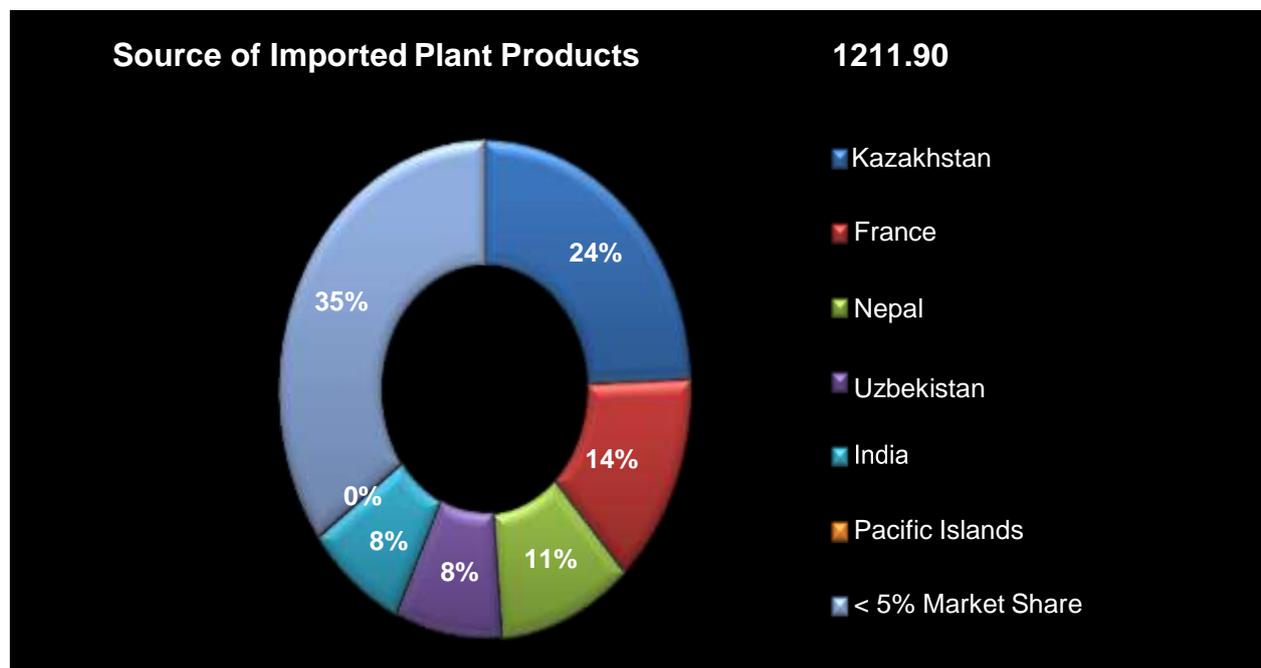
4.1 Kava as an Herbal Product under 1211.90

China's total imports of 1211.90 Plants And Parts Of Plants (Including Seeds And Fruits), Used Primarily In Perfumery, Pharmacy Or For Insecticides, Etc., Fresh Or Dried, Etc., Not Elsewhere Specified Or Indicated (NESOI) has grown significantly in value. Last year recorded the highest import value in the last ten years with total imports valued at USD\$165.4 billion.

Kazakhstan is the main source of plant products with total imports sourced from Kazakhstan accounting for 24% of the total value of imports into China under HS Code 1211.90 in 2013. Together with France, Nepal, Uzbekistan and India, these countries represent the top five sources. The main export from Kazakhstan and Uzbekistan is licorice roots. Nepal is the source of a unique fungus called Yarsagumba that is highly valued in China and viewed as a symbol of wealth. It has been referred to as Himalayan Gold and is used in traditional Chinese medicine for its aphrodisiac and anti-inflammatory properties.

France and India supply a range of unspecified plant products to China also for pharmaceutical purposes.

Figure 2: Source of Imported Plant products 1211.90



Source: Global Trade Information Services

The largest segment of 35% consists of plant imports sourced from 56 different countries, each having a market share of less than 5% (based on value), indicative of the many different plant products that are being received in to China under this category.

It was difficult to establish from discussions with those interviewed what quantities of imported plant materials were used for contract orders and what was utilized within the domestic market. Further analysis of the 1211.90 category revealed an extensive list of over 20 plants listed at the 8-digit level. The majority are key herbs in traditional Chinese medicine and include dong quai or radix angelicae sinensis (1211.90.11); huang lian or rhizoma coptidis (1211.90.14); huang qin or scutellaria root (1211.90.37). Unfortunately trade data was not available at the 8-digit level.

4.2 China's Imports from the Pacific Islands under 1211.90

In 2013, imports from the Pacific Islands under 1211.90 accounted for less than 1% of total imports. With a total value of USD\$172,143 representing only 0.10 per cent and consisting of imports of plant products sourced entirely from Vanuatu. Over the last ten years there have also been imports from Fiji, Papua New Guinea and Tonga, however they are inconsistent and do not feature regularly in the statistical data.

Table 1: China's 1211.90 Imports from the Pacific Islands in USD

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tonga	0	0	0	0	0	2,880	0	0	0	0	0
Vanuatu	14,038	0	125,682	10,500	72,338	0	66,873	299,607	59,400	67,304	172,143
Fiji	0	1,923	0	0	0	0	2,673	0	0	4,903	0
Papua New Guinea	0	0	2,750	0	0	0	1,070	0	0	0	0
TOTAL	14,038	1,923	128,432	10,500	72,338	2,880	70,616	299,607	59,400	72,207	172,143

Source: Global Trade Information Services

4.3 Suppliers of Kava to China Market

A search of kava as a product on the business to business e-commerce platform Alibaba, generated a list of 134 suppliers of kava or kava-related products based in China. The majority were based in Shaanxi (North), Guangdong (South) and Hunan (South) provinces. Twenty companies were contacted and interviewed. Many were revealed to be trading companies or middlemen who advised that they no longer supplied the product and upon further probing it became clear that they did not have the ability to import directly from abroad and supply of kava root was provided by a middleman based in China.

Four companies, however, identified Fiji and Vanuatu as suppliers of kava with processing being undertaken in response to demand from clients in America.⁹ Kava root is imported as a dried root product in 50kg woven poly prop bags and then processed into powder form according to the specifications of the buyer from the United States. 2009 – 2010 was noted as a “boom” by one company who reported 5 mt being imported per annum for processing during that time.¹⁰ Another reported sourcing 10 – 20 mt per annum of kava root from a Chinese trader based in Vanuatu¹¹, though it was unclear if this level of trade was still continuing.

Overall of those interviewed, the majority reported that there was little or no demand for kava lately. One company received an order for 100kg of kava powder recently from America but did not have sufficient stock to meet the order. They did not make any attempt to source any kava material as they felt that there was little profit to be gained¹².

In terms of pricing, only two companies were willing to provide pricing information, and provided a price range of USD\$99.00 – 450.00 per kilogram for kava root extract, with the price variation being dependent on the specifications of the overseas buyer.

Aside from Fiji and Vanuatu, no other suppliers of kava raw material were identified by those interviewed.

Attempts to secure a site visit to processing plants were not successful. The information from those interviewed was that they did not have any kava in stock as they had not ordered any for some time.

Universities in Hainan and Henan had done varying amounts of research on kava with most researching the chemical properties and potential uses of kava¹³. One university undertook production trials of kava in Hainan. This was driven by a senior figure at the university who visited the Pacific Islands quite often. These trials were undertaken some years ago and ended in 2009¹⁴.

4.4 Breakdown of Products Imported from the Pacific Islands under 1211.90 from 2008-2013

4.4.1 Vanuatu

From 2009 – 2013 a total of 59 mt of plant products under 1211.90 was received from Vanuatu. Tianjin received a total of 35 mt all of which was recorded as being primarily for perfumery, so this may represent imports of sandalwood. The remaining 24 mt received into Shanghai port were

⁹ Sanyuan Tianyu Biological Product Co. Ltd; Shaanxi Pioneer Biotech. Co., Ltd; Shaanxi Jintai Biological Engineering Co. Ltd; Hunan Kanglu Biotech Co. Ltd.

¹⁰ (Ms Summer, pers. comm.)

¹¹ (X.Deng, pers. comm)

¹² (A. Kang, pers. comm)

¹³ Chinese Academy of Tropical Agricultural Sciences, Wanning, Hainan; Agriculture College, Henan University of Science and Technology, Luoyang, Henan; Chinese Academy of Tropical Agricultural Sciences, Haikou, Hainan and Department of pharmacology of Second Military Medical University School of Medicine

¹⁴ (Ms Ma, pers. Comm.)

recorded as being primarily for pharmacy and may be indicative of kava exports. Mode of transport was via sea.

Year	Port	Quantit	Year	Port	Quantity
2009	Shanghai	6 mt	2012	Shanghai	6 mt
2010	Tianjin	30 mt	2013	Shanghai	12 mt
2011	Tianjin	5 mt			

Source: Global Trade Information Services

4.4.2 Tonga

Imports from Tonga under 1211.90 were recorded as plant products primarily for perfumery. No imports were received from Tonga over the last five years; however, in 2008 a total of two tonnes was received at Jiangmen port (South China) by sea.

4.4.3 Fiji

Imports from Fiji under 1211.90 were recorded as plant products primarily for perfumery. From 2009 – 2013 only one tonne was received. This was recorded in 2012 and was an air shipment received into Guangzhou (South China). Prior to 2009 there was two tonnes received in 2004 by sea into Shanghai port.

4.4.4 Papua New Guinea

Imports from Papua New Guinea under 1211.90 were recorded as plant products primarily for perfumery. One entry is noted in 2009 with less than one tonne being received at Shanghai port via sea.

4.5 Kava as an Edible Vegetable under 0712.90

A scan of literature and news items on China's trade with the Pacific Islands suggests that kava is also being imported as a food product¹⁵. Discussions with general importers and agents based in China suggest that the likely applicable HS Code for Kava as a food product would be **0712.90 - Dried vegetables, whole, cut, sliced, broken or in powder, not further prepared: Other**.

However statistical data does not reveal any imports from the Pacific Islands under the HS Code 0712.90 for the last five years. A review of all products imported from the Pacific Islands during the last five years does not reveal any other HS Code that may be applicable under a food category. Further investigation is needed to explore the potential of kava as a food product in China.

5.0 Distribution Channels

In China, there are over 6,000 distributors in the pharmaceutical industry with the majority being small companies. The top three distributors - Sinopharm Group, Shanghai Pharmaceutical and Jointown – have a combined market share of approximately 20.7% which is low when compared with the United States where the top three have a combined market share of 90.7%¹⁶. Attempts to contact Sinopharm and Shanghai Pharmaceutical to seek out their interest in kava were not successful. Jointown, however, advised that they were only interested in importing a finished product and were not interested in kava as a raw material.

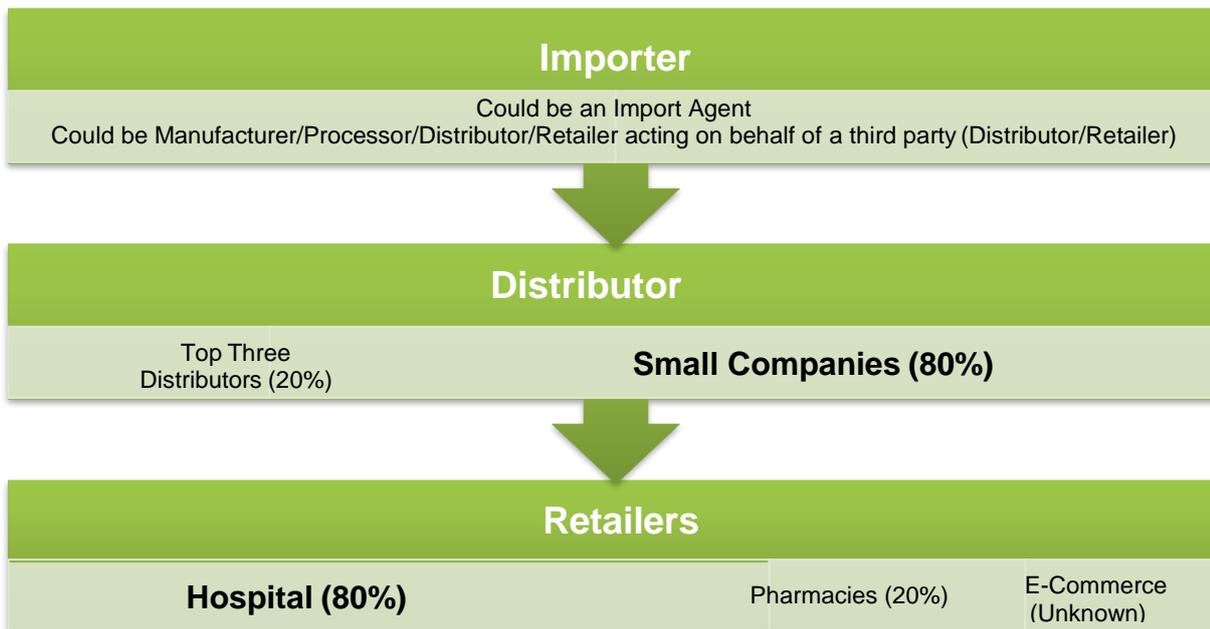
With over fifty different countries supplying plant products for medicinal or perfumery purposes to

¹⁵ <http://pidp.org/archive/2012/September/09-20-16.htm>

¹⁶ As cited by KPMG. (2011). China's pharmaceutical industry – Poised for the giant leap.

the China market, being able to navigate the fragmented distribution chain can offer some advantages and help avoid pitfalls.

In order to import from abroad, businesses in China must have the correct foreign trade license. A distributor therefore may express interest in distributing kava but may not necessarily be able to import kava product. It is important therefore from the outset to understand the capabilities of any distributor and what the extent of their network is across China.



State-owned enterprises compete alongside foreign-owned enterprises and privately-owned domestic enterprises and with a strong movement towards consolidation of the industry, there has been a significant reduction in the number of state owned enterprises and a growing number of mergers and acquisitions. Shanghai Pharmaceuticals is one example, where since 2010, they have either acquired or signed agreements to acquire with at least nine companies¹⁷.

In terms of retail outlets, the majority of the pharmaceutical sales come from hospitals. Pharmacy retail outlets make up roughly 20% of total pharmaceutical sales¹⁸.

To further explore the retail scene, six pharmacies in Beijing were surveyed¹⁹. Some pharmacies only offered western medicines and others offered a range of western and TCM herbal remedies. The size of the retail outlets also varied with some being small single level outlets and others being three levels offering western medicines, medical devices and an extensive range of herbs for TCM.

¹⁷ KPMG. (2011). China’s pharmaceutical industry – Poised for the giant leap.

¹⁸ As cited by Price Waterhouse Coopers. (2009). Invest in China’s Pharmaceutical Industry – 2nd Edition

¹⁹ Baoya Pharmacy; Guozong Pharmacy; Kangji Tangda Yaofang; World Health Store; Beijing Yong An Tang Pharmacy Chain Store Co. Ltd; Watsons Sanlitun

Plate 1: Single level pharmacy in Beijing offering only Western medicine.

None of the stores visited had any kava products available for retail sale. When interviewed, the pharmacists had no knowledge of kava but when asked if they had any products similar to kava, Ginseng and a mushroom called Lingzhi (Lucid Ganoderma) was highlighted by the pharmacist. One TCM practitioner we had spoken to had prior knowledge of kava but only as a result of his travels to Fiji²⁰. He was aware of kava as a traditional cultural drink but was not aware of its medicinal properties.

Plate 2: Multi level pharmacy in Beijing with one floor dedicated to TCM herbs. Sample of ginseng is shown on right.

Web-based platforms such as Taobao and Tmall are also becoming popular, with retail ready products like Kava Kalm Dietary Supplement Pills, Kava Stress Relief Tea and Thomsons Kava Dietary Supplement Pills being sold directly to consumers. A wide range of other herbal products were being sold online including Ginseng, Tea Tree Oil, Coconut Oil, Noni Juice as well as Tamanu Oil.

E-commerce is a growing phenomenon in China. By 2015 e-commerce transactions in China are predicted to hit USD\$540 billion, accounting for 10% of total retail transactions. However, given the diversity of the China market, it is important to be clear on who the target audience is and develop strategies that will ensure that you reach the intended audience. Differences in consumer behaviour vary from city to city as do methods of influence.

²⁰

(A.Tan, pers.comm)

6.0 Conclusions and Recommendations

In a consumption-led economy with a large consumer base, there is potential for kava in both food and beverage (F&B) as well as in the herbal medicines sphere. Noni Juice from the Pacific Islands like kava is able to operate in both F&B and in Herbal Medicines. Currently, Noni Juice from the Pacific Islands features in both industries in China with differing degrees of success.

For kava, the challenge is not a case of whether there is potential but rather one of determining where and how to compete in China.

- New attitudes towards self-medication present opportunities to export a herbal medicine product that could be sold over the counter in pharmacies. Given the lack of knowledge about kava, working with the universities that specialize in Chinese medicine or with a group of TCM practitioners could be a possible strategy for introducing kava into the herbal medicines market in China and growing awareness in the market about the product.
- Kava could also be introduced into the F&B industry as either a finished food product or for use in food production to develop a functional food product whose benefits stem from the unique properties of kava.
- Growing expenditure in healthcare in rural parts of China present opportunities in developing a herbal medicine product for second or third tier cities in China.
- China's growing aging population also presents opportunities as a target market.

A long-term strategic view to China is important as is the need to be clear about the kind of success the industry wishes to achieve and the level of supply and financial resourcing that the kava industry is able to invest in expansion into the China market. This will help determine the “where and how” to compete in China and it will help qualify which industry and which partners will be a good fit.

From a strategic perspective, regardless of the where and how, some consideration will need to be given towards addressing the lack of consumer awareness in China about the benefits of kava and the negative stigma that the product has as a result of the ban by Europe. In this regard, a budget will need to be set aside for marketing of the product each year, and as the product gains momentum many consumers will undertake their own research into the product before purchasing, so the industry will also need to be prepared to address queries from consumers around the ban in Europe.

China is a challenging market with geographic, sociological and governmental intricacies. Entrants to the market need to recognize and navigate the ebbs and flows of the market with prudence and patience, and finding the right local partner to help with this is important to achieving success.

Before approaching the China market, it is important to clearly map out what the scope of the export product is (kava dried root raw material or kava powder etc.) and what the current and future supply capacity is expected to be. It will also be important to determine what level of financial resourcing is available for marketing. Once a clear picture of what the product is, what the supply capacity is expected to be and what level of financial investment is available for marketing, then efforts towards mapping out a strategy for identifying the “where and how” that matches with the constraints of the industry can begin.

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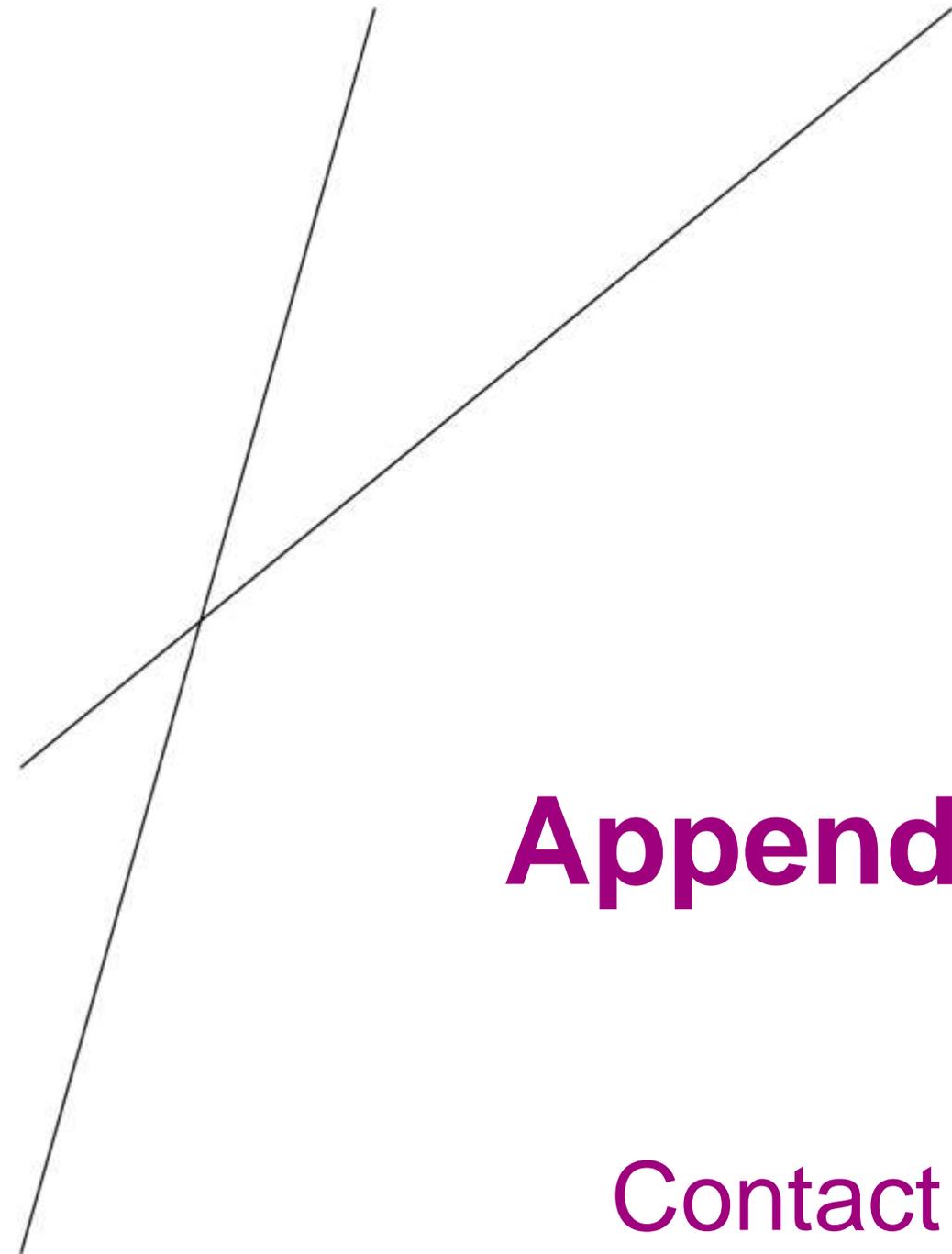
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Appendix A

Contact Details

Appendix A Contact Details

Province	No.	Company	Phone No.	
Hunan	1	Hunan Kanglu Biotech Co., Ltd	0086-731-88926577	
	2	Changsha Huir Biological-Tech Co., Ltd	0086-731-84680108	
	3	Changsha Huakang Biotechnology Development Co. Ltd	0086-731-88395310	
Shaanxi	4	Sanyuan Tianyu Biological Product Co. Ltd	0086-029-32565555	
	5	Shaanxi Jintai Biological Engineering Co. Ltd	0086-029-88252883	
	6	Xi'an SR Bio-Engineering Co. Ltd	0086-029-88868255	
	7	Xi'an Rongsheng Biotechnology Co., Ltd	0086-029-88868255	
	8	Shaaxi Pioneer Biotech. Co., Ltd	0086-029-84380031	
	9	Shaanxi Rebecca Bio-tech Co., Ltd	0086-029-85219166	
	10	Xi'an Jiatian Biotechnology Co., Ltd	0086-029- 84191386	
	11	Xi'an Plamed Green Science Limited	0086-029-88352080	
	12	Xi'an Haoxuan Biotechnology Co.,Ltd	0086-029-62273916	
	13	Xi'an Realin Biotechnology Co.,Ltd	0086-029-89382595	
	14	Xi'an Yuensun Biological Technology Co. Ltd	0086-029-62893180	
	15	Run Shaanxi Days of Biological Technology Co. Ltd	0086-029-63693823	
	16	Shanxi Jinye Biotechnology Co., Ltd	0086-029-88922301	
	Others	17	Nanjing Zelang Medical Technology Co., Ltd	0086-025-85753091
		18	Wuxi Gorunjie Natural-Pharma Co., Ltd	0086-510-82607296
19		Shenzhen Naturactive Inc.	0086-755-86604016	
20		Hangzhou New Asia International Co., Ltd	0086-571-85815391	
21		Chinese Academy of Agricultural Tropical Sciences	0086-898-66987892	
22		China Council for the Promotion of International Trade	0086-010-59194471	
23		Baoya Pharmacy	0086-010-85612457	
24		Guozong Pharmacy	0086-010-64178343	
25		KangJiTangDa Yaofang	0086-010-65177187	
26		Beijing Yong An Tang Pharmacy	0086-010-65251700	
27		The Hutong	0086-1590-1046127	
28		World Health Store	0086-010-59002209	
29		Watsons Sanlitun	0086-010-64161330	
30		Jinkelong Sanyuanli	Store visit only	