

2010 Organic Assessment of China



National Organic Program
U.S. Department of Agriculture



Table of Contents

China Organic Industry Background 3

Assessment Scope..... 4

Assessment Methodology 5

Certifying Agent Assessments 5

General Observations 5

Witness Inspections 6

File Review 6

Product and Soil Sampling Results 8

Meeting With Chinese Officials 8

Assessment Conclusions 9

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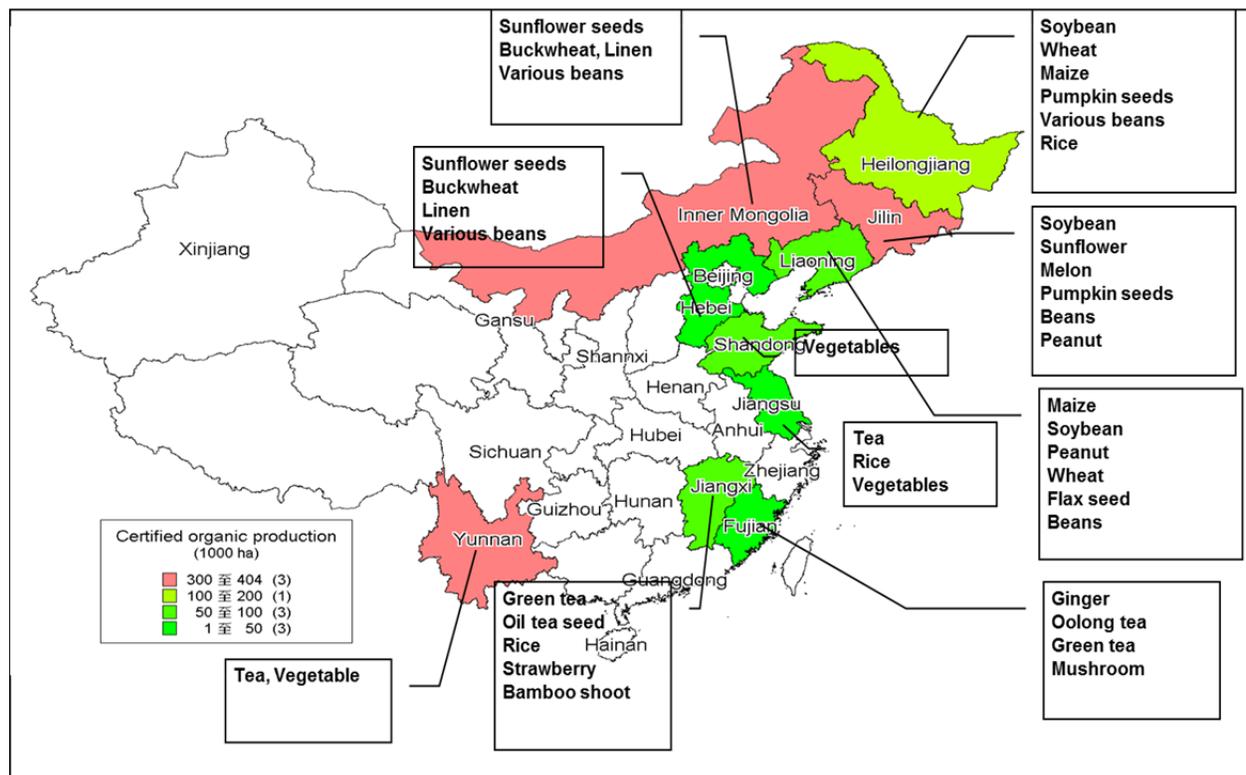
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CHINA ORGANIC INDUSTRY BACKGROUND¹

China has a small but rapidly growing domestic demand for organic products. In 1990, China exported its first organic product, certified organic tea, to Europe. Today, Chinese production of organic foods is intended primarily for export, serving international markets in North America, Europe, and Japan. Products include honey, soy powder, beans, sesame seeds, walnuts, pumpkin seeds, grain, oil, vegetables, fruit, beverages, dairy products, poultry, fish and other aquatic products. From 1995 to 2006, the export value of organic foods rose from \$300,000 to \$350 million, with an annual growth rate of 30 percent.

According to a 2007 report by the Chinese Ministry of Agriculture, organic crops account for the largest organic export by value (\$120 million). Specifically, vegetables comprise the largest share of China's organic exports, followed by field crops and tea. The second largest organic export category is aquaculture products (\$50 million), followed by honey (\$22.7 million), processed products (\$21.2 million), wild plants (\$20 million), livestock products (\$19.7 million), and fungus (\$14.8 million).



Distribution of Chinese Organic Production. Source: ECOCERT, September 8, 2010, Beijing, China.

¹ Information about the organic industry in China is limited and is primarily provided by China's Ministry of Agriculture and international organizations (e.g., IFOAM, FAO). Some of the information in this section was obtained from USDA, Foreign Agricultural Service's Global Agricultural Information Network report, October 26, 2010, unless specifically noted. The organic industry in China includes multiple organic certifications and classifications. This includes all types of organic branding, not exclusively USDA National Organic Program certification, practices, and products.

Three of China's provinces (Yunnan, Inner Mongolia, and Jilin) support the largest organic production nationally in terms of output, volume, and area, according to ECOCERT, an accredited certifying agent. Most organic farms located in northern China (e.g., Shandong and Liaoning) supply organic vegetables and fruits to nearby cities. In addition, they export organic product to Japan, South Korea, Australia, Europe, and the United States, although their primary organic export market during the last decade was and remains Europe. The majority of certified organic products and operations comply with dual or triple standards (e.g., European Union, National Organic Program, and Japanese Agricultural Standards), which allows for marketing flexibility. China's organic products are primarily raw ingredients used for further processing in the exported countries. These products are typically shipped dry, frozen, or in liquid bulk form. Operations certified under the National Organic Program (NOP)² primarily produce, process, and export single-ingredient products (e.g., soybeans, herbs, peanuts, tea, ginger, and other fruits and vegetables), which are then shipped to the United States and processed or packaged further into multi-ingredient retail products.

While not a mainstay for most Chinese farmers, organic production has grown steadily in the last few years. In 2006, there were 496 organic operations in China certified under the NOP regulations. As of September 2010 that number has risen to 649 organic operations that are certified by nine NOP accredited certifying agents operating in China. Exports of organic products to the United States is increasing, although the United States does not have any reliable data on the amount or value of organic products imported from China.

ASSESSMENT SCOPE

In September 2010, National Organic Program auditors conducted a multi-faceted assessment mission in the People's Republic of China. The NOP's principal objective was to assess the activities of the four largest NOP accredited certifying agents operating in China: ECOCERT S.A. (ECOCERT); BCS – Öeko Garantie GmbH (BCS); Institute for Marketecology – Switzerland (IMO); and Certification of Environmental Standards – GmbH (CERES).

NOP auditors visited China branch offices of the four certifying agents and reviewed their certification oversight and compliance activities. Witness inspections of certified operations were conducted in the provinces of Fujian, Hunan, and Shandong, where the following agricultural products are either produced or handled (e.g., exported, processed): Spirulina (algae), tea, individually quick frozen vegetables, peanuts, soybeans, strawberries, and other fruits and vegetables. Several sample products were collected, shipped, and subsequently tested for pesticide residues at the laboratory of USDA's Agricultural Marketing Service (AMS) Field Laboratory Services in Gastonia, North Carolina.

NOP auditors also collected information regarding the regulatory and research system of China's growing organic industry. While in Beijing, NOP auditors met with government representatives from the China National Accreditation Association, which is charged with the responsibility of developing, promulgating, and implementing state laws, regulations, and rules concerning certification and accreditation, including organic accreditation. Auditors also met with USDA's Animal and Plant Health Inspection Service staff at the United States Embassy, Beijing, to discuss future assessment assistance and met with a representative from the China Agricultural University to discuss organic production research.

² The NOP accredits certifying agents to conduct all certification and inspection activities.

ASSESSMENT METHODOLOGY

The auditors' task was to determine whether certifying agents were complying with NOP standards. Central to the assessment was a review and audit of the four primary NOP certifying agents operating in China: ECOCERT, BCS, IMO, and CERES. There were five basic components to each certifying agent assessment: (1) Certifying Agent Overview Presentation; (2) Office Records Review and Staff Interviewing; (3) Client Witness Inspections; (4) Product and Soil Sampling; and (5) Closing Meeting.

Each certifier was given specific instructions to arrange for witness inspections of specific crops or facilities (e.g., fresh soybean, individually quick freeze processing, etc.). There was an attempt to select at least two types of crops and follow their handling from production through processing and distribution.



ECOCERT crop witness inspection, Shandong Province.



CERES handler witness inspection, Fujian Province.

CERTIFYING AGENT ASSESSMENTS

General observations

NOP auditor findings highlight a well-educated and dedicated certifying agent staff managing an organic certification system in a dynamic and complex environment. Certifying agent office and field staff are competent, professional, experienced, and well educated in the issues of agriculture production, processing, recordkeeping, quality systems, sampling, and multiple organic standards. Additionally, NOP observed robust pesticide residue programs, extensive use of announced and unannounced inspections, and organized records. Areas requiring greater attention include Organic System Plans (OSPs) and inspection report formats; adverse action procedures and reporting; and label review and approval procedures.

The majority of organic products are exported to European markets; therefore, the European Union (EU) organic system is the dominant export certification program in China. In consideration of these Euro-centric factors, the NOP certification system is relatively new. During the past several years, there has been a surge in the demand for NOP products and consequently for NOP certification. China-based certifying agents normally certify operations to multiple organic certification standards. The three major organic certifications are EU, NOP, and Japanese Agricultural Standards. This unique characteristic

presents challenges for operations, certifiers, and inspectors to learn, understand, and implement different and sometimes conflicting standards.

All land in China is owned by the government and rented to individual farmers or private companies. There are many different types of applicant or certified organic operational arrangements in China:

- Processor/Farmer
- Processor + Farmers
- State Farm
- Processor + State Farm
- Processor + Cooperative + Farmers
- Cooperative + Farmers
- Farmer Association + Farmers
- Village Committee + Township
- Government + Farmers

These partnerships or business arrangements can sometimes involve a large number of individuals and facilities. Typically, all business arrangements for certified operations include an export organization that may or may not be USDA-certified.



Sorting sliced bell peppers, IQF processor facility, Shandong Province.

Certified organizations tend to be large in number of hectares, processing facilities, and growers; however, the production methods and handling activities are not technically complex. The use of labor over technology is more prevalent than it is in operations in the United States. Processing functions include simple cleaning, sorting, shelling, chopping, drying, freezing, and bagging. Partnerships between growers, processors and exporters allowing for vertical integration appear to be common.

Witness Inspections

Certifying agent inspectors displayed strong skills during the witness inspections. NOP auditors found their knowledge regarding the different international organic standards to be good to excellent. Many of the certifying agents stated that when multi-standard certification clients are reviewed, the most restrictive standard was implemented. Inspectors displayed a strong understanding of record auditing techniques (e.g., trace-back and production verification procedures). Several of the inspectors visited input suppliers to determine materials used on nonorganic fields, thereby helping them understand the use of inputs for particular crops in the region and verify that the certified operations were not purchasing and applying prohibited materials.

File Review

All certifying agents had robust pesticide residue sampling programs that were either high frequency risk-based or occurred during each inspection. Lab analyses results were not submitted to the NOP as required pursuant to the regulations (7 CFR § 205.670).

Some certifying agents recorded and maintained Global Positioning System coordinates on client locations. Additionally, Transactional Certificates (EU requirement) were issued for NOP export products when importers requested them. Transactional Certificates are not an NOP requirement.

Aside from these strengths, certifying agent knowledge and implementation of the following topics and procedures required more solid grounding:

- a. Noncompliance and Adverse Action procedures (§205.662, §205.405) (particularly in cases when a certified operation surrenders its certificate during adverse actions)
 - Submission and notification to NOP Appeals Office.
 - Elements of adverse actions notifications.
 - Specification of noncompliance findings in Notices of Noncompliance.
- b. Organic certificate requirements (§205.404)
 - Expiration dates.
 - Listing of certification scopes.
- c. Label review (§§205.303 - 305)
 - Consistency in applying the standards.
 - Submission of labels for approval.
 - Indication of specified ingredients or food groups in “made with organic...” labels.
- d. Multi-ingredient products (§205.301 - 302)
 - Consistency in applying the standards.



Tea leaf processing facility, Hunan Province

Organic System Plans (OSPs) and Inspection Reports adhered more to a “check box” rather than a narrative style. There appeared to be a heavy reliance on metrics and less on a comprehensive assessment using the NOP systems approach. Organic System Plans were not complete nor considered a “stand alone” document. During the review NOP auditors had to frequently question the certifying agent for additional background information to clarify and understand the operations’ activities. Several OSPs lacked enough descriptive detail for a reviewer to understand a certified operation’s relevant activities, contamination and comingling controls, and contracting relationships of the certified operation. There were cases when an operation should have been classified for crop production due to the

presence of inputs rather than as a wild crop operation. Additionally, certification applications and OSPs should have requested applicants to disclose past certification history details, such as outstanding noncompliance items or adverse actions.

It was also evident that regulatory terms were interchanged as a result of overlapping organic standards and cultural and language differences. For example, the term “re-instatement” was used in a Notice of

Revocation. “Reinstatement” can only be requested for a suspended operation. Another example was the incorrect interchange of distinctly different terms such as “purging,” “cleaning,” and “flushing.”

Some certifying agents were requiring insertion of photographs into inspection reports to record observations. NOP auditors noted that certifiers also relied on photographs, some of which were of poor quality, to capture labels used by operations.

PRODUCT AND SOIL SAMPLING RESULTS

Where practical, NOP auditors obtained samples from a range of production and handling stages. During all witness inspections (of crop and handler operations alike), certifying agent inspectors collected product and plant samples. Auditors did not observe any evidence of pesticide applications or drift; consequently, they collected samples on a random as opposed to selective basis.



Tea leaf sample collection, Hunan Province

During the process, NOP encountered challenges having largely to do with submitting samples for testing. Sampling supplies and containers were large and bulky, making it a challenge to carry during in-country travel and owing to the low frequency of samples collected by the auditors. Additionally, shipping points for samples were not readily available in China’s rural communities, while maintaining low temperatures of fresh samples to preserve their integrity was extremely challenging due to multi-day shipping duration from China to the United States.

Despite the challenges, 10 organic samples were analyzed. No residues were detected from 9 of the 10 samples. One sample indicated the presence of carbendazim, a prohibited fungicide. Additional samples collected by the certifier at the same time indicated no detected pesticides. Test results and sampling

information were submitted to the NOP for further investigation.

MEETING WITH CHINESE OFFICIALS

USDA Foreign Agricultural Service staff at the U.S. Embassy in Beijing arranged for NOP auditors to meet with Chinese officials from the China National Accreditation Association (CNCA) on September 6, 2010, in Beijing. The CNCA is the government agency responsible for administering, supervising, and coordinating certification and accreditation in China. This organization is considered the Chinese equivalent to the NOP.

Discussion topics covered Chinese government organizational structures, responsibilities, and activities regarding organic goods produced and handled in China.

On April 1, 2005, China had established national organic standards (GB/T19630) that encompassed organic production, processing, distribution, and retailing. CNCA assumed organic certification management the same year. Organic certification activities are reported to and regularly monitored by the Chinese government at the local, regional, and national levels. All foreign certifiers must be in partnership with a Chinese-based organization, approved by the Chinese Foreign Investment Committee, and submit a monthly list of certified projects to CNCA. There are currently 30 domestic certifiers accredited for domestic organic certification and 22 certification laboratories. Accreditation is valid for 1 year.

In October 2009, CNCA had sent a letter to USDA suggesting that the regulatory departments of China and the United States begin technical exchange and training so that both agencies would have a better understanding of each other's regulatory and standardization system, and that they arrange technical discussions between Chinese and U.S. certification agencies to facilitate mutual trust and cooperation.

At the conclusion of the meeting, both the U.S. and Chinese parties welcomed the initiation of technical talks and visits regarding each country's organic standards.



Rapid urban growth is occurring near many traditional farming communities in Eastern China.

ASSESSMENT CONCLUSIONS

NOP auditors noted that accredited certifying agents were competent, professional, and committed to protecting organic integrity. Favorable auditor observations included certifying agents' implementation of multiple and frequent announced and unannounced inspections, robust pesticide residue sampling programs, competent inspectors, knowledge of multiple organic standards, and the organizational depth of support and assistance available from certifying agent offices in Europe.

Shortcomings on the part of certifying agents included, in some instances, approval of incomplete Organic System Plans and inspection reports and insufficient label review procedures. In these instances the NOP issued notices of noncompliance and required that certifying agents demonstrate corrective actions to avoid undergoing proposed suspensions.

The increase in and demand for organic certification, combined with crop diversity, country size, ethnic and cultural diversity, varied literacy rates, multiple organic standards, and rapidly changing business relationships pose challenging oversight duties and responsibilities for certifying agents operating in China. Additionally, the size of China's land mass and higher financial margins in the organic industry could pose potential for fraud, especially by those outside of the organic certification system. To improve the integrity of the organic certification system and to address areas needing improvement, the NOP is implementing the following actions:

1. Continue to monitor Chinese certified organic operations and certifying agent activities, since all indicators suggest a continued demand for organic certification in China.
2. Develop compliance and enforcement strategies that support certifying agents operating in China to protect organic integrity.
3. Continue engaging with the Chinese government toward a goal of promoting and assisting organic international trade expansion, enforcement of organic standards, and the elimination of fraud.
4. Conduct follow-up assessments of certifying agents and certified operations to ensure they are implementing improvements in accreditation and certification.
5. Continue to develop training modules for certifying agents to meet the NOP requirements.