

Legislations Enforced on the Oils and Fats Industry in China

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INTRODUCTION

China's food industry seems to have taken a blow by the recent spate of tainted food incidents, putting the national food safety system in jeopardy. This has led to the tightening of the imported foods quality monitoring system by the Chinese authorities. Malaysian palm oil producers have been keeping a watchful eye on the development of legislations imposed on the trade and food safety measures on oils and fats industry. It is the aim of this paper to give a brief account on the legal system, the authorities involved and the machinery related to the food safety, food security, and trade policy of the country. Conventionally, cereal, oilseeds and vegetable oils including palm oil are the integral part of the food complex in the Chinese government's purview. These are essential goods that are included in the consumer price index measurements, hence, sensitive to government control.

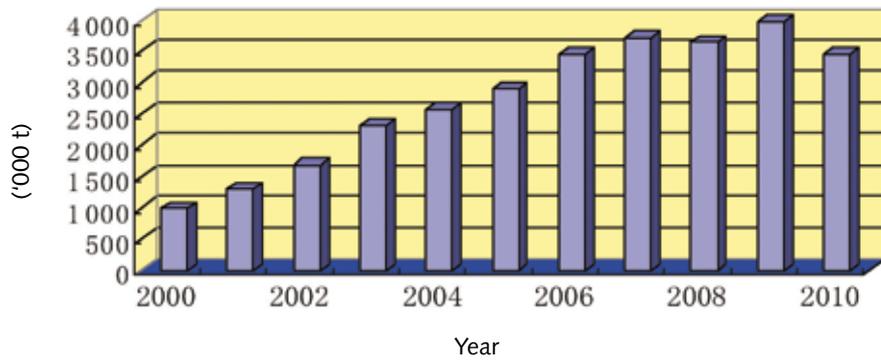
In the recent history of China, the country experienced a civil war immediately after the Second World War. The country was liberalised by the Communist Party in 1949. A series of socialist and communist reforms followed where the government explored the most stable political form. The famous Cultural Revolution created

a massive displacement of people which disrupted the livelihood of the people. Food security became a priority, and this policy remains, even after the country emerged as the second largest economy in the world. The late leader Deng Xiaoping led the country into an open market economy in the late 1970s. The economic reform successfully created vibrant economic growth and sustained the challenges in the past decades. The government was actively involved in the economic reform and gained the World Trade Organisation (WTO) accession in December 2001. Follow

which, the government formulated the 'ASEAN plus three' Free Trade Agreement (FTA) modality and pledged on continuous economic reform. At first, only six state owned enterprises (STE) were given the Tariff Quota Rate (TQR) and licensed to import various grades of palm oil at a preferential import tariff. In the 'ASEAN plus three' FTA modality, Malaysia gained the status of Most Favoured Nation (MFN) and the imports of Malaysian palm oil increased drastically from slightly less than 1 million tonnes to 4 million tonnes the following year. The growth of total palm oil import for China is as shown in *Figures 1 and 2*.

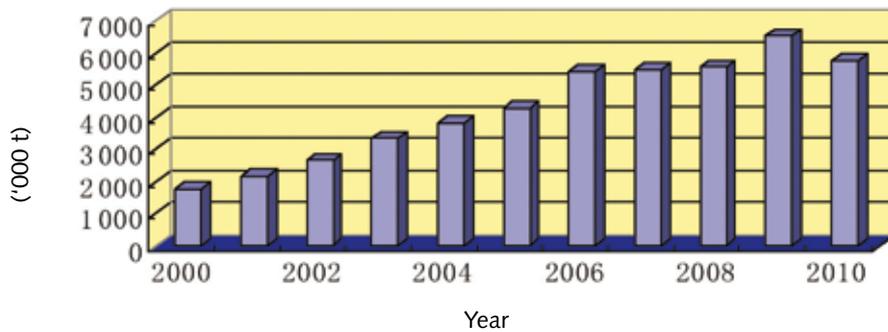
This huge influx of Malaysian palm oil is here to stay in this market. Malaysia has an advantage over competitors as Malaysia's palm oil industry is highly regulated under the Malaysian Palm Oil Board (MPOB), the government regulatory body ensuring quality and compliance to standards. The Malaysian palm oil industry and MPOB aims to continue this market growth by ensuring the quality of Malaysian palm oil products and

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Source: Oil World.

Figure 1. Malaysian palm oil export to China.



Source: Oil World.

Figure 2. Total palm oil import for China.

adhering to China's legislations on trade, tariffs, food safety, and food security programmes.

RECENT FOOD SAFETY ISSUES

The milk powder tainted with melamine scandal in 2008 caused serious damage to the national food safety programme. The outcome was four deaths and tens of thousands of babies hospitalised for kidney illness. Dozens were arrested and jailed for their involvement in this scandal and two were sentenced to death. The Chinese government demonstrated seriousness in upgrading China's food

safety standards and severe punishment were doled out to those responsible.

In the same year, due to global price escalation of petroleum, vegetable oil prices simultaneously escalated to a record high. Analysts correlated this price hike to the biofuel programmes pledged in the Kyoto carbon emission protocol. Vegetable oils converted to biodiesel enjoyed hefty subsidies by European Union and the United States. Though no subsidies were given in the production or consumption of biodiesel in this country, China did pledged to use kitchen waste oil

for the manufacturing of biodiesel. However, after investing millions of dollars on factories to convert waste oil to biodiesel, manufacturers found no effective means to collect this waste oil from kitchens and food outlets. For instance in Shanghai, the industry installed a biodiesel plant with a total capacity of 40 t of waste oil, however, only 19 t were able to be procured. This waste cooking oil is also known as 'swill oil or gutter oil'. Unfortunately, this spurred 'scaremongering' by the media; that recycled waste oils would be used as cooking oil in restaurants and households. This scaremongering still continues, and

authorities are diligently tracking and curbing illegal operations recycling waste oil into cooking oil.

In 2011, a manufacturer from Taiwan was accused of distributing diethylhexyl phthalate (DEHP), an industrial plasticiser as a replacer for the cloudifiers used by the food industry. This created traceability issues in the food and beverage market and a massive recall of food and beverage products. Other food contamination cases such as abuse of lean meat enhancers, health risk posed by hydrogenated fats and prohibited colourings used in dumplings created media attention and increased consumer awareness exerting tremendous pressure on the food safety enforcement agencies.

FOOD SECURITIES ISSUES

Food security remains as a major agenda for the Chinese government as its considered a national interest. In September 2007, China announced 11 strategic measures to promote its grains and oilseeds production. This new policy allocated an additional RMB 1.3 billion annually to subsidise and promote high yielding strains of seeds to be sown by farmers, of which RMB 300 million would go to into soya-bean production and RMB 1 billion to rapeseed and corn production. Many other incentives and measures were adopted to encourage farmers on soyabean and rapeseeds planting aiming to secure and stabilise edible oils supply.

As the farmers are not protected by the transparent subsidy policy, China's Bureau of Food Security and Stockpiling administers national food security by offer-

ing to purchase farm produce at a minimum price. With the escalating inflation rate in recent years, the National Development and Reform Commission (NDRC) aimed to curtail the Consumer Price Index (CPI). The commission imposed an unwritten obscure directive to cap the price of household cooking oil from November 2010 until August 2011. This price cap mechanism included imposing a ban on price hikes of household consumer packed cooking oils. The mechanism also drove auctioning of the national stockpile of oilseeds, which was purchased from local farmers a few years earlier, to be sold to designated cooking oil manufacturers, with conditions that required them to crush, refine the oil, pack and sell the cooking oil at fixed prices. This mechanism caused a negative margin position for the crushers and this persisted for a long period. Such market distortion also affected Malaysian palm oil and palm kernel cake imports adversely. At the same time, many crushers and manufacturers were forced to close their operations. Small crushers, refiners, and traders were deprived of the opportunity of setting up efficient marketing arms in foreign countries to facilitate the hedging and out source their position.

In 2011, it was announced that the national agricultural policy is to provide supports and accelerate reverse investments with a focus on the upstream of food industry. NDRC implemented the strategic plan that agricultural and food securities shall go abroad for upstream investment to secure food supply. These overseas investments in agriculture, forestry and fishery will be supported by financial loans, tax exemptions and central

agency assurance. These series of agricultural policies do not provide many opportunities for the Malaysia palm oil industry as Malaysia's oil palm plantation expansion has almost reached its limits, only Indonesia and some African countries will gain from China's investment in the plantation sector.

IMPORT FOOD SAFETY CONTROL

The Chinese government has two institutions controlling the import quality of goods. The National Quality and Technology Supervision Bureau and the Customs Inspections and Quarantine services were merged to form the General Administration of Quality Supervision Inspection and Quarantine (AQSIQ) in 2001. AQSIQ visited Malaysia early 2002 to obtain information on Malaysia's export quality enforcement and traceability of palm oil imported from Malaysia.

The National Quality and Technology Supervision Bureau has issued National Standards for palm oil since 1995. Since then, revised and more stringent quality specifications have been implemented as necessary. Regulations on Import Food Safety, Directive Order: No. 144 was issued and come into effect on 1 March 2012. These regulations are to ensure the food safety for imports and to protect human, animal and plant health. These measures also provide guidelines for safety management of food additives, animal drugs and feed as well as pesticides control. Palm oil imports from Malaysia have to abide to the related food safety requirements to avoid unnecessary losses.

NATIONAL STANDARDS ON FOOD SAFETY

The National Standard for palm oil was promulgated in the early 1990s, and the standard was revised periodically. GB 15680-2009 came into force on 1 October 2009 to replace GB/T 15680-1995 and GB/T 18008-1999. In the new standards for palm oil, various grades of fractionated palm oil were stipulated with stringent quality specifications. These standards will streamline the quality of palm oil imports and food manufacturer standards.

On 20 September 2010, The Regulations on National Standard for Food Safety Directive Order: No. 77 came into force. These regulations required stringent monitoring of all palm oil imports by the AQSIQ. In that year, Palm Oil Research and Technical Service Institute of MPOB (PORTSIM) monitored the quality of palm oil

imported into China from Malaysia and Indonesia.

On 12 October 2011, the country's first National Standard for food nutrition labelling was promulgated and the date of enforcement is scheduled for 1 January 2013. This labelling law includes the *trans* fatty acid content and nutrition specifications to protect consumers and to safeguard public health. This law is welcomed by the Malaysian palm oil industry as palm oil can replace most hydrogenated fats in solid fat applications and is seen as potential for Malaysian palm oil to increase its share in China's solid fat market.

IMPORT DUTY FOR PALM OIL

Generally in China, palm oil is sold at a much higher price than Kuala Lumpur freight on board (FOB) price. This is due to the government imposed 17% Value Added Tax (VAT) and 5% sales tax.

With the government's success in economic reform and the World Trade Organisation (WTO) accession, the quota rate system to control vegetable oil imports was abolished on 1 January 2006. Automatic Import Licensing System was implemented for the import management of soyabean oil, rapeseed oil and palm oil. In the case of palm stearin, no automatic import licence was granted until 1 January 2008.

The import tariff of other vegetable oil remained at 9% except for palm stearin which remained at 8%. Since 1 January 2008, the preferential tariff of 4% applied only to the manufacturers using palm stearin directly. However, palm stearin traded in the market do not enjoy this privilege. In 2012, the tariff for hard stearin (MP: 50°C-56°C) was further reduced to 2%, and the tariff for soft stearin (MP:44°C-50°C) also remain at

TABLE 1. THE IMPORT TARIFF OF PALM OIL PRODUCTS OVER THE YEARS

Tariff item	Name of commodity	M.F.N.%						Gen.%	Conventional% ASEAN		
		2005	2006	2008	2010	2011	2012		2010	2011	2012
15111000	Crude oil	19.9 TRQ 9	9	9	9	9	9	60	-	-	-
15119010	Palm olein (19°C-24°C)	19.9 TRQ 9	9	9	9	9	9	60	-	-	-
15119020	Palm stearin (44°C-56°C)	8	8	8	8	8	-	60	-	-	-
1511902001	Palm stearin (50°C-56°C)	-	-	-	-	-	2	60	-	-	-
1511902090	Palm stearin (44°C-50°C)	-	-	-	-	-	8	60	-	-	-
15119090	Other palm products	19.9 TRQ 9	9	9	9	9	9	60	-	-	-
15171000	Margarine	30	30	30	30	30	30	80	5	5	0
15179010	Shortening	25	25	25	25	25	25	70	0	0	0
15200000	Crude glycerol, glycerol	20	20	20	20	20	8	50	0	0	0
15211000	Glycerol wax	20	20	20	20	20	20	80	0	0	0
38237000	Fatty alcohol	13	13	13	13	13	9	50	0	0	0
38231100	Stearin acid	16	16	16	16	16	16	50	0	0	0

8%. The modality of import tariff reduction for palm oils over the years is seen in *Table 1*.

In 2011, the tariff of other grades of palm oil in ASEAN-China Free Trade Agreement enjoyed no import tariff with the exception of margarine which is classified on the 'sensitive list' and has an import tariff of 5%.

These reductions of duty for stearin and the labelling laws applied for *trans* fatty acid will pro-

mote the expansion of palm oil utilisation in solid fat applications. The local industry will produce more *trans*-free margarine and other solid fats to further enhance the palm stearin niche market. Considering this, PORTSIM engages in research projects collaborations with local producers to take utilise palm oil's advantages in food applications.

CONCLUSION

The legislations together with China's government policies, na-

tional standards, food safety measures, and import tariff structure will safeguard the healthy development of China's food industry to ensure secured and safe food supply for its fast growing population. However, no transparent policies were announced on the food security issues, particularly involving CPI capping mechanism. Malaysian palm oil exporters will have to keep abreast with the developments and comply with all the requirements to avoid massive losses in the palm oil trades.