

BUSINESS WEEKLY / Page 6

What crisis?

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Michael Leavitt (center), US secretary of health and human services, shares a toast with Wei Chuangzhong, vice-minister of China's General Administration for Quality Supervision, Inspection and Quarantine, as Zhu Xinli (right), chairman of China Huiyuan Juice Group, looks on after a news conference at a Beijing juice plant in December. Reuters

Editor's note: Since last year, certain concerns regarding products made in China have aroused worries outside the country. These worries defined Sino-US trade relations over the past year. However, a closer look at China's manufacturing industry reveals that the safety issue was much hyped.

China Business Weekly is partnering with Sohu.com to look at quality control within China's leading manufacturers, which are churning out Made-in-China products every day and exporting them to every corner of the world. In this issue, we take a look at China Huiyuan Juice Group, which Michael Leavitt, US Secretary of Health and Human Services, visited two months ago during a trip to China.

When Zhu Xinli was trying to catch a flight after attending an international food industry conference in Shanghai last June, he was chased by a Reuters reporter. The reporter raised one simple question: Is winter on its way for Made-in-China products?

"I was perplexed by the question as it seemed totally irrelevant to my business," says Zhu, chairman of China Huiyuan Juice Group, the country's top maker of pure fruit juice.

For Zhu, the "Made in China" label on Huiyuan's products was a sure bet. The company began shipping products to overseas markets, including the United States, more than 10 years ago and had never encountered any food safety problem in any country.

But after speaking with the manager in charge of Huiyuan's exports, Zhu found he was mistaken. "I was told our four containers were checked four times by the US Food and Drug Administration (FDA) in a single month. That was unprecedented," he says.

In 1995, Huiyuan started exporting juice concentrate to the US and immediately won US authorities' trust after two checks that found Huiyuan's products were free of any quality problem. Thereafter a spot-check practice was implemented.

The sudden hike in quality checks immediately slowed Huiyuan's delivery to US clients. That could be fatal in an industry where staying fresh is paramount.

And it's an even bigger challenge for Huiyuan, which won a \$100 million contract last January from Wal-Mart to sell pure juices to the retail giant's more than 3,000 stores in the US.

Zhu felt a chill when the Made-in-China tag became "associated with something evil", after scandals from tainted toothpaste to toxic toys tarnished the label and increased quality scrutiny in the US and other countries.

But Zhu was undeterred. He believed the trust crisis was over-hyped and would soon pass.

"In China many big companies are playing by the rules with Huiyuan as a major representative," he says.

The conclusion of FDA's increasing quality checks last year was consistent with those the administration did before: There was no quality issue. And smooth delivery has since been restored.

Zhu attributed that to Huiyuan's adoption of stringent quality control since its first exports. The firm started by shipping apple juices to Switzerland and later Seabuckthorn juices to Japan. In Switzerland and Japan, quality control on imported products is the world's most stringent.

That made Huiyuan among the first Chinese manufacturers to adopt global practices for quality control. In 2001, Huiyuan spent 100 million yuan introducing a product line with the PET sterilized cold filling equipment. Zhu says the equipment, which ensures high quality, was the most advanced in the world at that time. Even Coca-Cola did not have such a product line in China, he says. So far Huiyuan has built 15 such product lines.

That has paid off. Its business was not affected by the controversy over the safety of Chinese food products, except for increased checks.

In the first half of last year, Huiyuan's revenue grew 26.2 percent to 1.365 billion yuan, with gross profit surging 38.4 percent to more than 500 million yuan.

Exports surged 168 percent year-on-year in 2007. The company, which listed in Hong Kong last February and was oversubscribed 937 times, is to release financial reports for full 2007 in March.

Focus on home market

A spate of US pet deaths traced to contaminated Chinese pet food caused increased scrutiny on Made-in-China labels and damaged the country's reputation as the world's major food exporter.

Zhu says the uproar was largely because of a misunderstanding, which could soon dispelled.

Since the outbreak of the trust crisis in China-made products, he has been busy receiving foreign journalists and government officials to Huiyuan's plants.

Last August, a delegation of US House of Representatives visited Huiyuan, followed by another delegation of officials from 43 governments two months later.

In December, Michael Leavitt, US secretary of health and human services, and FDA head Andrew van Eschenbach visited a Huiyuan factory in the Beijing suburbs, accompanied by Wei Chuanzhong, vice-minister of China's General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ).

AQSIQ, on its website, cited Leavitt as saying the visit "has reinforced confidence in the cooperation (between the United States and China) and proved again that Chinese products are safe".

Huiyuan's pure juices are now sold under the kids-oriented BellyWashers and TummyTickler brands at Wal-Mart and 7-Eleven convenience stores.

Zhu says Huiyuan might seek to build plants in overseas markets, including the US, as long-distance transportation undermines competitiveness.

"We are especially interested in selling Hawthorn juices in the US market where such products are not available," he says.

However, the overseas expansion is not Huiyuan's top priority as there is much untapped potential in the domestic market.

Huiyuan now controls 46 percent of China's pure juice market. Unlike Westerners, most Chinese seldom drink juice. Huiyuan says the per capita consumption of juice is only 3.4 liters a year in China, compared with 19 liters in Japan, 34 liters in the US and 40 liters in Canada.

China's soft drink sales are projected to grow to roughly 224.94 billion yuan by 2010, of which fruit and vegetable juice will claim 29.8 percent, according to Euromonitor.

Huiyuan now owns more than 200,000 hectares of orchards across the country to ensure steady and quality supply of fruits. It also buys orange juice concentrate from Florida of US and Brazil.

"We will focus on our home turf and will not seek far and wide for what lies close at hand," Zhu says. "But in any market quality control is the key."



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