

State regulation of the Chinese organic products market

N.F. Zaruk, E.S. Kolomeeva, Yu.N. Romantseva, M.V. Kagirowa, and R.A. Migunov*

Russian State Agrarian University – Moscow Timiryazev Agricultural Academy, Timiryazevskaya Street, 49, 127434, Moscow, Russia

Abstract. Organic agriculture in the world is considered one of the main directions of solving the environmental problem. The authors emphasize the importance of studying the best foreign practices of state support for organic production in the context of the green economy development for their use in agriculture in Russia. Based on the study of the positive experience of state regulation of the organic market in China, characterized by rapid growth, the article concludes that the formation of a mechanism of state support will contribute to the development of organic agribusiness, will allow to produce better products with less harm to the environment, and will also increase the organic production efficiency. The article is of practical value, gives an idea of the current level and prospects of state regulation of organic agriculture.

1 Introduction

The coronavirus pandemic has provoked an increase in the popularity of environmentally friendly and healthy food products, stimulating the development of the organic products market. The International Federation of Organic Agricultural Movement (IFOAM) defines organic agriculture as a production system that supports the health of soils, ecosystems, and people [1]. Organic products are becoming increasingly important in developed countries, as consumers realize the benefits of organic products, and the population of these countries has a higher income level and tends to buy eco-friendly, albeit more expensive organic food.

The purpose of this study is to identify the key instruments of state support for organic producers in China for possible further application of best practices in Russia.

2 Research methods

The paper analyzes Russian and foreign scientific literature, as well as Internet resources describing the experience of state regulation of the rapidly developing market of organic products in China. The state policy and legislative framework regulating organic production in China are being studied. Summarizing the information received will serve as a basis for

* Corresponding author: kolomeeva@rgau-msha.ru

identifying areas for improving the mechanism of state support for organic production in Russia in the context of the green economy development.

3 Results and Discussion

According to the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agriculture Movements (IFOAM), in 2021 the global organic market approached 125 billion euros (170 billion dollars), an increase of 4 billion euros (3%) compared to the value for 2020. The largest global markets are the USA (48.6 billion dollars), Germany (15.9 billion dollars), and France (12.7 billion dollars). The number of certified manufacturers in the world in 2021 approached 4 million, increased by 4.9% [2]. Many countries are pursuing policies to support organic agriculture and stimulate its development, including through various state support mechanisms. An example of a rapidly developing market for organic products is the Chinese market. The PRC has a high level of state support for the agricultural sector (Figure 1).

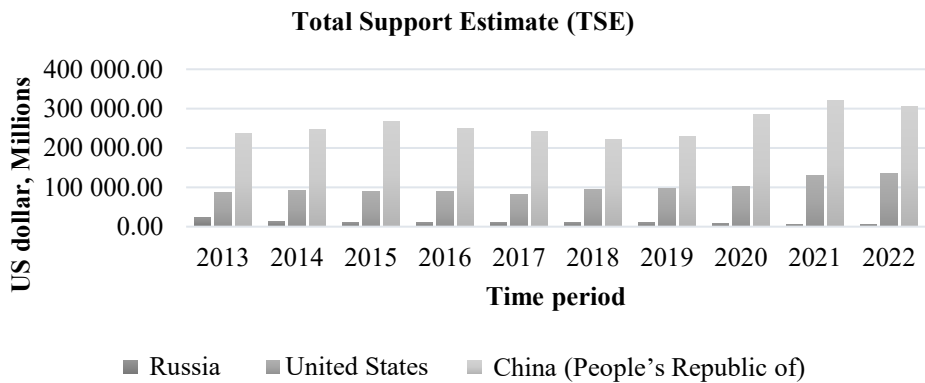


Fig. 1. Total Support Estimate (TSE), US dollar, Millions.

Source: compiled by the authors according to OECD data [3]

According to the Total Support Estimate (TSE), the final indicator of monitoring and evaluation of agricultural support policy, reflecting the volume of aggregate support for producers, consumers, and general services, China is significantly ahead of the United States during the entire analyzed period from 2013 to 2022. The TSE amount includes transfers received from taxpayers and consumers as a result of the ongoing policy of supporting agriculture.

Active support from the Government, the adoption of various measures to stimulate the production and consumption of organic products contribute to the rapid growth of the organic market of China. During the COVID-19 pandemic, China's agribusiness was refocused on biosafety and improving the nation health. The country realized the importance and took unprecedented measures to develop the organic market. In 2019, the Ministry of Agriculture of China allocated more than 434 million yuan (about 61 million US dollars) for the organic agriculture development. According to FiBL data for 2021, the total size of the Chinese organic market is relatively small compared to the American and the largest European ones, it amounts to 4.8 billion US dollars, while the growth rate in China by 2020 exceeded the global average and amounted to 13.3%. It is assumed that in the coming years, the average annual growth rate of organic sales in China will be at least 5.3%, and by 2025, the turnover of market trade in this category will be at least 6.3 billion

US dollars. The retail market of organic products in China is the largest market in Asia, in 2021 China's share in the total Asian retail trade was 82% (Figure 2).

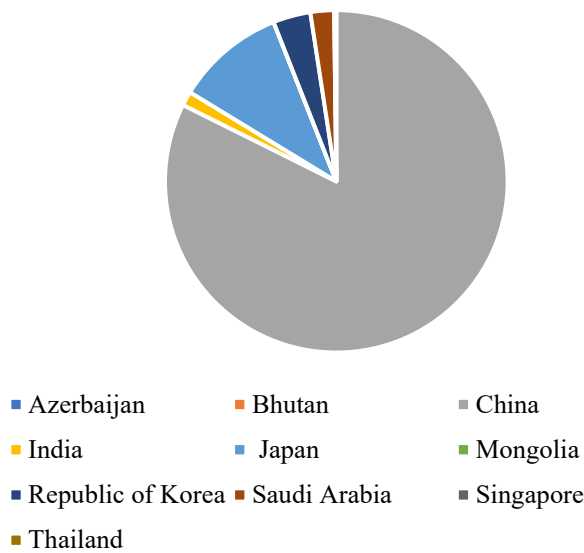


Fig. 2. Assia: Organic retail sales in 2021, Million €.

Source: Compiled by the authors according to FiBL [2]
Nevertheless, the cost of purchasing organic food products per capita is only \$3.40, i.e. there are significant opportunities for growth [4,5]. In general, for the Asian market, retail sales of organic products per capita are quite high, according to this indicator, China is ahead only of Japan, the Republic of Korea, and Saudi Arabia (Figure 3).

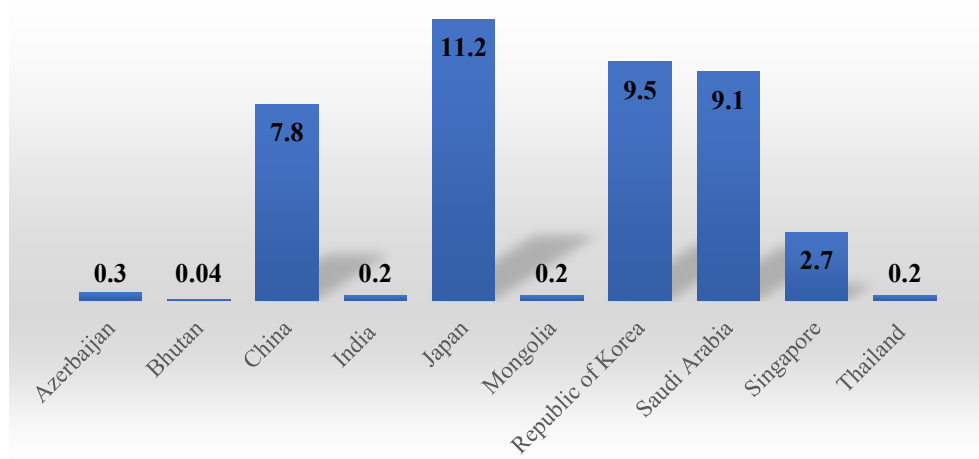


Fig. 3. Assia: Organic retail sales in 2021 Per capita, €/person.

Source: Compiled by the authors according to FiBL [2]
China is leading in the growth of the area of land occupied by organic agriculture, up to 319 thousand hectares (an increase of 13% in 2021 compared to 2020) [2]. The

Government actively participates in the promotion of organic products on the international market, supporting exports, signs agreements with other countries on the exchange of organic products, and promotes the participation of Chinese companies in international specialized exhibitions and fairs.

One of the main initiatives taken by the state is the certification of organic products. There are several certification systems in China, such as "China Organic Product" (COP), "China Green Food" (CGF), and "Organic Food Development Center" (OFDC), which set standards for organic products and monitor their compliance [6]. Certification systems operate on the basis of the following regulations:

- The "Regulations of the People's Republic of China on Certification and Accreditation" (Resolution No. 390 of the State Council of the People's Republic of China) was developed to regulate certification and accreditation activities, improve the quality of products and services and the management level, as well as promote the economy and society development;

- "Measures for the management of certification of organic products" (AQSIQ Resolution No. 155) is a regulatory act regulating the certification of organic products, as well as activities for the production, processing, and sale of organic products in the People's Republic of China;

- The "Rules for certification of organic products" establish the procedure for conducting certification procedures and the basic requirements for organic products certification bodies;

- The "National Standard for Organic Products" (GB/T 19630 - 2011) represents the technical requirements that must be met during the production, processing, labeling, sale, and management of organic products.

China has included the development of organic agricultural production in the priority national anti-poverty program and is providing political, financial, and technical support for the establishment of organic agricultural production bases primarily in poor areas to increase jobs.

The system of subsidizing the costs of certification of organic products has territorial differences. The Chinese Certification Center for Organic Food Products "China Green Huaxia" under the Ministry of Agriculture has a policy of reducing or completely exempting from paying the certification fee for the relevant producers of organic products located in poor areas. For example, for the Tibet Autonomous Region, there is an exemption from all certification fees; Qinghai Province is exempt from a third of annual inspection fees, and the level of annual management fee is limited; for Lushan County, affected by the earthquake, the certification fee and annual management fee are halved [7].

The "Rules for Certification of Organic Products" in force in China require certification agencies to provide information to the National Certification and Accreditation Authority through the "Chinese Information System for Certification of Food and Agricultural Products". In turn, the National Certification and Accreditation Authority issues uniform certificate numbers. Thus, information about the issued certificates of all certified manufacturers is disclosed in a single system in free access, i.e. the information is open and publicly available.

Organic producers in China can receive tax benefits. For example, some provinces provide land tax exemption for farmers engaged in organic agriculture. Enterprises are exempt from VAT when selling agricultural products of their own production. In 2020, the Chinese government continued to reduce the VAT rate, and the tax rate on agricultural products was reduced from 13% to 9%, and the tax rate on agricultural products of advanced processing was reduced from 17% to 13%. Taxpayers are exempt from VAT in the production, sale, wholesale, and retail trade of organic fertilizers, complex organo-inorganic fertilizers, and bio-organic fertilizers [8].

In relation to the products of complex utilization of straw of agricultural crops and logging waste, a VAT refund policy is carried out in a certain amount.

Organic producers can take advantage of other universal benefits, for example, expenses for high-tech equipment and machinery purchased by the enterprise in the amount of up to 5 million yuan are allowed to be deducted before paying a one-time income tax from the tax base in the current year. Income tax benefits for small and microenterprises have been expanded. The maximum amount of annual non-taxable income for small and microenterprises using the preferential policy of reducing corporate income tax has been doubled to 1 million yuan.

The restriction has been lifted, according to which it is not allowed to apply an additional deduction for R&D expenses commissioned by enterprises outside China [7].

In the field of lending, emphasis was placed on increasing the maturity of loans and the availability of financial resources for organic producers. The annual interest rate on loans issued does not exceed 5%, there is a special preferential interest rate on a "green" loan of 3.7%. China provides assistance to agricultural producers through subsidizing the interest rate on loans to newly established enterprises in the industry. If the loan amount is less than 10 million yuan, the state subsidizes 50% of the market interest rate (LPR). For loans in the range from 10 to 50 million yuan, the subsidy is 25% of the market interest rate, and for loans over 50 million yuan – 15% [9].

China helps local organic producers by providing subsidies and benefits. In 2022, the country launched a program for the development of aquaculture and plant breeding. 121 companies, including Zhangzidao Group, Shandong Homey Aquatic Development, and Fujian Tianma Science and Technology Group, receive government support for the development of these areas. The Department of Agriculture of Guangxi Province announced the payment of subsidies to cattle producers and sheep farmers in 2022. In total, six measures were announced to support this industry [10].

During the construction or expansion of an organic meat and dairy farm, producers can receive compensation of up to 30% of costs in the form of a one-time payment limited to 10 million yuan. Farms that have bred or purchased more than 50 breeding buffaloes for breeding or milk production will receive up to 2,000 yuan per head from the state. Financial support is also available in the form of a one-time payment of up to 1,500 yuan for farms with 5-500 mixed cows or buffaloes that use artificial insemination and cow-calf technology. For farms that independently grow feed (including corn, sorghum, and green fodder) in the amount of more than 2,000 tons and do not fall under other support programs, a one-time payment of 60 yuan per ton is provided [9,11].

4 Conclusions

The study confirms the global trend of growing consumer interest in environmentally friendly products and resource-saving production, while there is a correlation between the size of organic production and the level of state support for both organic producers and agricultural producers in general. Countries with a developed organic market have a high level of state support and a diverse mechanism for its provision. The study examines the experience of China, where organic agriculture is the most important direction in the development of the agrarian economy, and the modern system of state support includes a variety of measures.

To help organic producers compete with traditional agricultural producers and reduce production costs, financial support from the state is needed. The main idea of state regulation of organic production should be comprehensive assistance to producers of organic products to encourage them to produce high-quality and competitive organic products. It is important to note that this system should be based on a scientific

understanding of technologies and features of organic production, as well as consider regional peculiarities [12].

Acknowledgment

Financial support of the FSBEI HE Russian State Agrarian University – Moscow Agricultural Academy named after Timiryazev. Project topic "Development of an information system for improving organic production technologies" No. 8, Order No. 218 dated 06.04.2023

References

1. Official IFOAM website - OrganicsInternational [Electronic resource].—Access mode: <https://www.ifoam.bio/why-organic/organic-landmarks/definition-organic>
2. FiBL (2023): Area [element] data on organic agriculture worldwide [geographical scope] 20xx-20xx [year(s)]. The Statistics.FiBL.org website maintained by the Research Institute of Organic Agriculture (FiBL), Frick, Switzerland. Available at statistics.fibl.org/world.html [URL]. Accessed on 09.11.2023
3. Official website of The Organization for Economic Cooperation and Development (OECD) <https://data-explorer.oecd.org/> Accessed on 05.11.2023
4. Official website of the Trade Association <https://globalorganictrade.com/country/china> Accessed on 09.11.2023
5. The official site of the USDA Agricultural Marketing Service (2018). The Organic INTEGRITY Database. USDA Agricultural Marketing Service. <https://data.nal.usda.gov/dataset/organic-integrity-database>. Accessed 2023-07-23
6. Official website of the Export Support Center of the Moscow Region <https://exportmo.ru/china> Accessed on 02.11.2023
7. What is the latest agricultural product subsidy policy? What are the subsidy standards? [Electronic resource] Access mode: <http://www.xiangcun.com/news/show-3298.html> (in Chinese)
8. Does the country have a subsidy policy for organic fertilizer production? - Legal knowledge [Electronic resource] Access mode: <https://lvlin.baidu.com/question/184804515310622499.html> (In Chinese)
9. S. Wenlong, N.F. Zaruk, Measures of state support for the development of the digital economy in agriculture in China, Innovative ideas of young researchers for the agro-industrial complex: A collection of materials of the All-Russian Scientific and practical Conference of young scientists, Penza, March 23-24, 2023. Volume I (Penza: Penza State Agrarian University, 2023) 256-258 EDN EWEDFI.
10. L. Shunxin, N.F. Zaruk, Conditions for financing the production of organic products in China, Innovative ideas of young researchers for the agro-industrial complex: A collection of materials of the All-Russian Scientific and practical Conference of young scientists, Penza, March 23-24, 2023. Volume I. (Penza: Penza State Agrarian University, 2023) 258-261. EDN DPXERF.
11. T.P. Shakel, Intellect, Idea, Innovation, **4**, 7-14 (2021).
12. N.F. Zaruk, M.V. Kagirowa, A.E. Kharitonova [et al.], Proceedings of the Timiryazev Agricultural Academy, **3**, 90-112 (2022).