FUNCTIONAL FOODS ROUNDUP

China presents good growth opportunities for Australian UHT milk manufacturers while the debate about added sugar in foods continues.

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UHT milk opportunities in China

Australian dairy industry investment in products targeted to China and South-east Asia has seen a significant boost in the past couple of years. Apart from the growing demand for infant formula and milk powders, there are opportunities for export of long-life/UHT milk. Currently, over 60 per cent of the total milk consumed in China is UHT milk.

According to Datamonitor, the current market for UHT milk in the Asia Pacific (APAC) region is worth US$11 billion, dominated by China with over 60 per cent market share. Datamonitor predicts that the APAC market for UHT milk will grow over 50 per cent to nearly US$17 billion by 2018 (see Figure 1) with China's share rising to 70 per cent or nearly US$12 billion.

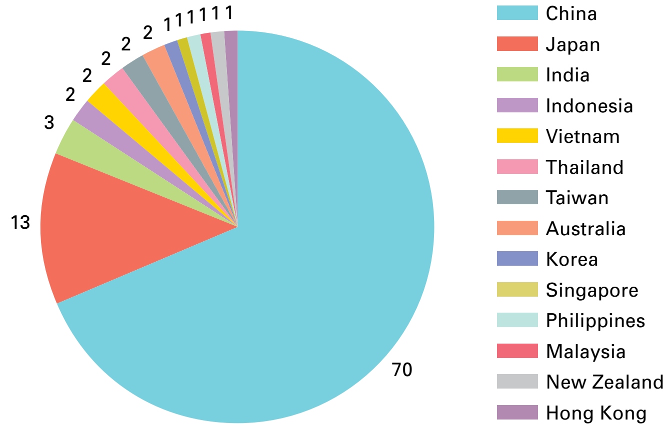

Figure 1: *UHT milk: value 2018 – US$17 billion by percentage. Source: Datamonitor*

UHT milk imports

According to United States Dairy Export Council (USDEC), Chinese imports of UHT milk have grown from a meagre five million litres in 2008 to over 150 million litres in 2013 (see Figure 2). Much of these imports have come from countries like New Zealand, Australia, Ireland and Germany.

Demand scenarios conducted by USDEC suggest China's appetite for imported UHT milk could more than quadruple from 150 million litres in 2013 to at least 600 million litres by 2020. According to Ernst & Young, China's middle class will surge to one billion in 20 years, up from 150 million at present with most of this increase in the urban population, which compared with the rural population is more influenced by

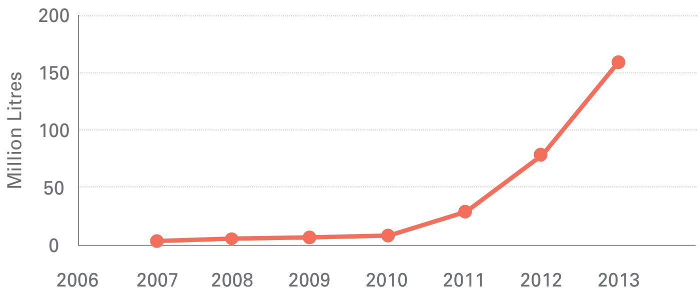

Figure 2: *China – UHT milk imports. Source: USDEC*

western cultures owing to their better income levels. Partly due to past food safety scares, Chinese consumers have shown they are willing to pay two to three times more for imported UHT milk than for the local milk.

New plant investments

Various Australian dairy companies have invested in UHT plants. This year Pactum Dairy Group, a joint venture between Freedom Foods and Australian Consolidated Milk, opened an AU$40M UHT plant at Shepparton for brand and contract processing, mainly for China. It is also planning to package UHT milk in 20,000L bladders for repackaging in China, Hong Kong and Singapore. The company claims that due to its deal with Bright Dairy of China, it is well ahead of meeting its processing capacity of 100 million litres, which could potentially be increased to 300 million. Australia's biggest dairy company, Murray Goulburn, market leader in UHT milk, has invested in its Leongatha and Edith Creek plants. Other investments include Parmalat Australia, which added a UHT packaging line at Rowville and purchased WA's UHT brand Harvey Fresh.

In New Zealand, Fonterra recently opened a NZ$110 million UHT plant at Waitoa, which will process 90 million litres of milk. Fonterra wants to go one step ahead and install its own UHT processing plant in China in 2014/15.

Varied milk needs

Although UHT milk is over 60 per cent of the market, there is strong consumer desire for fresh milk or milk that tastes like fresh milk, with demand for low-fat milk significantly higher than that for full fat. There is also increasing demand for flavoured milk and milks with particulate materials such as cereals, beans or fruit pulp.

It is important that investments are made into packaging lines that can fill particulate material in UHT milk. Most suppliers of aseptic packaging machines such as TetraPak, SIG Combibloc and Elopak have options for delivery of particulates. Another thing to note is that although hypermarket and supermarkets account for close to 50 per cent of the market spend, gift channel is still an incredibly important channel for Chinese consumers. Although it seems strange to Australians, 25 per cent of UHT spend is on gift packs which are given to friends and family along with chocolate and confectionery, especially on Chinese New Year when its market share reaches up to 40 per cent.

Pressure mounts to reduce added sugar

Around the world, organisations and consumer groups are putting pressure on food and beverage companies to reduce added sugar in their products due to the increased problems of lifestyle diseases such as obesity, diabetes, heart disease and cancer.

According to the Food and Agriculture Organization of the United Nations (FAO), Australia's sugar consumption is thought to be the highest in the world, with the average Australian consuming 40kg of sugar per year (33kg in the USA, 25kg in France, 20kg in Japan).

Is a sugar tax the answer?

A number of Australian health organisations and consumer advocate groups would like government to impose a sugar tax on all sweetened beverages including soft drinks, flavoured milk and sports drinks. This is strongly objected by food and beverage companies who maintain that there is no link between sugar and lifestyle diseases. Recently a couple of studies were published which supported the food industry arguments as the compiled data over 20 years suggested that sugar intake in Australia in fact declined despite the increase in obesity and associated diseases.

Food labelling

Labelling added sugars on nutrition information panels is one way of letting consumers know the amount of sugar they are receiving so that they can make an informed decision about the food. Although no food labelling changes are yet planned in Australia, US FDA has proposed new nutritional panel labels to reflect the latest scientific information, including the link between diet and chronic diseases such as obesity and heart disease. The new labelling will include the amount of 'added sugars' in addition to the sugar naturally contributed by ingredients.

Reducing sugar in food has a host of complications for the food industry, including taste, formulation, texture, regulatory, labelling and other issues. An article in *New Scientist* argues that the best way to deal with it is by working with the physicians and the food industry where the physician advocates reduction while the companies slowly reformulate their product.

UK salt strategy

Such a strategy has worked for salt reduction in the UK. According to *New Scientist*, around 20 years ago a small group of cardiovascular specialists in the UK decided to do something about the large amounts of salt being added to processed food. It seems the campaigners persuaded manufacturers to gradually reduce the amount of salt in processed foods. The aim was to wean people off salt and it worked; people in the UK now prefer foods with less salt. That success is being replicated worldwide. There is no reason why a similar approach could not be implemented to sugar in Australia.

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Ranjan Sharma compiles the market intelligence newsletter, Functional Foods Weekly,*(www.functionalfoods.biz).*