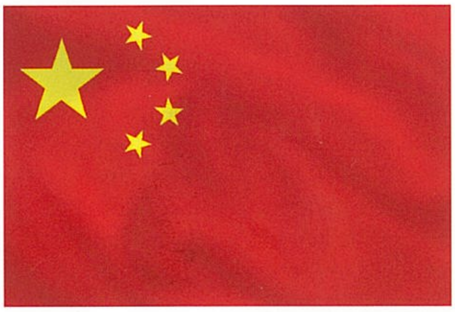
FUNCTIONAL FOODS ROUNDUP

Opportunities for dairy products in China and the continuing growth of the gluten free market are making waves.

Words by *Ranjan Sharma*



Market trends – All dairy roads lead to China

As far as market opportunities for dairy products are concerned, China seems to be the new battleground for dairy. The current boom in demand has triggered intense competition among key dairy exporters, including those trying to meet the insatiable demand in the infant formula sector.

According to the USDA, local milk production in China is on the rise thanks to improved breeding and feed nutrition programs in collaboration with foreign companies. However, the increase in the domestic production is nowhere near what is needed to meet the demand for dairy products. For example, between 2011 and 2012, imports of skimmed milk powder to China grew by 49 per cent and are expected to increase an additional 18 per cent this year.

Dairy prices are also likely to stay high in the near future, thanks to the decline in the production volumes in key exporting countries. This year milk production in key exporting countries Argentina, Australia, the European Union, New Zealand and the US has fallen nearly three per cent due to a series of unfavourable weather conditions. These included a cold spring in the Northern Hemisphere and a drought that dried up production in New Zealand, the top exporting country.

China's quest for overseas infant formula – the result of a deep distrust of domestic supply dating back to a deadly melamine contamination scandal in 2008 – has been embraced by several European and Australasian companies. To build confidence in the local products, the Chinese government is planning to consolidate the number of manufacturers and cut the number of suppliers by one-third this year. Companies that produce infant formula will also be required to have their own dairy farms, a challenge to local suppliers.

According to Euromonitor, the demand for foreign brands in the Chinese infant formula market is projected to double in value to US$25 billion by 2017 due to the growing female workforce, which has created a reduced incidence of breast feeding. According to UN, with 82 million children below the age of five and only 28 per cent under the age of six months being breast-fed, demand for infant formula is likely to stay high despite recent efforts by Chinese government to encourage breast feeding. Euromonitor predicts that by 2017, China will represent nearly 50 per cent of global demand for infant formula.

China's high demand for dairy

products comes as a shot in the arm for the European dairy farmers whose milk quota system comes to an end in 2015. Australasian dairy companies are also gearing up to capture an increased share of the infant formula market. Here is a summary of Australian and New Zealand actions directed at the Chinese dairy industry:

- Riding on the clean, green image of New Zealand, Hokitika-based Westland products recently launched a range of infant formula products in China. Marketed under the brand Westpro Nutrition, the range currently includes base powders for Infant Formula (Stage 1), Follow On Formula (Stage 2) and Growing Up Milk Powder (Stage 3) as well as other powders for nutritional applications.
- Australian co-operative Murray Goulburn has secured a five-year deal with Danone to supply Asia's increasing demand for Growing Up Milk Powder. Murray Goulburn will spend $2.5 million on equipment upgrades at its Koroit site to meet the demand of 50,000 tonnes of milk powder product for young children in China and South East Asia. Earlier this year Murray Goulburn made an investment of $19.1 million in its Leongatha facility in Victoria to lift the site's Ultra High Temperature (UHT) milk manufacturing output by approximately 70 million litres a year, to meet the growing demand from China and South East Asia.
- Bega Cheese has committed to building a nutritional powder blending and packing facility as it looks to capitalise on strong Chinese demand for infant formula. The new plant will be commissioned early next year at Tatura and will be able to blend and package up to 15,000 tonnes of canned nutritional powders annually.
- New Zealand company Synlait, which is partly owned by the Chinese company Bright Foods, recently raised NZ$120 million to expand nutritional powders production to meet the demand in China.
- A smaller Australian company, Burra Foods, is planning to spend $20 million building an infant formula processing plant at its site at Korumburra in South Gippsland. The company plans to export 10,000 tonnes of infant formula per year from 2014, mainly to China and neighbouring countries.
- A $40 million joint venture between Australian Consolidated Milk and Freedom Foods Group, aimed at producing UHT milk at Shepparton in northern Victoria, was announced earlier this month.

> *10 per cent of the population is now following a gluten-free diet*

Thus, it is obvious that China is going to be the key driver for the growth of the global dairy industry in the near future, especially for companies in Australia and New Zealand, with products such as infant formula and UHT milk.

Consumer trends - Gluten-free goes mainstream

A few years ago, gluten-free products were only available through health stores. However, over the last five years things have changed. Gluten-free products are becoming mainstream, thanks to increased awareness of coeliac disease. Coeliac disease, which is an autoimmune disorder triggered by the consumption of gluten-containing foods, can lead to extensive damage in the small intestine of susceptible people. At present, there is no cure for the disorder other than following a gluten-free diet.

Manufacturer and consumer awareness of the disorder is increasing – to a point where some consumers even consider gluten-free food products to be healthier than conventional products. The growing variety of retail gluten-free products and continual improvements in new product development by food manufacturers are also helping contribute to the growth in this sector.

Datamonitor reports that consumers with an interest in gluten free are not only influenced by the gluten-free claims but are generally also healthier eaters who claim to be more ethical, experimental and more influenced by natural and organic ingredients than the average global consumer. According to the market research company, North American consumers in the age groups 50–64 and 25–34 are most likely to be influenced by gluten-free marketing. And it seems males are more influenced by gluten-free marketing and claims than females.

According to market research company Markets and Markets, the global gluten-free product market is experiencing growth of over 10 per cent per year and likely to reach a value of US$6.2billion by 2018. Among the gluten-free products, bakery and confectionery products form the largest volume share in the market, about 46 per cent, followed by gluten-free snacks that form about 20 per cent. The US market represents over 50 per cent of the global share of the market and continues to be one of the fastest growing markets. Estimates for the market size of gluten-free products in the US vary by source. For example, Euromonitor suggests a market value of US$1.35bn in 2011 whereas Leatherhead Food Research estimates the value at US$2.7billion in 2013.

The UK market also has a rapidly growing demand for gluten-free products. The gluten-free sector is the largest within the UK market for "free-from" foods, targeted at people with food allergies or intolerances. Although estimates vary, it is one of the most dynamic sectors in the UK food industry. According to IRI, UK sales of gluten- and wheat-free foods reached approximately US$180 million in 2012 while Kantar Worldpanel values the market at over US$200 million. Sales of gluten free products in UK are thought to have increased by 23 per cent within the last year alone.

In Australia

According to Australia's Allergen Bureau, the gluten-free market in Australia continues to grow. Datamonitor forecasts that the Australian gluten-free market will increase over the next five years to a total of US$98.6 million. Coeliac disease is thought to affect more than 1 per cent of the Australian population, although it is possible that as many of 80 per cent of those afflicted haven't been diagnosed. However, research from Coeliac Australia indicates that 10 per cent of the population is now following a gluten-free diet, while Datamonitor information indicates 18 per cent of Australians are avoiding certain foods due to perceived allergies and intolerances.

The awareness of gluten-free products in Australia is on the rise. Recently, health insurance company Bupa, in association with The George Institute, launched a consumer friendly filter on food scanning app, FoodSwitch. The GlutenSwitch is designed to help gluten-intolerant consumers make healthy food choices. By scanning the barcodes of packaged foods with smartphones, GlutenSwitch provides users with an instant indication if the product contains gluten, as well as other health information such as fat and salt levels.

Last month the US FDA recognised the need for streamlining gluten-free labelling of food products by standardising the definition for "gluten-free" claims. In the US, in order to use the term "gluten-free" on its label, a food must contain less than 20 ppm of gluten. The rule also requires foods with the claims "no gluten," "free of gluten," and "without gluten" to meet the definition for "gluten-free." Food manufacturers will have a year after the rule is published to bring their labels into compliance with the new requirements. In Australia, under Food Standards Australia New Zealand (FSANZ) regulations, a product that carries a gluten-free claim must not contain any "detectable gluten" (see editorial, page 5, for further coverage of this topic).

The new definition is currently being challenged by Australian Food and Grocery Council (AFGC) who has proposed that a product with up to 20 ppm gluten be allowed to have gluten-free label claims. Although FSANZ has not yet made a decision, AFGC has support of Coeliac Australia, a consumer voice for coeliac disease. Bearing in mind that US has recently defined upper limit for gluten-free labelling as 20 ppm, which is at par with the EU food labelling, it seems likely that Australia will adopt the AFGC recommendations.

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Note: At the time of going to print, the application had not been presented to FSANZ.