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Nutrition Labeling Regulation's Impact on Food Choices

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Approved By:

Erich Kuss

Prepared By:

Caroline Yuen

Report Highlights:

The Hong Kong government (HKG) conducted two series of surveys gauging the impact of the newly implemented nutrition labeling regulation impact on food choices. The surveys indicated that prepackaged food items in the market amounted to 73,000 before the implementation of the nutrition labeling regulation. The number of food items increased slightly to 78,000 when the final part of the survey was conducted seven months after the inception of the new regulation. The HKG concluded that the implementation of the new regulation did not have any apparent impact on consumers' food choices. However, it may arrive at a different conclusion if individual retail categories rather than the aggregate figures of all retail outlets were looked at.

Summary

The Hong Kong government (HKG) conducted two series of surveys gauging the impact of the newly implemented nutrition labeling regulation impact on food choices. Given that the total number of prepackaged food items in all retail outlets increased from 73,000 to 78,000 when compared before and after the nutrition labeling regulation, the HKG concluded that “the implementation of the Scheme did not have any apparent impact on the total number of prepackaged food products in the market”.

However, an evaluation of the number of food choices available in individual retail categories before and after the implementation of the new nutrition labeling regulation showed that food choices available in supermarkets which are covering well more than 58 percent of food retail sales in Hong Kong declined for 8 percent. (If only prepackaged foods which are subject to labeling regulation are counted with the exclusion of fresh meats and produce, supermarkets will occupy a share far higher than 58 percent of food retail sales. This is because wet markets focus on the sales of fresh meats and produce and not on prepackaged foods. But there are no official statistics available for the market share of supermarkets in terms of prepackaged food only.) This 8 percent or 4,000 items decline in food choices is affecting a large number of consumers. Also, ethnic minorities have found their food choices shrunk by 26 percent. Though ethnic minorities only represent a small sales value, the impact on these specific groups is huge as minorities tend to source most of their hometown food from these specific outlets.

The survey indicated that specialty retail outlets increased in food choices. This figure bodes well the fact that the demand for health and organic food items is on the rise. The business potential well outweighs the additional cost associated with complying with the new regulation. Nonetheless, produce is the most sought after organic products in Hong Kong but organic produce still accounts less than one percent of total produce consumption. By analogy, prepackaged organic or health food items only represented a limited consumption enjoyed by a limited number of consumers.

The industry reflected that they are exploring a new balance to source new products and to control costs under the new regulatory framework. Retailers have to keep up and expand product range in order to remain competitive. Small Volume Exemption (SVE) has helped the launch of new products. They argued that the blackening out of nutrition claims on products so as to fulfill SVE exemptions not only raises their operation cost but also restricts key information from consumers to make healthy food choices. They said the key impact of the nutrition labeling regulation is on cost, which is even higher for small operators.

Background

Hong Kong’s first ever nutrition labeling regulation became effective July 1, 2010. Hong Kong nutrition labeling regulation requires all prepackaged food sold in Hong Kong have to label energy plus seven nutrients namely, protein, carbohydrate, fat, saturated fat, trans fat, sodium and sugars. Products selling less than 30,000 units a year can apply for small volume exemption (SVE) provided that the products do not carry any nutrition claims. Traders applying for exemption have to pay HK\$345 (US\$44) per product variety for the first year and HK\$335 (US\$43) for annual renewal.

During the legislation of the nutrition labeling regulation, there were many concerns of the regulation's possible impact on trade and consumers. Given that Hong Kong is a small market for individual products, overseas manufacturers are unlikely to prepare products with a special label for Hong Kong. Thus, the biggest concern of the regulation was the reduction of food choices. Another concern was the fact that products having nutrition claims are not eligible for SVE and that SVE fee is too costly for the trade. There was prevailing view that the new regulation would raise costs which would ultimately be passed to consumers.

The Surveys

The Hong Kong government has commissioned two independent consultants to conduct two series of surveys to assess the number of food products available in the market during two periods of time: one before and one after the implementation of the nutrition labeling regulation. These two surveys are named the Market Survey and Food Expo Survey respectively. The government interpreted the result of both surveys as not having any adverse impact on food choices.

Market Survey

The market survey was conducted within three timeframes: 1) September 2009 to January 2010; 2) March to April 2010; and 3) March to April 2011. The purpose of the survey was to find out the number of products selling in the market before and after July 1, 2010 when the nutrition regulation became in place. The survey covered three streams of retail outlets: supermarkets, specialty shops (specializing in health foods, organic products and snacks), and ethnic shops (selling foods from Indonesia, the Philippines, India, etc).

According to the HKG's report, the Survey suggested that there were around 73,000 and 78,000 prepackaged food products in the market before and after July 1, 2011 respectively, representing a rise of 7 percent. It was concluded that "all in all the survey showed that the implementation of the Scheme did not have any apparent impact on the total number of prepackaged food products in the market."

The Impact on Food Choices by Individual Retail Categories

A closer look at the figures of consumer choices for individual retail categories during different timeframes might show a different insight. Given that number of product choices could be different as a result of availability of seasonal foods, food choices during the same period, ie. March to April, for 2010 and 2011 are compared. The breakdown of food choices among the three categories are given in the following table.

Table 1: Food Choices before and after the implementation of Nutrition Labeling Regulation, July 2010

	September 2009 – January 2010	March – April, 2010	March – April 2011	% change between March – April 2010
Supermarkets	49,000	53,000	49,000	-8%
Specialty shops	19,000	17,000	25,000	47%
Ethnic shops	4,900	5,000	3,700	-26%
Total	72,900	75,000	77,700	4%

Apparently, specialty shops selling specifically health foods, organic products and snacks not only have not reduced but also have increased by 47 percent food items on the shelves after the implementation of the nutrition labeling regulation. Such conspicuous surge might demonstrate the increasing popularity of specialty shops selling health foods and organic products. The expansion of SKUs bodes well the fact that the potential of these health foods far outweighs the relabeling costs. Hong Kong consumers' increasing preference for health foods and organic products has triggered the expansion of both the number of shops as well as food varieties.

The surge in food choices in specialty shops might be further explained by the rapid development of a chain snack shop. That shop first opened in 2010 but it rapidly developed into a key snack food chain with over 60 and 90 stores in 2011 and 2012 respectively. It is one of the very few snack shops with over 10 stores in Hong Kong. This snack shop chain currently carries over 4,000 SKU's, which are largely new-to-market direct imports from Japan followed by Korea. This new snack shop chain alone already accounted for almost half of the increase in food items recorded by the retail category of specialty shops in the survey. Hence, the emergence of this shop after the implementation of the new regulation might explain to a certain extent the huge increase in food items selling in specialty shops.

Supermarkets reduced SKUs by 8 percent or 4,000 items and the impact is significant because supermarkets are the dominant retail outlets for prepackaged food. The larger turnover of supermarkets means that they are serving more consumers. An 8 percent decline in food choices available in supermarkets is imposing a larger impact than a similar rate in other outlets with a smaller market share.

In 2011, total retail sales of food and alcoholic drinks amounted to \$10.2 million whereas supermarkets accounted for over 58 percent or \$5.9 million. While the remaining 42% includes sales generated by specialty shops and ethnic shops, the majority of the sales came from fresh food and produce selling in wet markets which are not subject to the nutrition labeling regulation. Thus, supermarkets will account for a far higher percentage than 58 percent of total sales in Hong Kong when only prepackaged foods are considered with the exclusion of fresh meats and produce and any loose items not covered by the labeling regulation.

Food choices in ethnic shops declined over 26 percent when compared in the same period of the year before and after the implementation of nutrition labeling regulation. Ethnic shops mainly serve minority nationals residing in Hong Kong. The availability of a variety of food choices is one of the key reasons that makes Hong Kong feel home by many nationals and be a popular metropolitan city by many expatriates. Considering a limited base of 5,000 food items available in 2010, a reduction of 26 percent or 1,300 food items should be interpreted as significant from the perspectives of minority nationals living in Hong Kong.

It is understandable that supermarkets can brave the regulatory framework relatively easier than small ethnic shops because of the economies of scale that they are able to enjoy as a result of their large scale operations. Thus, large operators such as supermarket chains are able to have lower unit cost dealing with every aspect of the new regulation. Sources reveal that a supermarket chain has set up a laboratory to do nutrition analysis for their products. Also, big operators usually have a specific department handling the labeling and quality issues. They are financially able to hire a team of staff simply to do the blackening of nutrition claims on packaging (nutrition claims have to be removed in order to be eligible for SVE) and sticking Hong Kong specific labels on food products.

Reportedly, the average unit cost for big operators to cope with the nutrition labeling regulation is about 10 Hong Kong cents. The smaller the operator, the higher the unit cost will be. Products selling at a level not profitable enough to support the relabeling cost or SVE application fee are simply removed from retail shelves. Likewise, the trade sometimes needs to give up introducing a new product if they could not obtain the nutrition information from the suppliers and the potential of the new product may not justify the SVE or testing cost.

The Food Expo Survey

The Hong Kong government also commissioned a consultant to gauge the impact of the nutrition regulation on new-to-market food items through a survey on Food Expo held in 2010 and 2011. The government reported that “the results indicated that the introduction of the Scheme did not have any significant impact on the new-to-market prepackaged food products being introduced via Food Expo. Factors such as changes in marketing strategies and business objectives of some exhibitors appeared to have a more significant impact on the number of new-to-market prepackaged food products that were sold or promoted in the Food Expo 2011.”

However, there is doubt whether the Food Expo could serve as an effective benchmark evaluating the impact as the first part of the survey which was used as the base for comparison was conducted in August 2010 when the new regulation was just implemented. Furthermore, traders were well aware of the upcoming regulation in July 2010 when they were sourcing new products for the Expo 2010.

The government reported that the survey covered 560 exhibitors in Food Expo 2011, mainly from Hong Kong (44%), China (30%), Japan (17%) and Korea (5%). There were 291 exhibitors who joined the event for both 2010 and 2011, of which 74 percent indicated that they did not bring in less new items in 2011 when compared to 2010. For the remaining 25.8 percent who brought in fewer new items in 2011, the key reasons in descending order were “no new products”(29%); “satisfying market demands”(17%); and business reasons, such as scale-down” (16%). Reportedly, only less than 3 percent indicated that they reduced the number of new products in 2011 than in 2010 because of the new nutrition labeling regulation.

The Outlook

An industry representative indicated that they need to thrive with the prescribed regulatory framework. With the keen competition of retail sectors and Hong Kong following the global trend of increased

popularity of health and organic foods, importers and retailers have to maintain product choices in order to remain competitive and thrive in the market. It is believed that in the long run, Hong Kong traders will adapt to the prescribed regulatory framework and successfully explore the best mode of complying with the regulation based on their own operation nature. In the context of complying with nutrition labeling regulation, they are open to various options such as applying for SVE, carrying out in-house nutrition calculation based on information provided by suppliers or the original label on the packaging, or doing nutrition analysis in Hong Kong. The decision is based on the buyers' estimation of the potential of the products in the market.

The SVE measure provided by Hong Kong's nutrition labeling regulation has served as an interim measure helping the trade smoothly enter into operation phase of the new regulation particularly in the first year when they had to prepare tens of thousands of nutrition food labels to be compliant to the new regulation all at one time before July 2010. In the beginning, the trade might not have developed adequate expertise or knowledge to do nutrition calculation based on information on the original label. Testing capacity might not cope with the demand either, resulting in expensive testing fee. (The fee has now dropped to \$385 in 2010 to the \$320 per item this year.) Thus, SVE provides a way out for small sales items when their sales volumes did not justify for sure the relabeling cost.

SVE was recorded at a height of about 40,000 in 2011, meaning that over half of the prepackaged food items in Hong Kong were unable or cost effective to comply with Hong Kong's nutrition labeling regulation. This number speaks for itself the significance of SVE in the interception of the new regulation. Nonetheless, the number of SVE products for sale in Hong Kong has gradually dropped to 20,000 by June 2012 as the trade already explored a better option to live with the labeling regulation in the long run.

Of the products applying for SVE, products from Japan, U.S. and U.K. took up the largest portion by 49, 9 and 7 percent respectively.

Cost is a major reason that traders opt for relabeling their products instead of applying for SVE. Applicants have to pay US\$44 per product variety for the first year and US\$43 for an annual renewal. In addition, manpower are needed to black out nutrition claims in order to be eligible for SVE application. Comparing the one-off testing fee of around \$320 per food item and an even far lower cost by nutrition calculation, it is not surprising that the number of SVE products for sale in the market has declined.

Nonetheless, it is foreseeable that SVE still serves well for new-to-market products to test the market. Plus the Hong Kong government has pledged to consider lowering the application fee.

Performance of Prepackaged Foods from Various Countries

Hong Kong's nutrition labeling regulation did not seem to favor products from any countries. The Trade figures of food items which are subject to Hong Kong's labeling mandate did not demonstrate any major changes in the market share of products from different countries. Snack food trade figures showed that products from Europe, Malaysia and the U.S. all experienced tremendous increase regardless of the fact that American products are relatively easier to comply with the Hong Kong

labeling regulations. The trade figures coincided with traders' comments that the ease of complying with the nutrition labeling regulation associated with products' country origin is not a factor in sourcing.

Hong Kong's imports of U.S. snack food surged from 3,214 MT (\$17 million) in 2009 or 4,623 MT (\$28 million) in 2011. Given the relative proximity of U.S. and Hong Kong requirements for nutrition labeling, the increase in U.S. exports to Hong Kong might help to explain the Food Expo Survey result that there were less new-to-market products that warranted any label modification in 2011 than in 2010. In 2010, 51 percent of the new-to-market food products at Food Expo had carried out some labeling modification whereas the percentage dropped to 41 percent in 2011.

U.S. products are relatively easier to comply with the Hong Kong labeling regulations compared to products of other countries because the U.S. nutrition labeling requirements are comprehensive. The U.S. regulation requires the listing of 15 energy/nutrients, which well cover the energy + 7 nutrients required by the Hong Kong nutrition labeling regulation, despite there could be discrepancies arising from different nutrient definitions, rounding practices and criteria for making claims.

Table 2. Hong Kong: Snack Food Imports in volume, MT

Partner Country	Quantity			% change	% Share		
	2009	2010	2011	2011/2009	2009	2010	2011
World	74,127	82,745	86,176	16%	100.00	100.00	100.00
China	30,304	33,279	30,205	0%	40.88	40.22	35.05
Japan	7,229	7,822	6,847	-5%	9.75	9.45	7.95
Italy	5,263	5,776	6,484	23%	7.10	6.98	7.52
Malaysia	3,328	4,328	4,819	45%	4.49	5.23	5.59
U.S.	3,212	3,608	4,623	44%	4.33	4.36	5.36
Korea S	4,374	4,073	4,569	4%	5.90	4.92	5.30
Germany	2,051	2,552	3,424	67%	2.77	3.08	3.97
Switzerland	1,853	2,045	2,813	52%	2.50	2.47	3.26

Source: Hong Kong Census & Statistics Department