



Insights on today's global dairy business from the Hoogwegt companies

MARKET MATTERS

The Complex Nature of Health and Nutrition claims

Functional foods have developed over the past two decades as a significant segment of the total food market in which dairy products have a substantial presence. These products address a wide variety of potential advantages, which necessitate a claim about product benefits—expressed through the product brand, label information, and marketing messages to consumers.

A **nutrition claim** states or suggests that a food has beneficial nutritional properties, such as low fat, no added sugar, and high in fiber. A **health claim** goes further and is any assertion that health benefits can result from consuming a specific food, such as a food can help reinforce the body's natural defenses or help it overcome ailments. Dairy products provide a sizeable platform for health and nutrition benefits, such as those shown below:

Examples of Chief Health and Nutrition Claims		
Product	Product enhancement	Claim
Danone's Activia	Probiotic	Regulates digestive systems
Lactalis low-fat spread	Unsaturated and omega-3 fatty acids	Reduces cholesterol
Yakult	Probiotic bacteria cultures	Improves gut health in adults
Kraft live active cheese	Phytosterols	Reduces cholesterol
Milk	Added Vitamin D	Reduces risk of osteoporosis

The ability of dairy companies to make claims regarding health benefits has evolved into an important product differentiator for manufacturers and marketers of major dairy brands. This pertains not only to compete among dairy brands and products, but also to bolster the dairy platform against other competing food groups including soy and grain-based products.

Product development and marketing innovation have evolved in the dairy industry and extend well beyond the efforts of dairy companies. There is a substantial research and development industry dedicated to exploring, developing, and "proving for market" health and nutrition claims in Northern Hemisphere labs, as well as suppliers specializing in functional ingredients.

Significant developments in regulations in the largest, most developed markets—Europe and the United States—have recently occurred, which will have a profound impact on the future of marketing dairy products using substantive health claims.

The European Food Safety Authority (EFSA) manages regulations set in 2006 by EU lawmakers regarding the use of nutrition and health claims. This sets out EU-wide rules for the use of health or nutrition claims on foods based on "nutrient profiles," requirements foods must meet to validly make claims. EFSA has been assessing a large backlog of general and specific product claims since these new rules were put in place, with a priority to ensure that any claim made on a food label is clear and substantiated by scientific evidence. The new regulations have not been popular with dairy companies that are not only striving for certainty in marketing but are also anxious to work within a commercially realistic compliance regime.

The U.S. situation is more complex—if that is possible—with technical claims regulated by the Food and Drug Administration (FDA) and associated marketing and advertising regulated by the Federal Trade Commission (FTC). U.S. regulations have evolved over a longer period than EU regulations.

FDA regulation has tightened over time. For a specific health-benefit claim, pre-approval is required, but not in cases pertaining to an ingredient's effect on the functioning of the body. FDA has also introduced rules for "qualified" claims—a qualification must accompany claims that do not have the weight of scientific evidence behind them. FDA has also embarked on providing regulations on a benefit-by-benefit basis, adding to the complexity.

Moving forward, the pressure on food marketers will be to build greater scope for differentiation into their product portfolios. With the spread of global retailers and their private-label product ranges, the need for significant added value in a portfolio of brands will become a higher priority. The greater preoccupation with healthy diets in western markets is driving the need to package nutritional benefits into healthy foods. While dairy products have led these innovations, they still have significant capacity to go further.

HOOGWEGT FORECAST

	U.S. Average Prices			EU Average Prices			Oceania Average Prices		
	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	3.415	1,55	Weak	3.300	1,50	Stable	3.450	1,56	Stable
FCMP / WMP	4.365	1,98	Weak	4.250	1,93	Weak	3.650	1,66	Stable
Butter	4.850	2,20	Stable	5.650	2,56	Weak	4.400	2,00	Stable
Cheddar	4.750	2,15	Stable	4.700	2,13	Stable	4.300	1,95	Stable
SWP	1.425	0,65	Stable	1.200	0,54	Stable			
Lactose	1.425	0,65	Firm	1.625	0,74	Stable			

U.S. prices stated ex-works / incl. expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week 1,42

WORLD COMMENT

Last week dairy markets showed interesting movements in some areas. In New Zealand the auction surprised many with again lower AMF and (to a lesser extent) FCMP prices. The imbalance between FCMP and SMP prices are striking and unlikely to last. The low FCMP price in New Zealand started to generate new traction among customers. Ramadan started this month with active covering of September onward shipments. Exports during the first half of 2011 were solid to very strong for most dairy products. The EU shipped 40% more SMP during Jan-May'11 versus '10. The US manufacturers of NFDM were rather quiet on the spot market; still US exports reached over 180.000 MT in that same period: +48%. FCMP and cheese tell similar stories: the global economy keeps creating more dairy consumers. At this juncture there appears to be sufficient milk to meet demand for most users around the world. US internal cheese and butter prices are rather stable at high levels; the industry want to make sure that supply meets the Holiday demand later in the year. Whey and lactose demand in the food industry is good which keeps prices at healthy levels.

BRINGING IT HOME

The Way Forward

The European Commission has until the end of 2011 to prepare a list, in the form of a single-claim regulation, with the aim of ensuring a high level of protection for consumers by facilitating choice while avoiding misleading information. That deadline is almost two years later than originally promised.

The situation in the United States is rapidly changing. The Federal Trade Commission (FTC) recently prosecuted Nestle and Danone for unsubstantiated advertising and product claims. Settlement agreements between the FTC and the companies involve greater control of claims by the regulator—moving further toward a European model. The companies are now subject to new stringent advertising standards that raise the bar on proof before making health claims. It is uncertain whether the settlement agreements are binding on the industry.

These developments come at a time when governments are increasingly preoccupied with adopting more cautious protection of consumers—referred to as “nanny state” regulation. Regulators defend their stance on the grounds that accurate and reliable information on food labels and in marketing messages are crucial to helping consumers make healthier choices.

The complex task for globally operating dairy groups is to

manage a portfolio of products across major markets with differing regulatory requirements.

Both major regulatory systems in Europe and the United States have moved to stringent pre-approval models—the difficulty for dairy companies and their technology suppliers is having sufficient confidence to invest in developments when markets are at their most challenging. The result will eventually be a good thing for consumers and suppliers, but the industry and its regulators are in a “settling-in” period while a backlog of claims is cleared and product developers seek greater certainty of working with the new process.

Enforcing the regulations—which have come under heavy criticism from food manufacturers—could present significant challenges. Frontier work on new nutrients and their benefits for human health requires substantive evidence through clinical and other studies, which will slow development pipelines and possibly future product innovation.

Time will tell whether these evolving requirements serve to protect consumers from buying products on a “mistaken belief,” or prevent innovative food products from reaching and benefitting the population.

Did you know?

- The global market for functional foods and beverages could reach \$128 billion (U.S.) per year by 2013, according to a 2009 study by PricewaterhouseCoopers.
- Health claims have been a key part of dairy for decades. Yakult has been selling functional dairy food products since 1935.
- Danone's Activia achieved sales of more than \$100 million (U.S.) in its first half of 2011 were solid to very strong for most dairy products. The EU shipped 40% more SMP during Jan-May'11 versus '10. The US manufacturers of NFDM were rather quiet on the spot market; still US exports reached over 180.000 MT in that same period: +48%. FCMP and cheese tell similar stories: the global economy keeps creating more dairy consumers. At this juncture there appears to be sufficient milk to meet demand for most users around the world. US internal cheese and butter prices are rather stable at high levels; the industry want to make sure that supply meets the Holiday demand later in the year. Whey and lactose demand in the food industry is good which keeps prices at healthy levels.
- The European Food Safety Authority has assessed about 4,600 health claims under current regulation (2009), 2,760 of them general claims.

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