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Hong Kong Nutrition Labeling Proposal Threatens Packaged Food Exports to Ninth Largest U.S. Market

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Approved by:
Philip A. Shull
U.S. Consulate General, Hong Kong

Prepared by:
Philip A. Shull

Report Highlights:
The Hong Kong Government has proposed a nutrition labeling law for retail packaged foods and beverages that would result in thousands of imported food items disappearing from the market. The proposed regulation would impose a unique, rigid labeling scheme with which no country in the world is currently in compliance. Nearly every product would require thousands of dollars in initial and/or recurring costs, including nutritional analysis, new label printing/stickering, and administrative oversight. Hong Kong depends on imports to supply over 95% of its packaged grocery products, and is the 9th largest market for U.S. grocery exports. While suppliers of large volume items could economically justify complying with the new law, suppliers of the rapidly growing number of small volumes could not. Organic, ethnic, seasonal, and other niche products would be among those most seriously affected. The disappearance of these products and the probable closing of stores that specialize in supplying them would fundamentally alter the longstanding international complexion of the Hong Kong retail scene and its international status as a retail trendsetter. Government representatives, consumer organizations, and trade associations are working together to see what adjustments might be made to reduce the severe impact on commerce and consumer choice the current proposal appears certain to impose.

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Trade Report
Hong Kong [HK1]
[HK]

The Hong Kong Government (HKG) has proposed a nutrition labeling law that, in its current form, would result in thousands of imported grocery products disappearing from the market. While over 95% of HK's packaged retail foods is imported, the proposed regulation would impose a unique, rigid labeling scheme with which no country in the world is currently in compliance. (See Table 1 comparing the HK proposal with those of major suppliers. Table II lists HK's major food suppliers.) Nearly every product would require thousands of dollars in initial and/or recurring costs, including nutritional analysis, new label printing or stickering, and administrative oversight.

The potential impact of the proposed regulation on the U.S. and other exporting countries should not be underestimated. With a population of just 7 million, Hong Kong is a top-ten market for most of the world's major food exporters, even when taking re-exports into account. For example, it was the 9th largest market for U.S. food and beverage exports in the first four months of 2007, and Japan's 2nd largest agricultural customer.

But while a major destination at the macro level, Hong Kong is often a very small market for individual food manufacturers. Thousands of products sell just several thousand or even several hundred units per month. Complying with a unique labeling scheme not only means printing new labels, but stopping production lines, changing labeling equipment, and keeping product for Hong Kong segregated from the time of packaging all the way through the supply chain. For a modern food processing facility that turns out hundreds or thousands of products each minute, printing a special label for the low volumes going exclusively to Hong Kong is not economically feasible. One analyst said it would be like asking a major newspaper that prints a million copies per day to stop and print a special headline for 500 subscribers in one neighborhood.

Numerous sources say the proposed law would seriously mar the attractiveness of the Hong Kong market for the U.S. and other suppliers. Extensive discussions with the trade suggest the labeling costs could result in a severe reduction in the variety of packaged items from developed markets disappearing from the retail shelves. Data reported from a limited but diverse sampling of U.S. and non- U.S. suppliers indicate that up to 80% of the 6000 products these firms currently export to Hong Kong would not justify the expense of new labeling. For nearly 1/3 of these items, companies estimate ***the cost of compliance would exceed that product's total annual sales to Hong Kong.***

Especially hard hit would be ethnic, seasonal, and other niche products, including organic and "healthy" foods, a market segment that has been growing rapidly. The disappearance of these products from around the world would fundamentally alter the traditional international complexion of the Hong Kong food market. Given that the U.S. ranks second only to China as Hong Kong's largest food supplier, such a development would have a significant impact on consumer access to U.S. goods.

The high cost of complying with the new regulation would also raise market entry barriers, sharply reducing imports of new-to-market products, many of which are targeted at the health-conscious consumer. Hong Kong's open market and flexible regulations have traditionally allowed its consumers to be among the first in Asia to have access to the latest foods and beverages, including those suitable for people with specific health concerns, such as gluten or nut allergens, diabetes, or ADD.

The origins of the HKG's nutrition labeling proposal lay primarily in its desire to protect and enhance consumer health and education. Hong Kong is one of the few developed markets without a nutrition labeling law. The HKG commissioned a study to determine the optimal labeling regime. The study was to balance potential health and information benefits with Hong Kong's heavy dependence on imports. The HKG subsequently proposed a two-phase

implementation process consisting of a period of claims-based labeling, to be followed two years later by a mandatory system covering all packaged retail foods.

While critics of the current proposal strongly support improved consumer information and the establishment of a labeling law, they advocate a more flexible system that would not come at such a high cost to consumer choice. They point out that labels on virtually all of the packaged foods and beverages from developed countries and many from developing countries already contain nutritional information. They warn that an irony of Hong Kong establishing one of the world's most rigid labeling systems is that low volume newer, healthier foods would be driven from the market, leaving behind the well established "high volume/high fat/high sugar" products. Traders have identified other winners as those suppliers who could change their labels fastest and cheapest. Finally, by significantly raising the barrier to market entry in a traditionally open market, Hong Kong would likely move from being a retail food trendsetter to a trend laggard.

Another potential problem some critics of the scheme have pointed to is its likely negative impact on the Hong Kong port. Because Hong Kong has no tariffs and allows all labels, traders are free to bring in mixed containers of food for distribution within Hong Kong or elsewhere. This flexibility allows oversupplies and under supplies throughout the region to be managed through the port. For example, chain stores in Hong Kong can bring in products and send a portion on to their outlets in China. Similarly, unforeseen shortages in HK can easily be filled from nearby countries. If Hong Kong imposes its own rigid labeling system, those valuable distribution options disappear, and could force traffic to other ports.

The commissioned HKG study and industry comments specifically warned against imposing a rigid system that was stricter than most of its suppliers. In fact, the study recommended HK's adoption of the mandatory "Phase II" requirements be contingent upon the rest of the world tightening its standards to Phase II levels, "Once (labeling) developments overseas have progressed…a more comprehensive scheme could be adopted." Traders and analysts are unaware of any official explanation for why the proposal disregarded this fundamental recommendation.

In summary, the apparent benefits and costs of the nutritional labeling proposal are as follows:

Benefits:

- Standardize what nutritional information is on retail packaged foods and beverages.
- Increase the amount of nutritional information from some countries.
- Would bring health benefits and lower health costs for consumers who read the labels that contained the additional information and changed eating habits as a result.
- Achieve nutritional labeling on products from China and other suppliers whose products may not provide it.

Costs:

- Dramatically reduce the number of low volume imported packaged foods in the market, including organic, ethnic, seasonal, and other niche foods.
- Delay or prevent the entry to Hong Kong of new products, including those suitable for medical conditions such as allergies, diabetes, and ADD.
- May result in reduced port traffic due to loss of transshipments. Hong Kong's lack of tariffs and flexible labeling system maximizes transshipments and re-exports.

- Reduce commercial flexibility and port traffic by removing the current option of traders to bring "overflow" products into Hong Kong from other markets, or ship to other markets.
- Could prevent HK consumers from benefiting from gradually rising labeling standards.
- Impose a tremendous cost on commerce and consumer choice, while bringing very little benefit to consumers.

Options

The trade has identified four characteristics of the Hong Kong's proposal that pose major problems for one or more countries. Many believe these problems could be addressed while still enhancing consumer information.

1) Non-recognition of nutrients listed per serving size (affects U.S., Canada, Japan, Thailand)
2) Requirement for 9 nutrients + Energy, (affects all countries except U.S., Thailand, and Canada)
3) Non-recognition of energy labeled in joules (affects Australia and New Zealand)
4) No small volume exemption (affects all domestic and foreign suppliers)

By permitting nutrients to be labeled by serving size OR per 100 gms, Hong Kong would be following the predominant international practice. The vast majority of countries recognize or require nutrients to be listed metrically by serving size. While a very few countries (Australia, New Zealand, Malaysia) also require nutrients to be labeled in 100 gms/mls, Hong Kong may be the sole market in the world to recognize nutrients in 100 gms/mls only. Flexibility on this point would remove a major obstacle for most major suppliers, including the U.S., Canada, Japan, Korea, and Thailand. Codex – the international advisory body on food safety- recommends countries accept nutrients labeled in "either serving size, or per 100 gms/mls."

By reducing the number of ingredients required to the Codex recommended standard of Energy + protein, calories, and fat in addition to any nutritional claim (e.g. high in calcium, low in salt), virtually every country that routinely provides nutrition labeling would qualify. Singapore, a market often compared to Hong Kong, follows the Codex-recommended standard. Perhaps nowhere else is the lack of an international standard in labeling more apparent than in the number of nutrients different countries require. The range goes from as low as zero to as high as 14 + Energy. The United States, Canada, and Thailand are the only countries which require more nutrients than Hong Kong's proposed 9 nutrients + Energy. However, problems persist even here. Hong Kong's proposal would *ban* the listing of vitamins and minerals that exist in quantities < 5% of the Nutrient Reference Values (NRVs), while the U.S., Canada and Thailand *require* the listing of certain vitamins and minerals regardless of the amount.

By allowing kilojoules OR calories, (or allowing the stickering of a standard conversion table on products), Hong Kong would keep the market open to Australia and New Zealand. This flexibility is also recommended by Codex.

The solution many traders and retailers prefer is for the HKG to allow a "small volumes exemption" from mandatory labeling, as is practiced in the United States. Such an exemption would only require products to be labeled once sales volumes have reached a level at which such labeling would be economical. In the U.S. compliance with U.S. labeling laws is mandatory at 100,000 units, which is the smallest industry standard for commercial production runs. Such an exemption would keep the market open to all new and niche products, as well as allow for unhindered national or seasonal promotions.

As the time for the Hong Kong legislature to act on the Government proposal approaches, concern over the widespread impact of the proposal has grown. Government representatives from Hong Kong and supplier countries, consumer organizations, and trade associations are working together to see what adjustments to the labeling scheme might be made to enhance consumer information, yet reduce the severe consequences on commerce and consumer choice the current proposal would almost certainly impose.

Table 1: Nutrition Labeling Requirements of Various Countries with Respect to HK's Proposed Regulations

(Listed countries including HK may require additional information on nutrients, claims, % of daily intake, etc.)

	H.K. *(Proposed)*	Japan	EU	Codex Singapore	U.S.	Canada	Australia	New Zealand	Malaysia	Taiwan	Thailand	Korea
Nutrition labeling required	Mandatory	Voluntary	Voluntary	Voluntary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Nutrient Amount Expression	1	1 or 2	1	1 or 2	2	2	1 and 2	1 and 2	1 and 2	1 or 2	2	1 or 2
1) per 100 g (or per 100 ml)												
2) per serving (serving size stated)												
Energy	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Protein	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Carbonydrate	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Total Fat	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Saturated fat	yes		yes		yes	yes	yes	yes			yes	
Sodium	yes	yes	yes		yes	yes	yes	yes		yes	yes	yes
Cholesterol	yes				yes	yes					yes	
Sugars	yes		yes		yes	yes	yes	yes			yes	
Dietary fibre	yes		yes		yes	yes					yes	
Calcium	yes				yes	yes					yes	

Mandatory: Countries are considered as having mandatory nutrition labeling even if it covers only certain product categories

Japan: Mandatory if with claims

EU : Mandatory if with claims

Codex & Singapore: Mandatory if with claims

Taiwan: Carbohydrate includes dietary fiber

Thailand: Details on serving size and servings per container may be omitted where the reference on serving size cannot be determined due to the nature of that food, then the statement "Amount per 100 g" or "amount per 100 ml" shall be used as appropriate.

China: Nutrition labeling law not established yet

Hong Kong: Countries requiring labeling of the same nutrition information may still be out of compliance with Hong Kong's proposal. For example, the Hong Kong proposal *prohibits* labeling of vitamins and minerals less than 5% of the Nutrient Reference Value (NRV) per 100g (or per 100 ml). The U.S. Canada, and Thailand *require* specified vitamins & minerals to be labeled, regardless of amount.

Table 2: Hong Kong's Major Suppliers of Consumer Oriented Agricultural Products

Consumer Oriented Agriculture Total
Selected Product Groups - Hong Kong Imports -Total-
Millions of US Dollars
January - December

Rank	Country	2004	2005	2006	% Share 2004	% Share 2005	% Change 2006 - 06/05 -
0	--The World--	5,097	5,300	5,648	100	100	100	6.55
1	China	1,505	1,629	1,625	29.52	30.74	28.77	-0.28
2	United States	824	758	807	16.17	14.31	14.28	6.36
3	Brazil	399	439	614	7.82	8.29	10.87	39.76
4	Australia	244	260	269	4.79	4.91	4.77	3.48
5	Thailand	240	234	256	4.71	4.42	4.54	9.37
6	Japan	156	173	184	3.06	3.26	3.25	6.38
7	Netherlands	147	155	165	2.88	2.93	2.92	6.13
8	Iran	121	178	152	2.38	3.35	2.68	-14.67
9	France	127	131	141	2.49	2.47	2.5	7.69
10	New Zealand	111	104	123	2.17	1.96	2.19	18.82
11	Canada	137	136	116	2.69	2.57	2.06	-14.73
12	Chile	80	72	101	1.57	1.36	1.78	39.8
13	Germany	73	76	84	1.44	1.44	1.49	10.75
14	Korea, South	73	61	83	1.44	1.15	1.48	37.13
15	Malaysia	71	70	79	1.39	1.32	1.4	12.73
16	Taiwan	82	82	77	1.61	1.55	1.37	-6.17
17	Philippines	74	68	77	1.45	1.28	1.36	13.22
18	South Africa	62	57	71	1.21	1.08	1.25	22.86
19	United Kingdom	60	66	70	1.18	1.24	1.24	6.88
20	Italy	55	76	64	1.07	1.43	1.14	-14.85

Source : World Trade Atlas – Hong Kong Census & Statistics Department