

FUNCTIONAL AND LUXURY FOODS OPPORTUNITIES FOR SOUTH AUSTRALIA IN HONG KONG

There is a growing awareness within the Hong Kong population of the benefits of functional foods, which coincides with positive economic growth and increasing spending power.



FUNCTIONAL & LUXURY

PREMIUM
FOOD AND WINE FROM OUR
CLEAN
ENVIRONMENT



FOODS



This fact sheet presents a high level summary of the opportunities for South Australia to supply luxury and functional foods to Hong Kong.

Country context

Hong Kong is a Special Administrative Region of the People's Republic of China. Its foreign relations and defence are the responsibility of China. However, Hong Kong is a customs territory and economic entity separate from the rest of China and is able to enter into international agreements on its own behalf in commercial, economic, and certain legal matters. As expected, there are strong similarities in the markets for functional foods between Hong Kong and mainland China. Hong Kong is a top rating economy and enjoys considerable economic freedom and openness to trade.

There is a growing awareness within the Hong Kong population of the benefits of functional foods, which coincides with positive economic growth and increasing spending power. Food safety concerns will also continue to drive healthier food choices.

The number of millionaires in Hong Kong has driven the rising demand for luxury food and wine, including in high-end restaurants and bars. There is a large focus on gift-giving in Hong Kong culture and demonstrating wealth and social standing.

Luxury consumers in Hong Kong are particularly concerned with product packaging, with traceability and authentication becoming more important due to concerns over fraudulent luxury food and wine on the market. Hong Kong's luxury consumers are also paying more attention to the country of origin and the credibility of distributors.

Functional food opportunities in Hong Kong

ALOE VERA

Australia's aloe vera market is largely export focused, catering to cosmetics and functional beverages containing aloe vera extracts. Demand is driven by interest in the plant's native medicinal and antioxidant properties. The fact that aloe vera is locally-sourced contributes much of its product appeal in the domestic market. South Australia currently produces a minor crop of aloe vera, but could expand operations to capitalise on the growing demand.

In Hong Kong, beverages are the main aloe vera-based product consumed. As at December 2015, there were no domestic aloe vera extraction companies in Hong Kong. However, production in mainland China accounts for 10% of the world's total production.

CAROTENOIDS

Carotenoids are naturally-produced pigments found in plants, algae, bacteria, yeasts and moulds and are used in fruit and vegetable juices and as a natural food colouring. Although industry growth will be confined to beverages in the short-term, the dairy and baked-good sectors will also see market interest in the coming period. South Australia does have a variety of agricultural sources of carotenoids, as well as a growing algal carotenoid production industry.

In Hong Kong, there is an emerging industry in carotenoid production with companies such as Lycogac involved in carotenoid extraction. Currently Hong Kong imports the majority of products from the United States. Similar to other functional foods, there is currently growing demand for products fortified with carotenoids.

GLUTEN - FREE FOOD

Australia is the largest established gluten-free market in the Asia Pacific region. As gluten-free awareness continues to grow there is a trend towards cutting gluten out of consumer diets, and heightened customer awareness is driving IT-based packaging innovations on gluten-free products.

Hong Kong's consumer preference for gluten-free foods is generally based on an elective choice to avoid carbohydrates, rather than for medical needs. Currently most gluten-free products available in Hong Kong are imported and are of higher than average quality.



LACTOSE-FREE FOOD

Still largely restricted to liquid milk and baby milk powder, lactose-free products are generally perceived to be less-fattening and easier for people to digest. Lactose-intolerance is more widely spread among non-European populations, and continued development of digestive-related product options, beyond dairy and into confectionery and baked goods, will drive consumer demand in this market.

In Hong Kong, lactose malabsorption is common, similar to China. Sales of lactose-free products have been on the rise in recent years mostly due to the increasing awareness of health issues. There is currently limited capacity in Hong Kong to produce lactose-free products with most being imported.

OTHER 'FREE FROM' FOODS

In Hong Kong, generally increasing health awareness has contributed to more sales for health and wellness foods. However, Hong Kong does not have any significant producers of anti-allergenic foods, and other 'free from' products are currently imported.

PHYTOSTEROL

The Australian market for phytosterol tends to revolve around oils, seeds and nut products, used as heart health ingredients and for their potential to lower cholesterol. South Australia could explore how to use its canola industry to develop phytosterol extraction capabilities.

The Hong Kong phytosterol market is viewed in alignment with the Chinese phytosterol market which is a key growth area, given the country's traditional focus on soy-based foods and the rising incidence of heart disease.

POLYPHENOLS

Australia has a wide raw materials base for polyphenol development, but the industry is largely import dependent and focused on the beverage sector. As more Australian manufacturers begin to promote the antioxidant benefits of polyphenols, demand will grow beyond wine, apples, and tea, and there will be a shift to explore use of polyphenols in a broader range of functional foods. Waste products from South Australia's large wine industry is a key source of raw materials for polyphenols, as well as other fruits and vegetables grown across the State.

In Hong Kong, there is a growing demand for products containing polyphenols and flavonoids in line with the general increase in consumption of health-benefiting foods, but there is limited domestic production capacity for these items.

POLYUNSATURATED FATTY ACIDS

Polyunsaturated fatty acids (PUFA) are one of the most well-established classes of functional products in Australia. South Australia's large aquaculture industry is a prime sourcing point to provide marine-based fish oil to the industry, and flax used in the development of vegetarian omega-3 products.

Hong Kong is one of the top spenders by household consumption on health ingredients such as omega-3. There is an increasing general awareness by Hong Kong consumers of food security and functional food health benefits. Currently there is limited domestic capacity to produce local PUFA functional foods and ingredients in Hong Kong.

PREBIOTICS AND PROBIOTICS

Prebiotics support beneficial bacteria in the gut and are most commonly combined with probiotics. Future growth will be driven by innovations in pro and prebiotic formulations, and increased consumer awareness of the relationship between their digestive health, immunity, and overall wellness. South Australia's large grain industry is a key source for dietary fibre, while fruit and berry processing side streams are sources of soluble fibre, which could also provide opportunities in this space.

Hong Kong has several market leaders in probiotics based domestically, contributing to the technological capability of the country to produce probiotics. Conversely, as of December 2015, there is limited prebiotic ingredient production in Hong Kong with a significant majority of prebiotics imported. The demand for both pro and prebiotics is growing and being driven by the increasing awareness of the health benefits from functional foods.



PROTEINS AND PEPTIDES

Australia is a key producer of mainly dairy-based proteins and peptides, and also manufactures fish, egg, gelatin and soy protein products. The growth of the sports nutrition sector has also driven consumer interest in these products, particularly in protein-rich beverages. Downstream processing of South Australia's dairy exports provides a large market opportunity for proteins and peptides as functional ingredients.

Hong Kong's mature and sophisticated market with an increasing incidence of bone health concerns and the general trend towards dairy products has driven demand for animal proteins, including dairy and meat. Consumers are becoming more aware of the benefits that dairy products can bring, and milk and yoghurt are becoming more popular in the Hong Kong diet. Greater consumer awareness may increase the potential for protein-based snack bars in the county's market, but protein powders are still seen as a more viable weight management option.

VITAMIN D

Products rich in vitamin D are particularly important for older persons, to address bone and joint health issues such as osteoporosis. Post-menopausal women are also target customers in this sector, and the primary market for dairy products and beverages fortified with vitamin D. Beverages and baked goods with added vitamin D are also proving popular with younger consumers.

The majority of Hong Kong's population does not get adequate sunlight through natural exposure, and vitamin D supplements do exist in the market. However, there are currently no local suppliers of functional fortified vitamin D foods in Hong Kong or China, creating an opportunity for international companies.

Luxury food opportunities in Hong Kong

ABALONE

Abalone is one of the most valued seafood products globally, especially in Asia. Opportunities for South Australian abalone exist in product differentiation and marketing. A later harvest would allow abalone to grow to an optimal size and therefore demand a higher price per kilogram. Greater uptake of nitrogen freezing is another opportunity for South Australia, as well as better marketing of our clean and green, sustainable credentials, including through product certification. Producers should also explore e-commerce opportunities.

Hong Kong is one of the largest importers of abalone in the world, experiencing a recent increase in demand along with other luxury seafood. It is a particular delicacy in Cantonese cuisine (popular in Hong Kong). Imported products are subjected to inspection and various checkpoints and importers are encouraged to obtain health certificates issued by country of origin health authorities.

BLUEFIN TUNA

The rise of the sushi and sashimi markets in Japan and in other parts of the world has created a strong and growing demand for Bluefin tuna. Opportunities exist in differentiating how South Australia captures and farms Bluefin tuna and developing an industry-wide marketing program in export markets beyond Japan.

The Hong Kong Government has declared Bluefin tuna critically endangered, and has banned it from official government dinner menus. However, Bluefin tuna can still be imported for general public consumption.

BRANDY, COGNAC AND DISTILLED SPIRITS

The Asian luxury market for brandy is currently dominated by products from major French cognac houses. While St Agnes distillery has recently launched some luxury products, overall exports of brandy from Australia are negligible. Opportunities exist for South Australian producers to invest in an 'origin' story for our niche distilled spirits, potentially modelled on Tasmania's success in the export whisky market.



In Hong Kong, distilled spirits under 30% alcohol content by volume do not attract import duties, which has boosted consumer interest in these products, while distilled spirits over 30% alcohol content by volume still attract a 100% import duty. There are many luxury distilled spirits brands present in the Hong Kong market with demand predominantly driven by High Net Worth Individuals. There are no domestic distillers of significant volume in Hong Kong.

CAVIAR

Sturgeon is a prohibited (noxious) species in Australia so there is currently no sturgeon farming undertaken in Australia and establishment of aquaculture operations would require licensing. Opportunities exist in pursuing exemption permits, considered on a case-by-case basis, to enable a sturgeon fish production facility in South Australia. This would be subject to stringent environmental assessment and evaluation.

In Hong Kong, caviar is a well-established consumable and remains in high demand. There is no domestic production of caviar and, due to the endangered status of sturgeon, all imports are controlled under license. In addition, importers are encouraged to obtain health certificates from country of origin health authorities and products are subjected to inspection at various checkpoints.

CHOCOLATE

It is feasible for South Australian companies to produce, export and enter the luxury chocolate market, leveraging Australia's reputation in Asia as a reliable manufacturer of high-quality product. Opportunities exist in specifically marketing luxury product to affluent local and international tourists at exclusive airport boutiques, and in high-end and flagship stores.

In Hong Kong, the strong emphasis on gift giving has led to strong growth in the demand for luxury chocolates. There are several international chocolatiers with a presence in the market that produce locally-tailored chocolates.

MATSUTAKE MUSHROOMS

Matsutake mushrooms require a specific, symbiotic relationship with host trees, commonly pine trees. Due to their limited production, matsutake mushrooms can achieve prices around USD2,000 per kilogram. Matsutake mushrooms are not currently produced in Australia. Research will be needed to determine the viability of matsutake mushroom production in South Australia, as well as the planting of suitable host trees.

In Hong Kong, matsutake mushrooms are known as Song Rong mushrooms, and are found within the Yunan province of mainland China. The mushrooms are a rare delicacy and the perceived natural anti-cancer and nutrition benefits are widely-regarded among Hong Kong consumers. They are also prized for their pungent, spicy aroma and are most often used as a flavor enhancer in Chinese cuisine. They are often purchased and given as a gift to wish people a long and healthy life.

OLIVE OIL

South Australia has a relatively small and niche olive oil industry. However, markets for olive oil are developing strongly in Asia, where the health benefits are increasingly recognised. The opportunity for South Australia lies in the luxury olive oil market, leveraging the purity and reliability of our product, relying on a heritage narrative and appropriate luxury packaging and branding.

Hong Kong has seen significant growth in imports of olive oil in recent years, however 2013-14 has seen a slight decline in import activity. Olive oil is widely given as a gift in Hong Kong as top brands are perceived as luxury items.

RED WINE

Driven by the growth of an aspirational middle class across Asia, red wine consumption has experienced a renaissance in those markets. The perceived sole origin for luxury wines in the market has traditionally been in the Bordeaux region of France; however, this conception is shifting thanks to growing customer sophistication. Ensuring traceability across the value chain will be important for South Australian wines, requiring enhanced consideration of processing and packaging technologies.



Hong Kong is the third largest financial centre in the world, with a sophisticated clientele in relation to luxury red wines. All major producers of red wine export to Hong Kong. The strong socialising culture across Hong Kong adds to the demand for the product and is further fueled by the recent removal of import duties. There is no domestic production of red wine in Hong Kong.

ROCK LOBSTER

Rock lobster is Australia's largest seafood export by value, and South Australia's southern rock lobster accounts for 19% of total Australian production value. South Australia's high environmental standards should sustain the State's competitive advantage going forward, but the main challenge will be the relatively higher product price compared with other exporters. South Australian producers could also consider value-added luxury product opportunities for rock lobster, including lobster portions, ravioli, and pizza. Imported products are subjected to checkpoint inspection and importers need to show health certificates from country of origin health authorities.

Hong Kong's mature and sophisticated luxury foods market continues to drive the demand for Southern Rock Lobsters from Australia. The growing preference for live and unfrozen lobsters continues to ensure that secure export infrastructure remains a crucial component within this sector. Imported products are subjected to inspection at various checkpoints and importers need to show health certificates issued by health authorities of countries of origin.

TRUFFLES

Australia is the world's fifth largest producer of truffles, with production occurring across the cooler climates of southern Australia. Producers in South Australia are small-scale in comparison with counterparts in other states and tend to rely on local distribution channels such as farmers' markets. South Australian producers should consider growing white truffles, which are more highly valued in Asia and would offer product differentiation against other Australian and Chinese producers. Luxury packaging will also need to be developed to complement the product.

In Hong Kong, truffles do not attract any import duty and there is no domestic truffle cultivation. There is high demand for truffles, particularly amongst High Net Worth Individuals, who have previously paid hundreds of thousands of dollars for individual truffles.

WAGYU BEEF

Australia has the largest population of full-blood genetic Wagyu outside of Japan, and it is a key value-added niche sector in our cattle industry. There is some Wagyu production already occurring in south-eastern regions around Adelaide, and South Australia's product is prized for our effective food safety regulations, traceability, and a focus on animal husbandry, farm management and welfare.

In Hong Kong, demand for Wagyu beef has strengthened on the back of the country's economic growth with Japan and Australia competing to capture the beef industry in Hong Kong. There are no domestic producers of Wagyu beef in Hong Kong. Meat products can be imported with an official certificate recognised by the Department of Food and Environmental Hygiene.