

Global Market Opportunities for Functional Foods: Perspectives on Policy and Harmonization of Health Claims

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Abstract: Functional foods are becoming increasingly available worldwide, despite the lack of a consistent legal definition. Many countries are aware of the potential demand and supply of functional foods through requests from both consumers and producers to revise their food labeling policies regarding health-related information. Research has highlighted a diversity of national-level policy decisions and perspectives. The main objective of this study is to examine the economic motivation for these different policies and how the lack of harmonization of health claims may affect the international market for functional food. Results indicate that the existence of a national-level functional food market depends on the policy decision for health claim provision, a credence characteristic of food. If consumers are heterogeneous in tastes and preferences, a health claim will improve social welfare by providing a variety of product options with different qualities. This suggests that health-related information be provided to consumers, but governments must develop a framework that ensures the truthfulness and credibility of claims. Currently, few developed countries such as the U.S. and Japan have well-established health claim standards. Other countries are reviewing claims, often relying on slightly different technical terminologies. Current policy harmonization related to health claims is mostly at the regional level such as North America, the European Union, or ASEAN. Countries are encouraged to use Codex guidelines on health claims as a reference although this draft guideline is currently at step eight of the approval process, and therefore requires further attention.

Characteristics of Functional Foods

- > "Any modified food or food ingredient that may provide a health benefit beyond traditional nutrient"
- > Potential health benefits are credence attributes (only observed in the long term/ not easily recognized by consumers even after consumption)
- > Imperfect information between consumers and producers: Consumer needs to be able to differentiate functional food from conventional food
- > Quality signaling is needed through health information provided on food label
- > Niche market for certain groups of people who are interested in healthy diets

Demand Forces

- Increase in consumer health awareness
- High interest in self-care treatment and prevention
- Improvement of diet
- Aging population

Supply Forces

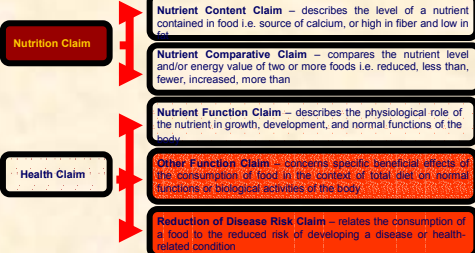
- High profit margin
- High development/marketing cost
- Technology advancement
- Economies of scale
- Market extension

Factors Determining the Existence of a Market for Functional Foods

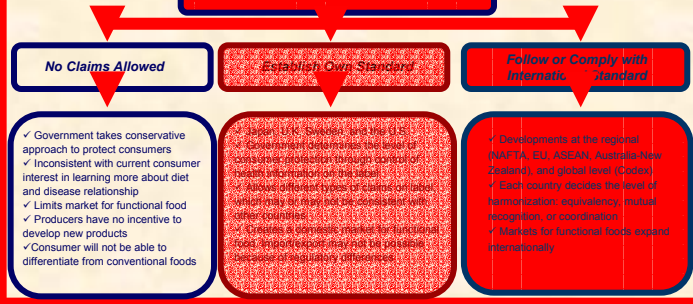
The Government and Health Claims

- Health claim must be truthful and not mislead consumers
- Functional foods have to be safe and meet all other standards required of conventional foods

Codex: Draft Guidelines for the Use of Nutrition and Health Claims



Policy Decision on Health Claim Provision



The Role of Codex Alimentarius Commission (Codex) in Setting International Standards for Health Claims

- ❖ Codex was created jointly by the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) to develop a science-based system for national regulations that improve the quality and safety of domestic and imported foods and promote export trade possibilities
- ❖ The importance of Codex has increased substantially since the signing of the GATT Uruguay Round Trade Agreements and implementation of the WTO agreement, in which its standards, guidelines, and recommendations have substantial impacts on food products that are traded internationally
- ❖ According to the WTO agreement, each country is encouraged to follow international food standards as developed by Codex in order to facilitate freer trade while protecting the health of consumers
- ❖ The Codex Committee on Food Labeling (CCFL) working on Guidelines for the Use of Nutrition and Health Claims

Development Process of Codex Standard for Health Claims: 1997-2003



Progress on Policy Harmonization at the Regional Level

Countries	Actions
United States - Canada	Currently, the U.S. authorizes certain health claims on product labels, under the Nutrition Labeling and Education Act (NLEA), Authoritative Statement, and Qualified Health Claims. Although Canada does not yet allow health claims on food labels, Health Canada is currently considering generic health claims authorized for use in the U.S.
The European Community	The Commission developed a proposal SANCO/1341/2001 and SANCO/1832/2002 in an effort to harmonize regulations covering nutritional, functional, and health claims on foods for all country members
Australia - New Zealand	The Australian New Zealand Food Authority (ANZFA) developed a joint food standard code for Australia and New Zealand that includes a health claim standard allowed on food labels
ASEAN	Currently, only Indonesia and Philippines allow limited health claims on food label. The result of the 2001 meeting organized by International Life Science Institute (ILSI) suggested that there will be more collaboration in the enactment of regulations on health claims among member countries

Review of Current Provision of Health and Nutrition Claims on Food Labels for Selected Countries

Country	Nutrition Claims		Health Claims			Food Standard Code/Involved Organization
	Nutrient Content Claims	Comparative Claims	Nutrient Function Claims	Other Function Claims	Reduction of Disease Risks Claims	
United States	Allowed	Allowed	Allowed	Allowed	Allowed	Nutrition Labeling Education Act of 1990/ FDA
Canada	Allowed	Allowed	Review	Review	Under Review	Food and Drugs Act 1985/ Canadian Food Inspection Agency
United Kingdom	Allowed	Allowed	Under Review	Under Review	Not Permitted	Food Safety Act of 1990/ The Joint Health Claim Initiative (JHCI)
France	Allowed	Allowed	Review	Review	Not Permitted	Consumer Code/ National Food Council (CNA)
Netherlands	Allowed	Allowed	Allowed	Allowed	Under Review	The Code of Practice/ The Netherlands Nutrition Center
Belgium	Allowed	Allowed	Review	Review	Under Review	The Code of Conduct on Health Claim
Spain	Allowed	Allowed	Under Review	Under Review	Not Permitted	FIAB/ The Spanish Federation of Food and Drinks Manufacturers
Australia	Allowed	Allowed	Review	Review	Under Review	The Joint Food Standard Code/ The Australian New Zealand Food Authority (ANZFA)
New Zealand	Allowed	Allowed	Review	Review	Under Review	The Joint Food Standard Code/ The Australian New Zealand Food Authority (ANZFA)
Japan	Allowed	Allowed	Allowed	Allowed	Allowed	Food for Specified Health Use (FOSHU) and Food with Health Claims
China	Allowed	Under Review	Allowed	Allowed	Not Permitted	FFCI/ Ministry of Health and Welfare, Regulations on Health Foods/ Ministry of Health China
Malaysia	Allowed	Under Review	Review	Permitted	Not Permitted	Malaysian Food Regulation 1985/ Ministry of Health (MOH)
Brunei	Allowed	Not Permitted	Not Permitted	Not Permitted	Not Permitted	Brunei Public Health (Food) Regulations 2000/ Government of Negara
Philippines	Allowed	Allowed	Review	Review	Under Review	Department of Health Philippines/ Rules and Regulations Governing the Labeling and Advertisement
Singapore	Allowed	Allowed	Under Review	Under Review	N/A	Food Regulations 1990 and amendments S 398 of 1993/ Ministry of Health Singapore
Thailand	Allowed	Allowed	Allowed	Under Review	Under Review	Nutrition Labeling, Volume 182/ Ministry of Public Health Thailand

N/A = Data is not available

Discussion

- The existence of an international market for functional food relies on the permission of health claims to facilitate product differentiation strategies in a market with asymmetric information
- To avoid market failures due to imperfect information, governments control/regulate health claims. Governments should consider the homogeneity of consumer preferences, in addition to cost and benefit studies, to decide whether health claims should be allowed
- Understanding different regulatory systems for health claims across countries should facilitate the global market development of functional food. It benefits the food industry and will increase consumer welfare as foods with additional health benefits are offered in different parts of the world. Consumers will have more options to select better diets to improve their health
- Legislators need to keep in mind that functional food products have to be safe and meet all other standards required of conventional foods. Health claims must be truthful and not mislead consumers, and be based on sufficient scientific evidence, showing the relationship between diet and health. To prohibit health claims entirely over concerns that consumers will be misled appears to be a restrictive solution. Additional useful information should be provided, but within a framework that ensures truthfulness and credibility
- Many activities related to health claims are currently underway at the global and regional level. These activities may imply that the provision of health claims is likely to be harmonized, once approved, among countries within the same region and perhaps the whole world, resulting in an increased global opportunity for functional foods. However, the approval process for health claims depends upon a consensus agreement among countries and is therefore slow. It may take years until such a harmonized system of health claims is in place