

立法會
Legislative Council

LC Paper No. CB(2) 2764/01-02
(These minutes have been seen by
the Administration)

Ref : CB2/PL/FE

LegCo Panel on Food Safety and Environmental Hygiene

**Minutes of special meeting
held on Tuesday, 14 May 2002 at 2:30 pm
in the Chamber of the Legislative Council Building**

- Members Present** : Hon Fred LI Wah-ming, JP (Chairman)
Hon Tommy CHEUNG Yu-yan, JP (Deputy Chairman)
Dr Hon David CHU Yu-lin, JP
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon WONG Yung-kan
Hon Jasper TSANG Yok-sing, JP
Dr Hon YEUNG Sum
Hon CHOY So-yuk
Hon Andrew CHENG Kar-foo
Hon Michael MAK Kwok-fung
Dr Hon LO Wing-lok
- Members Attending** : Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon CHAN Yuen-han, JP
Hon CHAN Kam-lam
Hon SIN Chung-kai
Hon Emily LAU Wai-hing, JP
- Members absent** : Hon LEUNG Fu-wah, MH, JP
Hon WONG Sing-chi
- Public Officers Attending** : Mrs Ingrid YEUNG
Principal Assistant Secretary for the Environment and Food (A) 1

Mrs Marion LAI
Acting Director of Food and Environmental Hygiene

Ms Rhonda LO
Assistant Director (Operation)3
Food and Environmental Hygiene Department

Ms Irene YOUNG
Principal Assistant Secretary for Economic Services

Attendance by Invitation : Consumer Council

Mrs CHAN WONG Shui
Chief Executive

Mr Ronald Cameron
Head, Trade Practices Division

Ng Fung Hong Limited

Ms GUO Jin-qing
Managing Director

Mr LI Shee-yan
Deputy Managing Director

Mr LIU You-hui
Deputy Managing Director

Mr FAN Kwok-kong
Deputy Managing Director

Mr LIU Zhi-wen
Assistant Managing Director

Hong Kong Pork Traders' Association

Mr HUI Wai-kin
Managing Director

Sha Tin Meat Traders' Association

Mr FAN Wai-ming
Chairman

Hong Kong Public Housing Estates Shop-owners' Association

Mr CHAN Wing-sing
Deputy Chairman

Kowloon Fresh Meat Retailers' Association Limited

Mr LAU Shiu-man
Chairman

Yuen Long Fresh Meat Association Limited

Mr MOK Yiu-nam
Chairman

Tsuen Wan Fresh Meat Retailers' Association

Mr WONG Wah-chu
Chairman

The Dairy Farm Co Ltd — Wellcome

Mr Jeff Shaw
Chief Executive Officer

Mr Douglas Brown
Marketing Director

Mr Norman YUM
Fresh Food Commercial Manager

Miss Patricia LEUNG
Technical Services Manager

A S Watson & Co Ltd — PARKnSHOP

Mr Iwan Evans
Chief Executive Officer — Food Retail Division
A S Watson Group

Mr Logan Taylor
Chief Executive Officer — Food Retail Division
A S Watson Group

Mr Keith Bartlett
Supply Chain Director
PARKnSHOP

Mr Martin SO
Finance Director
PARKnSHOP

Hong Kong Livestock Industry Association

Mr NG Po-wing
Deputy Chairman

Mr FUNG Kin-chung
Secretary General

Mr KWOK Chi-yau

Federation of Pig Raising Co-operative Societies of Hong Kong,
Kowloon and New Territories

Mr CHAN Kin-yip

Mr CHAN Wah-hing

Hong Kong Pigfarm Association

Mr WONG Kwong-wing

Pig-raising Cooperative Society of Yuen Long Tsung Tsin Sun
Chuen

Mr WONG Sui-fun

Clerk in Attendance : Mrs Constance LI
Chief Assistant Secretary (2)5

Staff in Attendance : Ms Elyssa WONG
Deputy Head, Research & Library Services

Ms Vicky LEE
Research Officer 3

Mr Simon LI
Research Officer 6

Ms Joanne MAK
Senior Assistant Secretary (2)2

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I. Recent problems of fresh pork supply

[LC Paper Nos. IN27/01-02, CB(2)1903/01-02(01) and (02)]

Principal Assistant Secretary for the Environment and Food (A) 1 (PAS(EF)(A)1) apologized that there was a typographical error in the second line of paragraph 14 of the Chinese version of the paper of the Administration's paper. She said that the sentence should read "未有冷凍豬牛肉" instead of "未有冷凍和冷藏豬牛肉".

2. The Chairman welcomed the representatives of the deputations to the meeting. He reminded them that their expression of views at the meeting was not protected by the Legislative Council (Powers and Privileges) Ordinance (Cap.382).

Views of the deputations

Consumer Council

[LC Paper No. CB(2)1903/01-02(03)]

3. Mrs CHAN WONG Shui, Chief Executive of the Consumer Council, said that the Consumer Council's primary concern was whether consumers were able to make free choice of commodities in a fully competitive market (i.e. low price, large variety of goods and high service standard).

4. Mrs CHAN said that the Consumer Council welcomed the recent price reduction of fresh pork. She considered that this reflected the dynamics of the market where market participants took advantage of economies of scale and made adjustments in response to changes in consumers' demands. However, there had been concerns about the increase in market power of supermarkets and its impact on wet markets which provided an alternative choice to consumers.

5. Mrs CHAN said that the Consumer Council considered that the recent disruption to fresh pork supply involved complicated issues and the following three issues should be further studied -

- (a) whether the two relevant supermarkets had lowered prices with the aim of undermining market competition;

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- (b) whether the bidding mechanism of Ng Fung Hong (the dominant supplier in the pork market) allowed for price discrimination against any buyers; and
- (c) whether the collective action taken by the pork buyers in blockading slaughterhouses had an impact on reducing market competition.

6. Mrs CHAN further said that it was difficult to establish the allegation of "predatory pricing" of the two chain supermarkets because it involved finding out the actual cost and assessing the market power of the supermarkets concerned.

7. As regards the allegation that Ng Fung Hong had practised discriminatory pricing, Mrs CHAN said that this had to be carefully examined. She said that sometimes discounts were offered for bulk purchase because of economies of scale, lower transaction costs, etc. However, the possibility of practising discriminatory pricing could not be ruled out in some cases.

8. Mrs CHAN said that pork buyers had recently bargained for favorable terms and, as a collective group, their market power was significant. The Consumer Council was of the view that the buyers' collective action needed to be examined to ascertain whether -

- (a) it had tried to force the wholesaler to impose high prices on the buyers' competitors (the supermarkets); and
- (b) this had resulted in higher retail prices for fresh pork both at wet markets and supermarkets.

9. Mrs CHAN further said that she noted that the Competition Policy Advisory Group (COMPAG) had required EFB to provide a report for its analysis of issues relating to the allegation of "anti-competitive" behaviour.

Ng Fung Hong Limited
[LC Paper No. CB(2)1927/01-02(01)]

10. Mr LIU You-hui, Deputy Managing Director of Ng Fung Hong Limited, apologised for the inconvenience caused to customers because of the recent incident which had disrupted the fresh pork supply. He stated that the sale of live pigs was conducted through a fair, open and competitive auctioning process, and there was no question of Ng Fung Hong acting in favour of or against any particular buyers. He further said that Ng Fung Hong had operated in accordance with fair and reasonable commercial principles in supplying fresh pork to PARKnSHOP. He explained that Shing Lee Hong, a subsidiary company of Ng Fung Hong, also needed to take part in the auction and bid for live pigs. Pigs bought by Shing Lee Hong were slaughtered and handled at a licensed meat processing plant, and the fresh pork was delivered to PARKnSHOP. He stressed that Ng Fung Hong had not offered any favorable price to PARKnSHOP for the fresh pork, and the fresh pork price was a commercial decision of PARKnSHOP.

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11. Mr LIU dismissed the allegation that there was a duplication of role between Ng Fung Hong and Shing Lee Hong. He explained that the purpose of establishing Shing Lee Hong was to meet the small scale demands in the market. He stressed that Shing Lee Hong also had to bid for the live pigs together with other bidders through the open auction.

12. As regards whether Ng Fung Hong had monopolised the live pig market, Mr LIU said that the fact that the company had got a larger market share was attributable to the continued efforts it had made over the years. He pointed out that Hong Kong had not imposed any restriction on the place of origin of live pigs supplied to Hong Kong, and there were also other wholesalers in the live pig market. He stressed that there was no restriction on new entrants to the live pig trade. Therefore, there was no question of Ng Fung Hong monopolising the market.

13. Mr LIU reiterated that the live pig trading of Ng Fong Hong was conducted in accordance with the principles of fairness, openness and transparency. He pointed out that the wholesale prices were determined by the market and the price had dropped by 30% in the past three years due to changes in market demand.

14. Mr LIU stressed that Ng Fong Hong pledged to protect consumers by ensuring a stable supply of quality food products in the market.

Hong Kong Pork Traders' Association
[LC Paper No. CB(2)1903/01-02(08)]

15. Mr HUI Wai-kin, Managing Director of the Hong Kong Pork Traders' Association, said that the recent price slash of the two large chain supermarkets was a great blow to the meat trade. To maintain their competitive edge, the buyers had requested Ng Fong Hong to reduce the wholesale price by \$1 per catty in order to make up for their loss of business. Mr HUI said that Ng Fong Hong was the sole agent for the supply and sale of Mainland livestock to Hong Kong. He further said that Ng Fong Hong owned 51% of the Chung Kong Luen Livestock Co. Ltd. which looked after the Mainland live pigs on arrival at Hong Kong, and fully owned Shing Lee Hong which supplied fresh pork to PARKnSHOP.

16. Mr HUI said that the pork buyers had all along been buying live pigs through the open auctions at Sheung Shui Slaughterhouse. However, he considered that the bidding of live pigs by Shing Lee Hong lacked transparency. He expressed concern the two supermarkets would force fresh meat retailers out of business by predatory pricing, and would raise the price when other retailers had left the market. He urged that there should be fair competition, and the supermarkets should only compete with wet markets in terms of customer service and quality of food products. He hoped the Administration would look into the matter and take actions to protect the industry and consumers' interests.

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Sha Tin Meat Traders' Association

17. Mr FAN Wai-ming, Chairman of the Sha Tin Meat Traders' Association, said that meat traders were very concerned about the threat posed by the two supermarkets which had announced a permanent price slash of fresh pork by 30%. He said that the demand for pork had been decreasing in recent years as people were more health-conscious. Moreover, the import of Thailand chilled pork and the high stall rental had added pressure to meat retailers. He said that meat traders purchased live pigs through the buyers, and the cost of the fresh pork was about \$18 or \$19 per catty, discounting staff cost and rental. Therefore, the retail price set by the two supermarkets at \$19 per catty would force the meat retailers in wet markets out of business. However, he believed that the pork price in the supermarkets would rise again after the wet markets were phased out. He pointed out that the business of the meat retailers in wet markets had dropped by 30% to 50% after the price slash of supermarkets, and some of them might have to be closed. He said that there were about 200,000 members of the fresh meat industry. He urged the Administration to balance the interests of all stakeholders and ensure fair competition in the fresh pork market.

Hong Kong Public Housing Estates Shop-owners' Association

18. Mr CHAN Wing-sing, Deputy Chairman of the Hong Kong Public Housing Estates Shop-owners' Association, said that since the opening of superstores/supermarkets in the public housing estates, most of the market stalls and shops in the estates had suffered from a great decline in business. He said that the situation for wet markets had become worse since supermarkets started to sell wet goods. He pointed out that as the commercial complexes and markets in public housing estates were poor in facilities, the shops/market stalls could not compete with the superstores. He estimated that if these shops/market stalls were driven out of business, about 30 000 to 40 000 people would lose their jobs.

19. To prevent the monopoly of these superstores/supermarkets in public housing estates, Mr CHAN urged HD to -

- (a) enforce the requirement that wet goods sold in supermarkets must be prepackaged;
- (b) upgrade the environment and facilities of existing wet markets and commercial complexes in public housing estates, including provision of air-conditioning, etc.; and
- (c) clearly define the scope of business of superstores which should not be allowed to run laundry, café, Chinese medicine shops as these were being provided in commercial complexes of the public housing estates.

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Kowloon Fresh Meat Retailers' Association Limited

20. Mr LAU Shiu-man, Chairman of Kowloon Fresh Meat Retailers' Association Limited, said that there was no monopoly in the supply of fresh pork imported from the Mainland. He said that since 1950s, fresh pork had mainly been supplied by the Mainland, and it was due to the stringent export control of the Mainland that Hong Kong could enjoy a stable supply of quality meat products and live pigs from the Mainland over the past few decades. He added that the market of Hong Kong was open and there was no restriction on the place of origin of live pigs or pork supplied to Hong Kong.

21. On the auctioning of live pigs, Mr LAU said that the sale of live pigs was conducted through a fair, open and transparent bidding process with the use of modern electronic system at Sheung Shui Slaughterhouse. He said that the present mode of operation of the supply of live pigs from the Mainland was effective and satisfactory.

Yuen Long Fresh Meat Association Limited
[LC Paper No. CB(2)1903/01-02(04)]

22. Mr MOK Yiu-nam, Chairman of Yuen Long Fresh Meat Association Limited, said that the present auctioning mechanism of live pigs from the Mainland was fair and open. He considered that the present system of Ng Fung Hong acting as the agent of supply of live pigs from the Mainland had eliminated the improper practice of the market and some buyers. He expressed support for the present system which ensured quality control and stable supply to meet the market demands. He considered that prices were determined by the free market, and it was not possible for any market participant to adopt predatory pricing for a long time. He was opposed to any changes to the existing system which had been functioning effectively.

Tsuen Wan Fresh Meat Retailers' Association
[LC Paper No. CB(2)1903/01-02(05)]

23. Mr WONG Wah-chu, Chairman of Tsuen Wan Fresh Meat Retailers' Association, said that the bulk of the pork traded by his association was bought from Ng Fung Hong. The Association agreed that the present auctioning mechanism of live pigs was open, fair and transparent, as the price was freely offered by bidders during the open auction. He said that the present sole agency system and open auction mechanism were effective in ensuring a stable supply of quality fresh pork.

24. Mr WONG further said that the recent disruption of fresh pork supply caused by some market participants was regrettable. His association would step up communication with Ng Fung Hong to ensure the supply of fresh pork was stable and could meet the demands of the community. He pointed out that the fresh pork business had been seriously affected as some unscrupulous retailers had sold chilled pork as fresh pork. He called on the Administration to step up the control of chilled pork.

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25. Mr WONG suggested that supermarkets should be allowed only to sell frozen meat, poultry and fish because there were already adequate stalls selling such food in wet markets. He also urged the Administration to upgrade the facilities in public markets with reference to professional advice and practice in overseas countries. He said the stallholders in public markets were small traders who wanted to continue their business in traditional wet markets in order to make a living.

The Dairy Farm Co Ltd - Wellcome
[LC Paper No. CB(2)1938/01-02(02)]

26. Mr Jeff Shaw from the Dairy Farm Co Ltd - Wellcome said that Wellcome's current supply of fresh pork came from traditional wet market pork operators who had chosen to move their operation into the supermarket. Each pork operator arranged their pork supply from either their own farms or directly from the meat wholesaler at the market price. All pork was then channelled through one of the three slaughterhouses at a standard fee. Each operator negotiated his pork cost prices independently with no involvement of Wellcome.

27. Mr Shaw further said that at present only 43 of the 250 Wellcome stores were selling loose pork via wet market style pork operators. He said that this number was unlikely to grow significantly because Hong Kong's property structure and legislation had already inhibited this. He explained that the core consumers for fresh pork were primarily from older and lower income households and lived mainly in public housing estates. As legislation had prohibited the sale of serviced pork, seafood, vegetables and other fresh foods from stores which were under 800 square metres, this provided a strong competitive advantage to the wet markets in public housing estates.

28. Mr Shaw said that Wellcome had adjusted their retail prices on pork during the recent focus on pork, in order to maintain competitiveness. He further said that pork supply was disrupted in the previous week because the major fresh pork importer was prevented from distributing its products. He added that the major importer had the sole control over the number of live pigs and their resulting cost price. In the past week, the traditional wet market pork operators had been dissatisfied with the cost prices for fresh pork but they had no alternative source of supply.

29. Mr Shaw said that Wellcome fully supported fair market trade as it allowed retailers to pass on the lowest prices and best savings to customers. It also supported any government initiatives that enabled free market enterprise to flourish. It was of the view that any part of the supply chain that was dominated by one or two major operators restricted the opportunity for continuous and unadulterated fair play. It considered that the recent proposal from Government of supplying chilled, slaughtered pork from Mainland to Hong Kong would effectively allow free market enterprise to exist.

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A S Watson & Co Ltd - PARKnSHOP
[LC Paper No. CB(2)1903/01-02(06)]

30. Mr Logan Taylor from A S Watson & Co Ltd - PARKnSHOP said that PARKnSHOP had over 200 stores, 50 of which were superstores. They accounted for some 22% of total retail food sales in Hong Kong. Their share of the pork market as measured by AC Nielsen was under 5% whereas over 90% of fresh pork had been sold in wet markets. Mr Taylor said that PARKnSHOP had recently launched a savings campaign called "Feed your family for less". The campaign started with pork because it was the single biggest-selling fresh food item, accounting for 18% of household expenditure on fresh food.

31. Mr Taylor said that PARKnSHOP sold fresh pork from 57 counters, and the pork was delivered fresh from Sheung Shui Slaughterhouse on the same day of slaughter. Mr Taylor added that the fresh pork PARKnSHOP sold was tested for clenbuteraol residues and it did not sell Thai pork.

32. Mr Taylor stressed that PARKnSHOP was not selling pork below cost and he did not believe that their selling price, i.e. \$19 per catty on the average, was below the cost that vendors in the market were paying for pork.

33. Mr Taylor said that after the price reduction, PARKnSHOP had increased sales of pork. However, as PARKnSHOP only had 57 counters selling fresh pork, they still accounted for less than 10% of the total market of all fresh pork sold in Hong Kong after the price cut. Mr Taylor further said that fresh pork had not been available in PARKnSHOP on 6 May for reasons beyond their control and details of the event had been reported in the media. He pointed out that PARKnSHOP had offered lower prices just like other volume retailers.

Hong Kong Livestock Industry Association

34. Mr FUNG Kin-chung, Secretary General of Hong Kong Livestock Industry Association, said that the Association considered that the recent advertisement of PARKnSHOP announcing that it would "permanently" cut the price of pork to \$19 per catty was against the principle of free trade. He added that the price of fresh pork had been determined by the demand and supply of the market. However, fixing the price at \$19 per catty by PARKnSHOP would create problems to this mechanism as the price would no longer be determined by the demand and supply. He said that this would have an adverse impact on the free economy of Hong Kong.

35. Mr FUNG further said that the Association had discovered that in recent years, there had been retailers selling chilled meat from Thailand as fresh meat. As chilled meat from Thailand had been found to have clenbuteraol residues, the sale of fresh pork in Hong Kong had been affected. He pointed out that there was actually widespread foot-and-mouth disease in Thailand, and the Association had made a previous submission [LC Paper No. CB(2)1036/01-02(02)] to the Panel on problems associated with chilled meat.

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36. Mr FUNG said that with the Mainland's lifting of the export quota control over chilled meat and abolition of the sole agency system, chilled meat from any place on the Mainland could be exported to Hong Kong. He urged the Administration to safeguard public health by putting in place stringent quarantine arrangements for the import of chilled meat from the Mainland. He added that the Association was opposed to importing chilled meat from the Mainland, before these arrangements were in place.

37. Mr FUNG said that as locally produced fresh pork was mostly sold through wet markets, the Administration should improve the environment and facilities of markets under its management to enable the stallholders to compete with supermarkets on a fair basis. He further made the following suggestions -

- (a) The Administration should introduce legislation on fair competition.
- (b) In line with the policy on local community economy promulgated in this year's Budget speech, the Administration should also provide assistance to the pig-raising industry which had been facing severe competition and many farms were on the brink of closure. To improve the situation, the Administration should educate and assist the farmers to improve their production and marketing techniques.

38. Mr NG Po-wing from the Association said that while the Administration imposed very stringent requirements on the pig raising industry, there was lax control for imported chilled pork from Thailand. He suggested that consignments of chilled pork from Thailand should not be released for sale until the test results on them proved to be satisfactory. He considered that the Administration should introduce stringent control measures for all kinds of imported meat to safeguard public health and step up enforcement against the smuggling of pigs/pork to Hong Kong.

Federation of Pig Raising Co-operative Societies of Hong Kong, Kowloon and New Territories

39. Mr CHAN Wah-hing from the Federation of Pig Raising Co-operative Societies of Hong Kong, Kowloon and New Territories said that the Federation supported that it should continue to have a company to coordinate the export of live pigs from the Mainland to Hong Kong. This would be conducive to a stable supply of live pigs at a stable price level for Hong Kong.

Hong Kong Pigfarm Association
[LC Paper No. CB(2)1927/01-02(02)]

40. Mr WONG Kwong-wing from Hong Kong Pigfarm Association said that the Association would like to raise the following for members' consideration -

- (a) Pork supply from local farms represented less than 20% of the market.

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- (b) Ng Fung Hong had control over the wholesale market of live pigs imported from the Mainland had also the right of operation of the main slaughterhouses in Hong Kong. In other words, Ng Fung Hong had control over various sectors in the supply chain of fresh pork in Hong Kong.
- (c) The recent price cut of the two chain supermarkets had affected the business of other fresh pork retailers. This had given rise to concern as to whether there would be a monopoly in the retail market if the retailers were wiped out in the cut-throat competition.
- (d) If the two chain supermarkets succeeded in monopolising the fresh pork retail market, many people in the trade (including pig-farmers, buyers and retailers) would be affected. Consumers would suffer in the long run both in terms of choice and the price level of the fresh pork.
- (e) The Administration should explore opening up the operation of slaughterhouses, and enhancing the transparency of the operation of the whole supply chain of fresh pork: the supply, auctioning, pork processing and price negotiation mechanism.

*Pig-raising Co-operative Society of Yuen Long Tsung Tsin Sun Chuen
[LC Paper No. CB(2)1938/01-02(01)]*

41. Mr WONG Sui-fun from Pig-raising Co-operative Society of Yuen Long Tsung Tsin Sun Chuen said that as a survey had found that 70% of Hong Kong people had a diet preference for fresh pork, the Administration should enhance the competitiveness of pork stallholders by upgrading the facilities of wet markets. This would also protect the employment of members of the relevant trades.

*Fact Sheet prepared by the Research and Library Services Division (RLSD)
[LC Paper No. IN 27/01-02]*

42. At the Chairman's invitation, Deputy Head of RLSD briefed members on the salient points of the Fact Sheet prepared for members' reference. She said that there were three types of pork available in the market, i.e. fresh pork (from the Mainland and local pig farms), imported chilled and imported frozen pork. An overview of the flow of pork supply for Hong Kong was in Appendix I to the Fact Sheet. She added that in 2000, there were some 2,300,000 pigs slaughtered in Hong Kong. The ratio between imported pig and local pig supply was approximately four to one.

43. Deputy Head of RLSD further said that there were three licensed slaughterhouses in Sheung Shui, Tsuen Wan and Cheung Chau. Information on the ownership of these slaughterhouses was set out in paragraph 2.3 of the Fact Sheet. She explained the Slaughterhouse Regulation (Cap. 132 sub. leg.) and pointed out that the licensee could not refuse to provide slaughterhouse services or the facilities for any applicants.

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44. On the concern about using predatory pricing as a strategy for monopolising a market, Deputy Head of RLSD said that for a monopoly to be effective, there must be no practical substitute for the product or service sold. Moreover, no serious threat would be posed by the entry of a competitor into the market so that the seller or the producer was able to control the price. The means by which a firm might become and remain a monopolist were set out in paragraph 3.2 (a) to (e) of the Fact Sheet.

45. Deputy Head of RLSD further explained that predatory pricing could only be practised by large businesses which offered their customers massive discounts on a product. The firm might lower its price to a level below the average cost of its competitors for a sufficiently long period of time. Its competitors, if followed suit, would eventually suffer from losses as incurred on each unit sold and would be forced out of the market. After all the competitors had left the market, the predatory firm would raise its price and earned monopoly profits thereafter. She added that only large businesses were able to outlast their competitors because they might have greater cash reserves, better financing or cross-subsidisation from other markets or other products.

Discussion

Problem of monopoly

46. Ms Emily LAU said that in the recent incident where pork supply was disrupted, many people were concerned whether Ng Fung Hong had monopolised the market. Referring to the last paragraph of the submission from Hong Kong Pigfarm Association [LC Paper No. CB(2)1927/01-02(02)], Ms LAU asked why Mr WONG Kwong-wing had not mentioned in his oral representation that "the number of importers should be unrestricted and the slaughterhouses be changed from being operated by one single operator to multiple operators". She also sought the views of the Hong Kong Pork Traders' Association whether the Pigfarm Association's suggestions could ensure the supply of fresh pork, at a reasonably cheap price, for Hong Kong people.

47. Mr WONG Kwong-wing of the Hong Kong Pigfarm Association apologised for the omission in his oral representation. He confirmed that the Association's position remained as what was stated in its submission. He considered that if there were more agents for live pig supplies in the market, the price of fresh pork might fall in the short term due to increase in supply, but would stabilise at a reasonable level in the long term. He added that Sheung Shui Slaughterhouse, which was the major slaughterhouse in Hong Kong, should not be operated by Ng Fung Hong as this would consolidate the company's monopoly of the market.

48. Mr HUI Wai-kin from the Hong Kong Pork Traders' Association said that he had consulted the fresh pork industry which considered that there were pros and cons for abolishing the sole agency system for the export of Mainland live pigs to Hong Kong. He was worried that this would lead to an influx of live pigs, resulting in the stocking of a large volume of the livestock in Hong Kong and causing environmental hygiene problems. He suggested that the Administration should carefully consider the matter and consult the trade before arriving at any conclusion.

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49. Mr WONG Kwong-wing of the Hong Kong Pigfarm Association considered that the problem of over-supply of live pigs as mentioned by Mr HUI could be resolved by market force, and the price of pigs would stabilise at the optimal level as determined by the demand and supply. He said that the market mechanism applied to all kinds of commodities.

50. Mrs Selina CHOW said that the matter was very complicated and the issues involved would need careful examination before a conclusion could be drawn. She was of the initial view that if the present sole agency system was abolished, there might be problems in ensuring the quality and hygiene standards of live pigs imported from different places on the Mainland.

51. Dr YEUNG Sum noted that the Mainland was supplying about 80% of the live pigs slaughtered in Hong Kong and Ng Fung Hong was the sole agent for the sale of the Mainland livestock, including pigs. He asked whether the Administration would explore with the Mainland authorities the possibility of appointing more agents in the market to enhance consumers' choice.

52. PAS(EF)(A)1 responded that the Administration had never imposed restriction on the number of agents or the place of origin of live pigs supplied to Hong Kong. As long as the live animals or food to be imported met Hong Kong's sanitary and public health requirements, trading of these commodities was free from restrictions. She said that since the early 1950s, Ng Fung Hong had been appointed by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) as the sole agent for the sale of Mainland livestock including live pigs. As regards the question of whether there was a monopoly problem in the market of pork, COMPAG would conduct a study and EFB was collecting information for COMPAG.

53. Dr YEUNG Sum queried why COMPAG had not yet come to any view on whether Ng Fung Hong had monopolised the supply of live pigs from the Mainland, since the sole agency system had been in place since the early 1950s. PAS(EF)(A)1 responded that the market of pork actually comprised pork from freshly slaughtered pigs, chilled pork and frozen pork and their market shares were 51%, 3% and 46% respectively. She reiterated that there was no restriction on the place of origin of live pigs supplied to Hong Kong. She said that the supply of live pigs was diversified, and places such as Malaysia and Thailand had also exported live pigs to Hong Kong before 1988, while local pig farms had all along met part of the supply.

54. Referring to the submission from the Hong Kong Pork Traders' Association [LC Paper No. CB(2)1903/01-02(08)], Mr CHAN Kam-lam pointed out that Tsuen Wan Fresh Meat Retailers' Association, one of the signatories of the submission, had separately made a submission to the Panel [LC Paper No. CB(2)1903/01-02(05)]. However, the views given in the two submissions were contradictory. He sought clarification as to which of the submissions actually represented the views of Tsuen Wan Fresh Meat Retailers' Association.

55. Mr HUI Wai-kin of the Hong Kong Pork Traders' Association responded that he had consulted the 13 meat retailers' associations in Hong Kong and there were

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some differences in their views. However, they had all agreed that the two chain supermarkets had intended to monopolise the pork market by conducting the price cut. He said that the submission of the Hong Kong Pork Traders' Association had been endorsed by all the signatories of the submission.

56. Mr WONG Wah-chu of Tsuen Wan Fresh Meat Retailers' Association pointed out that he had never seen the Hong Kong Pork Traders' Association's submission and denied that he had endorsed it.

57. The Chairman requested Mr HUI Wai-kin to provide a revised copy of their submission which should bear the company chops of the signatories. Mr HUI Wai-kin agreed.

58. Mr CHAN Kam-lam further requested representatives of Ng Fung Hong to respond to the allegations made in the Hong Kong Pork Traders' Association's submission that there was collusion between Ng Fung Hong and Shing Lee Hong, and their transaction of live pigs had been conducted behind closed door. He said that the submission also alleged that Shing Lee Hong had offered preferential prices to PARKnSHOP and the latter had started a cut-throat competition for the sale of pork which had distorted the market.

59. Mr LIU You-hui of Ng Fung Hong responded that he had already clarified the position of Ng Fung Hong earlier in the meeting. He said that although he had not seen the Hong Kong Pork Traders' Association's submission, the allegations made therein should have been addressed in Ng Fung Hong's submission provided for the meeting.

Improving the viability of wet markets

60. Mrs Selina CHOW considered that the existing wet markets were in an unfavourable position to compete with supermarkets. She was of the view that supermarkets had nothing to be blamed for as they had only made use of their advantages (such as better facilities) to expand their market share. She said that the Administration should upgrade the facilities of wet markets to maintain their competitiveness.

61. Acting Director of Food and Environmental Hygiene (DFEH(Atg)) said that FEHD was responsible for the management of 81 wet markets which were under the purview of the department. As most of the wet markets were built in the 50s, 60s or 70s, there were limitations for improvements to their design and facilities. She further said that the Administration was determined to improve their business environment and some general improvement works had been undertaken in recent years, such as re-paving of floor finishes in common area, segregation of the poultry section with separate ventilation system, and retrofitting of air-conditioning system to existing markets, etc. In addition, FEHD had implemented a pilot "Market Manager" scheme at one market with a view to strengthening the management of public markets by appointing people experienced in property management. FEHD had also stepped up communication with stallholders on ways to enhance the viability of wet markets.

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She said that a series of improvement measures would be introduced after completion of a consultancy study on improving the general management of wet markets.

62. DFEH(Atg) further informed members that at the end of 2001, FEHD had commissioned a survey study on the viability of wet markets and the consumption pattern of consumers. It was found that markets were consumers' top choice when purchasing fresh food such as fresh seafood, vegetables, poultry and meat, while supermarkets were the top choice for purchasing groceries.

63. Mrs Selina CHOW expressed dissatisfaction with the Administration's slow progress in improving the viability of wet markets. She pointed out that the unit rent of wet markets was actually higher than that of supermarkets. She asked whether there was a timetable for completion of the improvement works.

64. DFEH(Atg) said that the improvement works for the wet markets were being carried out by phases. About 20 existing wet markets and cooked food centres had already been provided with air-conditioning and all new markets and cooked food centres were air-conditioned. She added that the progress of the retrofitting of air-conditioning system to 19 existing markets/cooked food centres was being followed up by a LegCo Subcommittee. The general improvement works for the wet markets were scheduled for completion in one to two years.

65. Miss CHOY So-yuk criticised that the conditions of most wet markets were far from satisfactory (e.g. slippery floor, narrow passages, no trolleys provided, etc.). She shared the view that wet markets were in no position to have fair competition with supermarkets unless the facilities of the wet markets were at a level comparable with supermarkets. She added that the opening hours of wet markets should also be lengthened in order to compete with supermarkets.

66. DFEH(Atg) responded that the Administration had been heavily subsidising the operation of public markets. She pointed out that many operators in FEHD markets were re-sited on-street hawkers and they had been given concessions in their market rental. Moreover, the market rental had been set at a very low level and frozen for many years. DFEH(Atg) further said that in the next two to three years, FEHD would carry out improvement works at public markets in collaboration with the Architectural Services Department. She added that the cooperation of stallholders was also required in upkeeping the environment and cleanliness of public markets.

67. Dr LO Wing-lok suggested that both the operation right and management of the public markets could be contracted out to enable FEHD markets to compete with supermarkets. DFEH(Atg) responded that the Administration was also considering whether the management of some of the wet markets should be contracted out. As regards contracting out the operation right of these markets, DFEH(Atg) explained that it would depend on whether any market was a viable business for a commercial operator to take on. Mr Tommy CHEUNG said that he would only support contracting out the management of public markets but not their operation right. He considered that the Administration should improve the viability and competitiveness of public markets by upgrading their facilities.

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Control of the sale of chilled pork

68. Miss CHOY So-yuk expressed concern about the sale of chilled pork as fresh pork by some unscrupulous retailers. She asked whether the situation had improved after the introduction of new licensing conditions governing the sale of chilled pork. Assistant Director (Operation)3 (AD(Op)3) replied that there were about 1,400 fresh provision shops and pork stalls, 80% of which had already installed refrigerators. She said that enforcement actions had been taken in some 20 such outlets which were recently found to have breached the new requirements and conditions for the sale of chilled meat. She added that FEHD had collected information from the trade, and had conducted blitz inspections on the fresh provision shops and market stalls.

69. Miss CHOY So-yuk enquired about the methods to differentiate between fresh pork and chilled pork. Mr WONG Sui-fun from Pig-raising Co-operative Society in Yuen Long Tsung Tsin Sun Chuen replied that chilled pork from Thailand was hard in touch due to long hours of refrigeration. However, it would be more difficult to distinguish chilled meat from fresh meat when the Mainland started to supply chilled meat to Hong Kong. He urged the Administration to devise measures to protect the interest of the trade and consumers.

70. Mr CHAN Kin-yip from the Federation of Pig Raising Co-operative Societies of Hong Kong, Kowloon and New Territories suggested that a separate licence should be issued for the sale of chilled pork so that it could not be sold together with fresh pork on the same premises. He said that this would not only protect consumers' interest but also facilitate enforcement actions. He also suggested that the Administration should explore ways to enhance the competitiveness of the local pig-raising industry, in order to expand its market share.

71. Mr WONG Yung-kan criticised the Administration for not taking enforcement actions against superstores in which fresh meat stalls were placed very near to cooked food/siu mei/vegetable stalls. AD(Op)3 explained that superstores were required to obtain a fresh provision shop licence for the sale of fresh meat. In granting such a licence, FEHD would require the applicant to provide adequate facilities to ensure segregation of the fresh meat stall concerned from other stalls selling cooked food or siu mei/lou mei. However, there was no restriction that a fresh provision shop could not sell vegetables. As for the sale of other food, a supermarket would need to apply for the appropriate types of licences (e.g. food factory, siu mei/lou mei, bakery) which would only be granted if the supermarket was able to meet the relevant licensing requirements and conditions.

Competition policy

72. Miss CHAN Yuen-han criticised that little progress had been made in the retrofitting of air-conditioning system to the 19 existing markets/cooked food centres. She concurred with Mrs Selina CHOW that the Administration was too slow in improving the environment of wet markets. She asked representatives of the Consumer Council what measures could be taken to prevent supermarkets from practising predatory pricing in the absence of legislation on fair competition. She

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was concerned that the wet markets would have little room for business, if the two large chain supermarkets also cut prices for other food products.

73. Mrs CHAN WONG Shui from the Consumer Council responded that Government's competition policy was against predatory pricing by firms which had market power. She said that the policy stipulated that any allegations about such practice should be investigated by the policy bureau concerned. In the present case, EFB was required to provide an investigation report to COMPAG.

74. Principal Assistant Secretary for Economic Services (PAS(ES)) said that Government had formulated clear objectives in respect of the competition policy. All bureaux and departments were required to give due regard to the competition angle in formulating policies and devising measures within their respective policy portfolios, and to keep under review the regulatory control measures imposed on various trades to ensure that they complied with the competition policy. She further said that the Administration was also very concerned about the recent disruption of fresh pork supply and COMPAG would look into it.

75. Miss CHAN Yuen-han criticised the Administration for not taking any measures to ensure fair competition and protect small traders such as the pork stallholders in wet markets. She asked how the Administration would protect the pork stallholders since it had pledged to promote local community economy. PAS(ES) responded that COMPAG would look into the recent incident in conjunction with the relevant bureaux. She said that COMPAG would look at the different issues involved, and consider the views and comments given by deputations and Members.

76. Mr Andrew CHENG asked whether Economic Services Bureau considered it high time for the Administration to take action to address the problems as raised by some of the deputations and to introduce legislation on fair competition. He also asked about the expected completion date of the investigation conducted by COMPAG.

77. PAS(ES) responded that the Administration considered that legislation was not the only way to ensure fair competition. She reiterated that there were clear policy objectives in respect of Government's competition policy, and initiatives in line with the policy objectives had been introduced to different sectors. She said that the Administration was of the view that it should not judge whether a certain business corporation had contravened the principles of fair competition merely based on the scale of operation or the market share of the corporation. More important considerations should include whether the corporation had abused its market power to limit market accessibility or market contestability, thus impairing economic efficiency or free trade to the detriment of the overall interest of Hong Kong. She stressed that COMPAG was very concerned about the recent incident and had required EFB to provide detailed information. She added that COMPAG would look into the competition situation in the pork market and the study would be completed as soon as possible.

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78. Mrs CHAN WONG Shui from the Consumer Council said that the Council preferred the introduction of legislation to ensure fair competition. She said that the Consumer Council would try its best to assist the Administration in its analysis of the incident under discussion.

79. Mr SIN Chung-kai requested the Administration to explain the scope of the study conducted by COMPAG. He asked whether the study would cover investigation into the allegation of monopoly in the supply of live pigs and whether there was fair competition between the public markets and supermarkets. PAS(ES) responded that COMPAG would look into all relevant issues arising from the recent problems relating to the supply of fresh pork based on the information available.

80. Dr LO Wing-lok expressed doubt on the allegation that Ng Fung Hong was offering preferential prices to supermarkets. He said that such collusion would not bring substantive benefits to supermarkets, and there were no reasons for Ng Fung Hong to drive the stallholders out of business. However, Dr LO considered that since Ng Fung Hong was the sole agent of the Mainland-imported live pigs and was involved in the operation of slaughterhouses, the Administration should take measures to ensure that these slaughterhouses provided the same level of service in handling local and Mainland-imported live pigs. He further suggested that consideration should be given for Tsuen Wan Slaughterhouse to be responsible for the slaughtering of local live pigs only.

81. DFEH(Atg) responded that in monitoring the day-to-day operation of slaughterhouses, FEHD had ensured that both local and Mainland-imported live pigs were handled in the same manner. AD(Op)3 said that Tsuen Wan Slaughterhouse was privately-owned and FEHD was only responsible for providing ante-mortem and meat inspection services there.

82. Mr Tommy CHEUNG sought the response of the representatives of the supermarkets and the Consumer Council on the allegation that the two large chain supermarkets had collaborated to conduct the price cut in order to drive stallholders out of business.

83. Mr Jeff Shaw from Wellcome said that the pigs for Wellcome were all bought through the concessionaire. Therefore, it would not be possible for Wellcome to collude with its competitor. Mr Logan Taylor from PARKnSHOP also dismissed the allegation, adding that its competitor had followed very quickly in the price cut and this was what competition was about. Mrs CHAN WONG Shui from the Consumer Council said she believed that COMPAG's study would cover this allegation, and Consumer Council would provide views on the matter to COMPAG as one of its members.

84. The Chairman pointed out that the Mainland had abolished the quota system and sole agent system for chilled/frozen pork and beef export. He asked whether the Administration would explore with the Mainland authorities the feasibility of introducing similar arrangements for the export of live pigs and cows. PAS(EF)(A)1 replied that there were divided views in Hong Kong on the desirability of abolishing

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the sole agency system for livestock export. Moreover, COMPAG had yet to come to any conclusion on the alleged monopoly of live pigs. It was therefore not appropriate for the Administration to give any views on the way forward at the present stage.

Adm

85. The Chairman requested the Administration to provide a report on the outcome of the study of COMPAG to the Panel (and the Panel on Economic Services) for discussion once it was available. The Administration agreed.

86. The Chairman thanked the representatives of the deputations for attending the meeting.

87. There being no other business, the meeting ended at 4:45 pm.

Council Business Division 2
Legislative Council Secretariat
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