

LegCo Panel on Food Safety and Environmental Hygiene

Special Meeting

14th May 2002

I am Jeff Shaw, CEO of Wellcome supermarkets in Hong Kong. I would like to present to the panel Wellcome's views on the recent problems in relation to the supply of fresh pork in Hong Kong and our view on fair competition.

Pork represents a large portion of the fresh business in Hong Kong, making it a highly visible and important retail product. Wellcome recognizes that traditional customers prefer to purchase fresh pork directly from a trusted and skilled local butcher. Rather than competing with wet markets, we have therefore joined them. Wellcome's current supply of fresh pork comes from traditional wet market pork operators who have chosen to move their operation from the wet market stall into the supermarket. They now sell their product in a clean and hygienic environment which customers are increasingly coming to favour. Wellcome has combined the skill of the wet market operator with the hygienic operation of the supermarket, resulting in a fresh pork offer that meets the needs of the modern Hong Kong consumer.

Each pork operator arranges their own pork supply from either their own farms or directly from the meat wholesaler, at the going market price. All pork is then channelled through one of the three licensed slaughterhouses at a standard fee which is set by the slaughterhouse. Thus, each operator negotiates his cost prices independently, with no involvement from Wellcome.

In relation to the recent focus on fresh pork, I would like to inform the LegCo Panel that only 43 of our 250 Wellcome stores are selling loose pork via wet market style pork operators. Furthermore, this number is not likely to grow significantly because Hong Kong's property structure and existing legislation already inhibit this. Most Wellcome stores are simply too small to accommodate a pork counter, therefore wet markets by default take any potential sales. The core consumers for fresh pork are primarily from older and lower income households and live mainly in public housing estates. Existing Housing Authority legislation prohibits the sale of serviced pork, seafood, vegetables and other fresh foods from stores that are under 800 square meters. This provides a strong competitive advantage to the wet markets in Hong Kong's public housing estates.

Whilst Wellcome cannot comment on other retailers' cost prices, we can report that Wellcome's cost prices on pork, as provided by the pork operators, have not altered before, or during the current focus on pork.

As one of the Hong Kong leading retailers, Wellcome is committed to offering our customers value for money by staying competitive. We monitor our retail prices closely to ensure that they are always better than or at the same level as our competitors. During the recent focus on fresh pork, we have adjusted our retail prices in order to maintain our competitiveness, as we would do for any important product like rice, oil or water.

Pork supply was interrupted last week because the major fresh pork importer was prevented from distributing its product. Although there are three slaughterhouses, the vast majority of the fresh pork is processed via two slaughterhouses which are operated by the same company. This same company is also the major pork importer for Hong Kong. When this company is prevented from importing and/or slaughtering fresh pork there will be a major impact on pork supply. The major importer also has sole control over the number of live pigs and their resulting cost price. As the traditional wet market pork operators were not satisfied with the cost prices on fresh pork last week and had no alternative source of supply, there was little retail demand for pork from the major importer. Because the supermarkets collectively represent well under 10% of the total retail market for fresh pork, the actions of the dominant wet market operators also created a supply problem for the supermarkets.

Wellcome fully supports fair market trade as it allows us as a retailer to pass on the lowest prices and best savings to our customers. Any part of a supply chain that is dominated by one or two major operators restricts the opportunity for continuous and unadulterated fair play. The recent proposal from the Government on supplying chilled, slaughtered pork from China to Hong Kong will effectively allow free market enterprise to exist.

CONCLUSION :

Wellcome fully supports any government initiatives that enable free market enterprise to flourish, resulting in lower prices on fresh pork without sacrificing the high levels of quality that pork consumers increasingly demand.