

**For discussion
on 10 June 2014**

LegCo Panel on Food Safety and Environmental Hygiene

Supply Chain of Powdered Formula

Purpose

This paper aims to report to Members on the work of the Food and Health Bureau in monitoring the supply and price levels of powdered formula, as well as efforts of the trade in improving the powdered formula supply chain.

Background

2. In December 2013, we reported to this Panel on the outcome of the review on the measures to improve the supply chain of powdered formula proposed by the powdered formula trade¹. We concurred with the assessment made by the consultant undertaking the Stress Test and the views of the Committee on Supply Chain of Powdered Formula² (the Committee), and considered that under the premise of ensuring a stable and sufficient supply to meet local demand, the Government should not rush into repealing the provisions introduced by the Import and Export (General) (Amendment) Regulation 2013.

¹ The Improvement Measures were proposed by the Hong Kong Infant and Young Child Nutrition Association (HKIYCNA) (membership of which includes Abbott, Cow & Gate, Friso, Mead Johnson, Nestle and Wyeth), Snow Brand and Hong Kong General Chamber of Pharmacy Limited (HKGCPH).

² In July 2013, the Government appointed a Committee on Supply Chain of Powdered Formula to study and recommend to the Government improvement measures in the supply chain of powdered formula. The Committee comprises 14 non-official members, including major powdered formula suppliers, retailers, parents, representatives from the logistics sector, relevant academia and those representing consumer interests.

3. We were also of the view that the following key aspects warranted particular attention:

- (a) even though the trade did their utmost during the Stress Test on the Improvement Measures conducted during the National Day Golden Week last year and the days immediately before and after it, there were still various loopholes in implementing the Improvement Measures. This casts serious doubts on whether the Improvement Measures, especially the Coupon Scheme³ (the Scheme), can function well instantly and sustainably in a real-life crisis situation. Failure to do so might trigger the recurrence of serious powdered formula shortage experienced early last year;
- (b) the Stress Test was conducted in a regulated demand environment with the Amendment Regulation still in force. Repeal of the Amendment Regulation would certainly release the substantial repressed demand for powdered formula. Whether the Improvement Measures of the trade can cope with the situation gives much cause for concern; and
- (c) the crux of the matter is that local parents do not have enough confidence in the Scheme as a Safety Net for Supply. This will result in panic buying in the event of sporadic and localised shortages of certain brands of powdered formula which may happen occasionally, or major shortage when non-local demand is high. In refining the Improvement Measures, the trade should therefore treat the needs of local parents as their primary consideration. By striking a balance between the operation of the trade and meeting local parents' expectations appropriately, the trade will engender the confidence of local parents in the Scheme.

³ Under the Coupon Scheme, parents of local infants and young children aged under 36 months can apply for coupons from seven major powdered formula suppliers (i.e. Abbott, Cow & Gate, Friso, Mead Johnson, Nestle, Snow Brand and Wyeth). Coupon holders are entitled to order powdered formula by presenting the coupons at designated pharmacies.

4. In light of the above, we advised the Panel in December 2013 that it was premature to repeal the provisions introduced by the Amendment Regulation at this stage.

5. We are of the view that the trade should continue to actively improve its supply chain management. In particular, it should improve considerably the Scheme and promote it widely to parents of local infants and young children. It should also better understand the expectations of these parents by taking proactive steps to communicate with them, and refine the relevant details of the Scheme as appropriate. We suggest that the Committee should continue its operation to follow up on and monitor the improvements of powdered formula supply chain undertaken by the suppliers in future.

6. We have also indicated that regular surveys would be conducted on the supply of major brands of powdered formula across the territory, as well as whether there is any unusual fluctuation in prices. The relevant reports will be submitted to the Committee for further views.

Supply and Price Situation of Powdered Formula

7. Since the Panel meeting in December 2013, we have closely monitored the supply and price situation of powdered formula at the local retail level. We have also kept in close touch with the powdered formula trade, including the seven major powdered formula suppliers, HKGCPL as well as representatives of major chain stores. Several meetings were convened with the trade to urge them to ensure sufficient and stable supply of powdered formula for local infants and young children.

8. As we reported at the December 2013 Panel meeting, since the implementation of the Amendment Regulation, the supply of powdered formula at the retail outlets has become sufficient when compared with the situation early last year, though shortage of some popular brands of powdered formula is still observed at times.

9. We note that since the Amendment Regulation came into effect, there has been a continued expansion in the volume of import, re-export and retained import of powdered formula. According to the figures from March 2013 to February 2014, i.e. the first year of implementation of the Amendment Regulation (**Annex 1**):

- (a) import of powdered formula was 49.42 million kg, representing a growth of 10% and 34% over the same period in 2012-13 and 2011-12 respectively;
- (b) re-export of powdered formula was 6.66 million kg, representing a growth of 121% and 141% over the same period in 2012-13 and 2011-12 respectively; and
- (c) retained import of powdered formula was 42.75 million kg, representing a growth of 2% and 25% over the same period in 2012-13 and 2011-12 respectively.

As at 15 April 2014, the Trade and Industry Department has issued about 9 600 powdered formula export licences.

10. It can be seen that to a certain extent the Amendment Regulation has struck a balance among the supply, local demand and non-local demand of / for powdered formula. It has catered for the needs of parents of local infants and young children for powdered formula while safeguarding free trade and commerce.

11. In December last year, we noted that there was a tight supply of certain brands of powdered formula and there were media reports that a pharmacy had marked up the price of powdered formula substantially. In view of these and the relatively strong demand for powdered formula expected in the run-up to the past Lunar New Year, we held two meetings with the powdered formula trade in mid-December 2013 and early January 2014, urging members of the trade to actively follow up on the recommendations on improving the supply chain of powdered formula proposed by the consultancy firm commissioned by the Government. We also requested the suppliers to get fully prepared in the run-up to Christmas

and the Lunar New Year to ensure sufficient supply of powdered formula, especially to accord priority in meeting the demand of local infants and young children.

12. In addition, we stressed at the meetings that individual retailers should not mark up the price substantially for profiteering to avoid affecting the supply of powdered formula. We urged the suppliers to keep a close watch on such unscrupulous practice and take appropriate actions when necessary. Press release was issued after each of these meetings to keep the public abreast of the latest situation. The relevant press releases are at **Annex 2** and **Annex 3**.

13. Besides, we commissioned a consultant in January 2014 to conduct surveys on the retail supply and prices of powdered formula. For focused resource deployment and better survey efficiency, the surveys covered two brands with more serious shortage as reported by the press and observed during the Stress Test conducted last year. The survey results revealed that while shortages of the products of the two brands concerned were quite serious in early January, no sign of substantial mark-up of prices as covered by the media and mentioned above was detected. We have also passed the survey results to the relevant suppliers, urging them to actively follow up on the findings and to ensure the sufficient supply of powdered formula for local infants and young children during the peak demand period in the run-up to the Lunar New Year. The relevant press release is at **Annex 4**. Subsequently, the consultant conducted further surveys in late January, the results of which indicated that the supply of the concerned brands of powdered formula had significantly improved during the fortnight before the Lunar New Year.

14. As the demand for powdered formula might also be relatively strong during the Labour Day holiday, we also met with the powdered formula trade in mid-April this year to ensure that they were fully prepared in meeting the demand of local infants for powdered formula. The press release issued after the meeting is at **Annex 5**. Meanwhile, we also commissioned a consultancy firm to conduct a new round of regular surveys on the supply and price levels of powdered formula at the local retail level, so as to allow us to get a good grasp of the market situation.

The consultancy firm conducted two surveys between late April and early May. The survey results revealed that although the overall shortage situation had improved compared with the situation in the run-up to the past Lunar New Year, shortage of certain brands of powdered formula was still of concern. Prices of the powdered formula concerned remained stable during the survey periods with no major fluctuation. The relevant press release is at **Annex 6**. We have passed the survey results to the relevant suppliers and urged them to follow up on the findings to ensure stable and sufficient supply of powdered formula for local infants and young children.

15. The survey results are also submitted to the Committee to seek their further views on how to improve the supply chain. In future, the consultancy firm will continue to conduct the surveys in different districts of Hong Kong on a regular basis, and the survey results will also be announced regularly.

Improving the Powdered Formula Supply Chain

16. As mentioned in paragraph 5 above, we are of the view that the trade should actively follow up on the recommendations proposed by the consultancy firm and improve considerably the supply chain of powdered formula to ensure sufficient and stable supply.

17. In the past few months, we have, through the aforesaid meetings with the trade as well as a meeting of the Committee (see paragraph 25), monitored and followed up on the implementation progress and effectiveness of the various improvement measures. The follow-up actions undertaken by the trade are summarised as follows:

Summary of Progress

18. The suppliers indicated that they had reserved sufficient stock to cope with orders for powdered formula from various pre-order services (paragraphs 20-22 refer). They have also strengthened the supporting

measures, including more frequent replenishment of stock if needed, and boosting the manpower for manning the hotlines when required so that all calls from customers can be returned within 24 hours. In response to the recommendations proposed by the consultancy firm, the trade submitted a progress report (at **Annex 7**) to the Committee at its meeting in February 2014. In summary:

- (a) the suppliers and pharmacies involved have continued to promote the Scheme through various channels, such as strengthening the promotion via different media; displaying the logo of the Scheme at the 92 participating pharmacies to help parents identify these pharmacies; distributing information cards to parents of local infants and young children at the participating pharmacies; providing details of the Scheme on the website of HKIYCNA; and introducing the Scheme to parents proactively when handling their enquiries such as those on the supply of powdered formula;
- (b) through their service hotlines and communication with HKGCPL, the suppliers have been gauging the views of parents on the Scheme. A review of the implementation of the Scheme is also conducted quarterly and improvements will be made when required;
- (c) the suppliers maintain communication with warehouses in different ways. To ensure the smooth running of the Scheme, most of the suppliers have developed standard operating procedures to ensure that staff of the warehouses understand the operating mechanism of the Scheme;
- (d) HKGCPL will accord priority to ensuring that the Scheme is working well at the pharmacies currently participating in the Scheme. They may consider bringing in more pharmacies if necessary; and

- (e) all suppliers have included appropriate anti-fraud elements in their coupons so as to avoid abuse of the Scheme or the use of fake coupons.

19. Upon considering the trade's report, the Committee has made further suggestions to the trade. For example, HKGCPL should actively consider increasing the number of participating pharmacies; the suppliers should put in place a clear housekeeping system to ensure effective use of the stock in the warehouse, and keep it under regular review; and the trade should consider introducing an auto-prompt system to remind parents to replenish their stock through the Scheme. The Government has also requested the trade to provide more specific response on the improvement of the supply chain, including devising an action timetable and performance indicators on how to expedite the supply chain improvement. This will allow both the Committee and the Government to assess, in a more effective manner, whether the Improvement Measures proposed by the trade have been sufficiently enhanced.

Pre-order Services

20. We understand that the seven major powdered formula suppliers have already set up various pre-order services of powdered formula. Apart from the Scheme, orders can also be placed through suppliers' hotlines for home delivery or collection from chain stores. During the peak demand period in the run-up to the past Lunar New Year, we noted that the pressure on demand for powdered formula at the retail level could be reduced by encouraging parents to make use of the various pre-order services. We therefore consider that continuous promotion of these services can help tackle the issue of powdered formula supply in the long run. The Scheme, as one of the pre-order channels, is complementary to other pre-order services and can serve as an additional option of pre-order service for parents of local infants and young children.

21. We are of the view that through separating local demand from non-local demand, these pre-order services can act as a "dedicated supply chain" for local infants and young children. They can play an effective

role in ensuring sufficient supply for local infants and young children when powdered formula is in shortage. Therefore, in the face of tight market situation, purchasing powdered formula through the pre-order services is a preferred approach.

22. At our meetings with the trade over the past few months, we have encouraged suppliers to promote their various pre-order services, including the Scheme, through channels including the media and internet. The trade has also pledged that parents of local infants and young children who place orders through the pre-order channels will receive powdered formula within three working days (excluding Saturdays and public holidays) after confirmation of the orders. We note from the information submitted by suppliers that with their promotional efforts, there has been a considerable increase in the usage of pre-order services of powdered formula, particularly during the peak demand period. In December 2013, for example, the seven major suppliers sold nearly 70 000 cans of powdered formula through pre-order services for home delivery or collection from retail outlets, representing an increase of about 120% when compared with the same period in 2012, and an increase of more than five-fold when compared with the sales through these two channels in September 2013. We believe that the slight easing of the shortage of powdered formula supply at the local retail level in the run-up to the past Lunar New Year as compared to that in 2013 was, to a certain extent, attributable to the use of various forms of pre-order services by an increasing number of eligible local parents.

23. Since pre-order services are effective in alleviating the pressure on the demand for powdered formula at the retail level, we have also commissioned a consultancy firm to conduct surveys to gauge the experience of parents of local infants and young children in purchasing powdered formula and their attitude towards using various pre-order channels. The first round of the surveys will commence this month. The survey results will enable us to better assess the level of acceptance of parents of local infants and young children towards various pre-order services (including the Scheme) and assist the Committee in effectively advising the trade on ways to further promote the use of these pre-order services by parents of local infants and young children.

Committee on Supply Chain of Powdered Formula

24. As indicated at the meeting of the Panel in December 2013, we have suggested that the Committee should continue its operation to follow up on and monitor the improvements of powdered formula supply chain undertaken by the suppliers.

25. The Committee convened a meeting on 20 February 2014, during which we reported to the Committee on the trade's efforts in ensuring sufficient and stable supply of powdered formula in the run-up to the Lunar New Year. At the meeting, the Committee also discussed the results of the survey on the supply and price levels of powdered formula submitted by us (paragraph 13 refers). The trade also briefed the members on the progress of their follow-up work on the implementation of the supply chain improvement measures proposed by the consultant (paragraphs 18-19 refer).

26. We will continue to listen to the views of both the Committee and this Panel and take into account the progress on the improvements of powdered formula supply chain, before deciding on the Government's position in respect of the Amendment Regulation.

27. The Committee will convene another meeting in July 2014, during which we will brief members on the progress of the two aforementioned surveys and their results. The trade will report the latest situation of the implementation of the measures to improve the powdered formula supply chain.

Advice Sought

28. Members are invited to note the content of this paper.

Food and Health Bureau

June 2014

Annex 1**Imports, Re-exports and Retained Imports of Powdered Formula
(January 2011 to February 2014)**

Year	Month	Imports (a) (kg)	Re-exports (b) (kg)	Retained Imports (a)-(b) (kg)
2011	January	1 762 372	299 880	1 462 492
	February	1 610 396	188 863	1 421 533
	March	3 670 431	212 382	3 458 049
	April	2 911 656	372 767	2 538 889
	May	3 007 179	195 069	2 812 110
	June	2 872 459	248 977	2 623 482
	July	4 195 386	256 807	3 938 579
	August	3 423 406	268 174	3 155 232
	September	3 087 101	197 793	2 889 308
	October	2 267 535	278 158	1 989 377
	November	2 318 724	167 266	2 151 458
	December	2 096 074	181 540	1 914 534
2012	January	3 261 523	130 609	3 130 914
	February	3 726 536	258 902	3 467 634
	March	3 511 711	142 247	3 369 464
	April	4 074 856	161 251	3 913 605
	May	3 955 038	298 042	3 656 996
	June	3 259 768	157 493	3 102 275
	July	2 674 227	233 624	2 440 603
	August	3 884 954	213 604	3 671 350
	September	3 482 528	256 184	3 226 344
	October	4 189 875	213 819	3 976 056
	November	4 162 563	218 103	3 944 460
	December	4 127 174	292 346	3 834 828

Year	Month	Imports (a) (kg)	Re-exports (b) (kg)	Retained Imports (a)-(b) (kg)
2013	January	4 683 142	377 294	4 305 848
	February	2 760 311	455 679	2 304 632
	March	3 677 706	461 991	3 215 715
	April	4 340 899	601 200	3 739 699
	May	5 073 673	726 750	4 346 923
	June	4 944 289	583 821	4 360 468
	July	3 989 216	623 999	3 365 217
	August	3 226 642	658 374	2 568 268
	September	3 224 475	380 319	2 844 156
	October	3 442 600	592 875	2 849 725
	November	4 945 160	442 650	4 502 510
	December	4 553 279	482 128	4 071 151
2014	January	5 383 776	529 611	4 854 165
	February	2 614 628	579 183	2 035 445

Source: Trade Analysis Section of the Census and Statistics Department

Growth Rate

	Imports (kg)	Re-exports (kg)	Retained Imports (kg)
March 2013 to February 2014 (a)	49 416 343	6 662 901	42 753 442
March 2012 to February 2013 (b)	44 766 147	3 019 686	41 746 461
Growth Rate (%) (a)-(b)/(b)	10.39%	120.65%	2.41%

	Imports (kg)	Re-exports (kg)	Retained Imports (kg)
March 2013 to February 2014 (c)	49 416 343	6 662 901	42 753 442
March 2011 to February 2012 (d)	36 838 010	2 768 444	34 069 566
Growth Rate (%) (c)-(d)/(d)	34.14%	140.67%	25.49%

Press Releases

FHB urges powdered formula trade to ensure sufficient supply and steps up actions against parallel trading

The Permanent Secretary for Food and Health (Food), Mrs Marion Lai, today (December 19) met with representatives of seven major powdered formula suppliers, the Hong Kong General Chamber of Pharmacy Limited and major chain stores, urging the trade to ensure sufficient supply of powdered formula for local infants and young children in the run-up to Christmas and Lunar New Year.

The Food and Health Bureau (FHB) noted with concern that there was a tight supply of certain brands of powdered formula recently. At the meeting, the FHB urged the trade to actively follow up on the recommendations on improving the supply chain of powdered formula proposed by the consultancy firm commissioned by the Government. The FHB also requested the suppliers to get fully-prepared in the run-up to Christmas and Lunar New Year to ensure sufficient supply of powdered formula, especially to accord priority in meeting the demand of local infants and young children.

Upon request of the Government, the suppliers reported the progress in implementing the recommendations on improving the supply chain. They stressed that they had reserved sufficient stock for local infants and young children to cope with orders from various pre-ordering channels. They had also strengthened supporting measures, including delivery on a daily basis when required and boosting the manpower for manning the hotlines so that all calls from customers can be returned within 24 hours. If a supplier fails to fulfil this pledge, it will activate the mechanism to gear up its hotline service immediately.

"The seven major suppliers provide various pre-order services. Apart from joining the Coupon Scheme, parents of local infants and young children can place orders through suppliers' hotlines to receive home delivery or to collect powdered formula at chain stores. Parents may consider making good use of these channels to purchase in good time appropriate amount of powdered formula," the spokesman for the FHB said.

As Christmas and Lunar New Year are approaching, the FHB appealed to the suppliers to take the opportunity to launch a promotion campaign for the Coupon Scheme, which serves as a "safety net for supply", as soon as possible.

The suppliers said that they had already started promoting their various pre-order services, covering the detailed operation of the Coupon Scheme, its application method, and the information of participating pharmacies, through placing advertisements in the media. They had also designed a logo for the scheme which would shortly be displayed conspicuously at participating pharmacies. The FHB reminded the Hong Kong General Chamber of Pharmacy Limited that participating pharmacies had to do the gate-keeping work properly so as to ensure that local infants and young children can benefit from the scheme.

The Government is also very concerned about recent media reports that a pharmacy has marked up the price of powdered formula substantially. At the meeting, the relevant powdered

formula supplier reported that appropriate actions had been taken against the pharmacy.

The FHB stressed at the meeting that individual retailers should not mark up the price substantially for profiteering, which would affect the supply. The FHB urged the suppliers to keep a close watch on such unscrupulous practice and take appropriate actions when necessary.

To safeguard local supply and prevent parallel traders from diverting powdered formula away from the supply chain in Hong Kong, the Customs and Excise Department will strengthen its enforcement actions against parallel trading activities. Since the enactment of the Import and Export (General) (Amendment) Regulation 2013 on March 1 and up till November 30, a total of 2,511 persons have been convicted and fined, involving 13,241 kilogrammes of powdered formula. The level of fines ranged from \$200 to \$27,000.

The FHB will continue to closely monitor the supply of powdered formula and maintain close liaison with the trade to ensure sufficient supply of powdered formula for local infants and young children.

Ends/Thursday, December 19, 2013
Issued at HKT 21:01

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Press Releases

FHB urges powdered formula trade to ensure sufficient supply in run-up to Lunar New Year

The Permanent Secretary for Food and Health (Food), Mrs Marion Lai, today (January 8) met with representatives of seven major powdered formula suppliers, the Hong Kong General Chamber of Pharmacy Limited and major chain stores. The meeting followed up on the implementation of various improvement measures on the supply chain of powdered formula for local infants and young children discussed last month. She again urged the trade to ensure sufficient supply of powdered formula for local infants and young children in the run-up to Lunar New Year.

At the meeting, the suppliers and retailers briefed the Government on the latest progress of the implementation of a series of improvement measures since the last meeting. The suppliers said they had strengthened the promotion of their various pre-order services, including the Coupon Scheme, through channels including the media and Internet.

Since the end of last month, the trade has arranged to display the Coupon Scheme logo at the 92 participating pharmacies to help parents of local infants and young children to identify these pharmacies. These pharmacies have also started distributing information cards to the parents concerned, advising them on how to order powdered formula through the Scheme.

"We anticipate that from now till Lunar New Year, demand for powdered formula for infants and young children will be rather strong. The suppliers and retailers must therefore stay alert. They should continue to implement the various supply chain improvement measures and respond to the demand caused by local infants and young children in a timely manner. The trade should continue to stay fully-prepared on reserving stock for local infants and young children, arranging replenishment of stock at retail outlets and handling a large number of calls to their hotlines, so as to ensure that supply of powdered formula for local infants and young children is sufficient and stable," a spokesman for the Food and Health Bureau (FHB) said.

The seven major powdered formula suppliers have already set up various pre-order channels for local infants and young children. Apart from the Coupon Scheme, orders may also be placed through suppliers' hotlines to receive home delivery or to collect powdered formula at chain stores. Through separating local demand from non-local demand, these channels can act as a "dedicated supply chain" to ensure sufficient supply of powdered formula for local infants and young children.

"In the face of a tight market situation, purchasing powdered formula through pre-order services is a preferred approach. The trade has promised at today's meeting that parents placing orders through the above channels will receive powdered formula within three working days (excluding Saturdays and public holidays) after confirmation of the orders. As such, parents in need may actively consider making full use of these channels to purchase in good time the appropriate amount of powdered formula," the spokesman said.

The FHB also maintains close liaison with the Consumer Council. If consumers are dissatisfied with the supply of powdered formula and related services, they can lodge complaints with the Council. The Council will refer the complaints received to the suppliers directly for follow up.

To get a good grasp of the market situation, the FHB has commissioned a consultant to conduct regular surveys on the supply of powdered formula as well as whether there is any unusual fluctuation in prices. The relevant reports will be submitted to the Committee on Supply Chain of Powdered Formula to seek their views on how to improve the supply chain.

It is expected that parallel trading activities will become active with the approach of Lunar New Year. To prevent parallel traders from diverting powdered formula away from the supply chain in Hong Kong, the Customs and Excise Department and the Mainland customs authorities will step up enforcement actions at various control points to target against the illegal export of powdered formula.

Since the enactment of the Import and Export (General) (Amendment) Regulation 2013 on March 1, 2013 and up till January 3, 2014, a total of 2 954 persons have been convicted, involving 20 161 kilogrammes of powdered formula.

The FHB will continue to closely monitor the supply of powdered formula and maintain close liaison with the trade to ensure sufficient supply of powdered formula for local infants and young children.

Ends/Wednesday, January 8, 2014
Issued at HKT 19:11

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Press Releases

Results of surveys on supply and prices of powdered formula at retail level announced

To follow up on the implementation progress and the effectiveness of the improvement measures for the powdered formula supply chain in Hong Kong, the Food and Health Bureau (FHB) commissioned a consultancy firm to conduct two surveys on the retail supply and prices of powdered formula this month. Results of the surveys were announced today (January 23).

For focused resource deployment and better survey efficiency, the surveys covered two brands with more serious shortage as reported by the press recently and observed during the stress test conducted last year, i.e. Mead Johnson and Friso.

The surveys concerned were conducted in January 4 to 8 and January 11 to 15, covering three stages of products of Mead Johnson and Friso. The surveys were carried out in five districts known to have experienced more serious shortage of powdered formula last year, i.e. North District, Yuen Long District, Tuen Mun District, Eastern District and Yau Tsim Mong District. A summary of the results is shown in the Annex.

The survey results reveal that shortages of the products concerned were quite serious, with the situation of Mead Johnson being more acute. An overall shortage rate of 64 per cent was observed for its stage 2 product during the first survey period. Amongst the five districts, the shortage situation of Mead Johnson was most serious in Eastern District, while the shortage situation of Friso was most serious in Yuen Long District. That said, during the second survey period, the situation improved and the shortage rates of Mead Johnson and Friso decreased by 4 to 13 percentage points and 2 to 10 percentage points respectively.

As regards retail prices, the surveys revealed that despite the shortage situation, all chain stores did not raise their retail prices to a level higher than the suppliers' recommended retail prices (RRPs). As for pharmacies, the selling prices of Mead Johnson's products were in general higher than the RRP, but the prices dropped during the second survey period. The prices of Friso's products in pharmacies were close to or lower than the RRP.

"The Government is very concerned about the level of shortage observed in the retail market. We have passed the survey results to the relevant suppliers, urging them to actively follow up on the findings. We have strongly requested them to keep their pledge and make every effort to ensure the sufficient supply of powdered formula for local infants and young children during the peak demand period in the run-up to the Lunar New Year. We have also requested these suppliers to keep a close watch on any unscrupulous commercial practice, and take timely and effective actions when necessary," the spokesman of the FHB said.

The spokesman added that, in the face of a tight market situation, purchasing powdered formula through the pre-order services is a preferred approach. The suppliers had also strengthened the promotion of their various pre-order services through channels including the media and the Internet.

"According to the information provided by the suppliers, with the promotion effort of the suppliers there was a substantial increase in the usage of pre-order services (including home delivery and collection at retail outlets) in the past few months. In December 2013, the seven major suppliers sold close to 70 000 cans of powdered formula through the two channels mentioned above, representing an increase of about 120 per cent when compared with the same time in 2012, and an increase of more than five-fold when compared with September 2013," the spokesman said.

The survey results will be submitted to the Committee on Supply Chain of Powdered Formula to seek their views on how to improve the supply chain.

The FHB will continue to closely monitor the supply of powdered formula and maintain close liaison with the trade to ensure sufficient supply of powdered formula for local infants and young children.

Ends/Thursday, January 23, 2014
Issued at HKT 18:30

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Survey Results of the Supply Situation at Retail Level**Mead Johnson**

	Overall Shortage Rate in Five Districts	
Stage	4 – 8 January	11 – 15 January
1	60%	56%
2	64%	51%
3	61%	51%

	Shortage Rate between 4 and 8 January					
Stage	North District	Tuen Mun	Yuen Long	Eastern District	Yau Tsim Mong	Overall
1	60%	53%	63%	62%	60%	60%
2	70%	57%	65%	67%	63%	64%
3	55%	55%	53%	75%	67%	61%

	Shortage Rate between 11 and 15 January					
Stage	North District	Tuen Mun	Yuen Long	Eastern District	Yau Tsim Mong	Overall
1	54%	50%	70%	57%	48%	56%
2	52%	47%	53%	53%	48%	51%
3	55%	49%	45%	62%	45%	51%

Friso

	Overall Shortage Rate in Five Districts	
Stage	4 – 8 January	11 – 15 January
1	38%	36%
2	42%	35%
3	57%	47%

	Shortage Rate between 4 and 8 January					
Stage	North District	Tuen Mun	Yuen Long	Eastern District	Yau Tsim Mong	Overall
1	37%	45%	43%	37%	30%	38%
2	42%	40%	52%	43%	33%	42%
3	53%	63%	58%	57%	55%	57%

	Shortage Rate between 11 and 15 January					
Stage	North District	Tuen Mun	Yuen Long	Eastern District	Yau Tsim Mong	Overall
1	32%	30%	47%	42%	28%	36%
2	32%	30%	45%	37%	30%	35%
3	45%	50%	50%	50%	40%	47%

Survey Results of Retail Prices

Mead Johnson

Stage	Survey Period	Average Retail Price at Pharmacies (\$)	Price offered by Major Chain Stores / Recommended Retail Price (\$)	Difference (%)
1	4 – 8 January	342	294	+16%
	11 – 15 January	322	294	+10%
2	4 – 8 January	298	265	+12%
	11 – 15 January	288	265	+9%
3	4 – 8 January	284	237	+20%
	11 – 15 January	274	237	+16%

Friso

Stage	Survey Period	Average Retail Price at Pharmacies (\$)	Price offered by Major Chain Stores / Recommended Retail Price (\$)	Difference (%)
1	4 – 8 January	251	283	-11%
	11 – 15 January	252	283	-11%
2	4 – 8 January	232	246	-6%
	11 – 15 January	231	246	-6%
3	4 – 8 January	216	216	0%
	11 – 15 January	217	216	+0.5%

Press Releases

FHB urges powdered formula trade to ensure sufficient supply during Labour Day long weekend

The Food and Health Bureau (FHB) today (April 17) met with representatives of seven major powdered formula suppliers, the Hong Kong General Chamber of Pharmacy Limited and major chain stores to follow up on the progress of implementing improvement measures for the powdered formula supply chain, and to urge the trade to ensure sufficient supply of powdered formula for local infants and young children during the upcoming Labour Day long weekend.

At the meeting, the suppliers and retailers briefed the Government on the progress of the improvements to the powdered formula supply chain, and the measures implemented before the Labour Day long weekend to ensure sufficient supply of powdered formula for local infants and young children. The suppliers stressed that they had reserved sufficient stock for local infants and young children to cope with orders from various pre-ordering channels. They had also strengthened supporting measures, including more frequent replenishment of stock if needed, and boosting the manpower for manning the hotlines when required so that all calls from customers can be returned within 24 hours.

As regards the Coupon Scheme, the suppliers and the pharmacies concerned will continue to promote the Scheme through various channels. The suppliers have also incorporated appropriate anti-counterfeit features into the coupon design.

A spokesman for the FHB said, "We anticipate that during the Labour Day long weekend, demand for powdered formula for infants and young children may be rather strong. The suppliers and retailers must therefore continue to implement the various supply chain improvement measures and to get fully prepared in every aspect."

The seven major powdered formula suppliers have already set up various pre-order channels. Apart from the Coupon Scheme, orders may also be placed through suppliers' hotlines for home delivery or collection at chain stores. Through separating local demand from non-local demand, these channels can act as a "dedicated supply chain" to ensure sufficient supply of powdered formula for local infants and young children.

At the meeting, the FHB requested the seven major powdered formula suppliers and retailers participating in the pre-order services to continue promoting the pre-ordering services through various channels.

"In a tight market situation, parents of local infants and young children can choose to buy powdered formula through the pre-order services without being affected by the retail market situation. The trade has reaffirmed at today's meeting that parents placing orders through the above channels will receive powdered formula within three working days (excluding Saturdays and public holidays) after confirmation of the orders," the spokesman said.

To get a good grasp of the market situation, the FHB has commissioned a consultant to conduct regular surveys on the supply and price levels of powdered formula at the local retail level. The surveys concerned will commence before the Labour Day long weekend. The FHB will later conduct another survey to gauge the experiences of parents of local infants and young children in purchasing powdered formula and their attitudes towards using various pre-order services in purchasing powdered formula. The FHB will submit the relevant reports to the Committee on Supply Chain of Powdered Formula to seek their further views on how to improve the supply chain.

The FHB will continue to closely monitor the supply of powdered formula and maintain close liaison with the trade to ensure sufficient supply of powdered formula for local infants and young children.

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Press Releases

Results of surveys on supply and prices of powdered formula at retail level announced

To follow up on the implementation progress and effectiveness of improvement measures for the powdered formula supply chain in Hong Kong, the Food and Health Bureau (FHB) commissioned a consultancy firm to conduct two surveys on the supply and prices of powdered formula at the retail level between late April and early May. Results of the surveys were announced today (May 15).

For focused resource deployment and better survey efficiency, the surveys covered two brands with more serious shortages observed during the stress test conducted last year, i.e. Mead Johnson and Friso.

The surveys concerned were conducted in April 20 to 24 and April 30 to May 4, covering three stages of the aforesaid brands. The surveys were carried out in five districts known to have experienced more serious shortages last year, i.e. North District, Yuen Long District, Sha Tin District, Eastern District and Yau Tsim Mong District. A summary of the results is shown in the Annex.

The survey results revealed that shortages of the relevant products of the two brands concerned were still observed at the retail level, with the situation of Friso products being more serious. An overall shortage rate of 53 per cent was observed for Friso Stage 3 products in the survey conducted between April 20 and 24. Among the five districts, Yau Tsim Mong District and Sha Tin District had the most serious shortage of Mead Johnson products in the two surveys respectively. In terms of Friso products, the shortage situation was most serious in the Eastern District and North District in the two surveys respectively.

As regards retail prices, the surveys revealed no price fluctuation in major chain stores or pharmacies. The prices remained stable during the survey periods. While the retail prices in major chain stores were more or less the same as the suppliers' recommended retail prices, the average retail prices in pharmacies were 2 to 14 per cent lower than those in major chain stores.

A spokesman for FHB said, "Although the overall shortage situation has been alleviated compared with the situation in the run up to the past Lunar New Year, the shortage of certain brands is still of concern. We have already passed the survey results to the relevant suppliers and urged them to follow up on the situation to ensure a stable and sufficient supply of powdered formula for local infants and young children."

The survey results have also been submitted to the Committee on Supply Chain of Powdered Formula to seek their further views on how to improve the supply chain. In the future, the consultancy firm will continue to conduct the relevant surveys in different districts of Hong Kong on a regular basis, and the survey results will also be announced regularly.

FHB will continue to encourage the seven major powdered

formula suppliers to actively promote pre-ordering services through various channels, including placing orders through suppliers' hotlines for home delivery or collection at chain stores, as well as the Coupon Scheme. Through separating local demand from non-local demand, these channels can act as a "dedicated supply chain" to ensure sufficient supply of powdered formula for local infants and young children. The seven major suppliers have pledged that parents placing orders through the above channels will receive powdered formula within three working days (excluding Saturdays and public holidays) after confirmation of the orders.

"FHB will continue to closely monitor the supply of powdered formula and maintain close liaison with the trade to ensure sufficient supply of powdered formula for local infants and young children," the spokesman added.

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Survey Results of the Supply Situation at Retail Level**Mead Johnson**

	Overall Shortage Rate in Five Districts	
Stage	20 – 24 April	30 April – 4 May
1	11%	12%
2	15%	15%
3	24%	23%

	Shortage Rate between 20 and 24 April					
Stage	North District	Yuen Long	Sha Tin	Eastern District	Yau Tsim Mong	Overall
1	10%	10%	10%	13%	10%	11%
2	17%	10%	13%	10%	23%	15%
3	17%	20%	30%	27%	27%	24%

	Shortage Rate between 30 April and 4 May					
Stage	North District	Yuen Long	Sha Tin	Eastern District	Yau Tsim Mong	Overall
1	13%	10%	10%	13%	13%	12%
2	13%	10%	30%	10%	10%	15%
3	33%	13%	33%	23%	13%	23%

Friso

	Overall Shortage Rate in Five Districts	
Stage	20 – 24 April	30 April – 4 May
1	33%	35%
2	33%	35%
3	53%	43%

	Shortage Rate between 20 and 24 April					
Stage	North District	Yuen Long	Sha Tin	Eastern District	Yau Tsim Mong	Overall
1	37%	30%	37%	33%	30%	33%
2	20%	27%	43%	30%	47%	33%
3	30%	53%	57%	77%	50%	53%

	Shortage Rate between 30 April and 4 May					
Stage	North District	Yuen Long	Sha Tin	Eastern District	Yau Tsim Mong	Overall
1	50%	40%	30%	30%	27%	35%
2	40%	47%	33%	17%	37%	35%
3	53%	33%	50%	30%	47%	43%

Survey Results of Retail Prices

Mead Johnson

Stage	Survey Period	Average Retail Price at Pharmacies (\$)	Price offered by Major Chain Stores / Recommended Retail Price (\$)	Difference (%)
		(a)	(b)	$((a)-(b))/(b)$
1	20 – 24 April	280	294	-5%
	30 April – 4 May	280	294	-5%
2	20 – 24 April	251	265	-5%
	30 April – 4 May	250	265	-5%
3	20 – 24 April	229	237	-3%
	30 April – 4 May	228	237	-4%

Friso

Stage	Survey Period	Average Retail Price at Pharmacies (\$)	Price offered by Major Chain Stores / Recommended Retail Price (\$)	Difference (%)
		(a)	(b)	$((a)-(b))/(b)$
1	20 – 24 April	243	283	-14%
	30 April – 4 May	245	283	-13%
2	20 – 24 April	221	246	-10%
	30 April – 4 May	222	246	-10%
3	20 – 24 April	210	216	-3%
	30 April – 4 May	211	216	-2%

Response from the Trade on
Measures to Improve the Powdered Formula Supply Chain
Recommended in the Consultancy Report
(English translation)

	Response from the Trade
<p>Suggestion 1 Engender local parents' confidence in the Coupon Scheme</p> <p>Local parents' confidence in the effectiveness and sustainability of the Coupon Scheme is the key to the success of the Scheme. If local parents are confident that the Coupon Scheme can guarantee stable and sufficient supply of powdered formula for their children, they will react more sensibly to sporadic and localised shortages of certain brands of powdered formula which may happen occasionally, and even major shortage when non-local demand is high. This will help avoid panic buying.</p> <p>The following suggestions, if properly followed through, will contribute to building up local parents' confidence in the Coupon Scheme.</p>	<p>Response from the Suppliers:</p> <p>The seven major suppliers have strived to ensure the sufficient supply of powdered formula for infants and young children in Hong Kong, and have implemented a series of measures to enable parents to purchase powdered formula products through different channels other than retail outlets, e.g. home delivery service and the Coupon Scheme.</p> <p>In respect of the Coupon Scheme, the seven major suppliers will continue to operate the Scheme and ensure that the Scheme is working well.</p> <p>Through the suppliers' service hotlines and communication with the Hong Kong General Chamber of Pharmacy Limited (HKGCP), suppliers will gauge the views of parents on the Scheme. A review will be conducted quarterly and improvements will be made when necessary.</p>
<p>Suggestion 2 Align the operation of the Coupon Scheme with parents' expectations</p> <p>Local parents' receptiveness to the Coupon Scheme is critical. In refining the Coupon Scheme, suppliers should engage parents effectively to ensure that</p>	<p>Response from the Suppliers:</p> <p>In order to enhance local parents' receptiveness and understanding of the Coupon Scheme, suppliers will, on receipt of parents' enquiries such as those relating to the supply of powdered formula, proactively introduce the</p>

<p>the key elements of the Coupon Scheme such as the number of participating pharmacies, their location and the three-working day delivery pledge, etc, align with parents' expectations.</p>	<p>Scheme to parents and provide relevant information to help them understand the operation and benefits of the Scheme.</p>
<p>Suggestion 3 Suppliers should ensure that the Coupon Scheme is up and running on day one</p> <p>As pointed out in paragraph 3.2, suppliers should ensure that the Coupon Scheme, once invoked, is up and running on day one if it is to serve its purpose as a "Safety Net for Supply". Given the long lead time to handle applications under the Scheme, suppliers should strengthen publicity of the Coupon Scheme as an on-going effort so that local parents who are interested in the Scheme can enrol in good time with the six coupons (the permitted maximum number per month) issued for them to redeem at any time of their choosing. For that to happen, suppliers should improve communication with parents, designated pharmacies and warehouses to ensure that all stakeholders are familiar with the operation of the Coupon Scheme.</p>	<p>Response from the Suppliers:</p> <p>For easy identification by parents, suppliers printed logos for the Coupon Scheme and distributed them to the 92 participating pharmacies in late 2013. Meanwhile, information cards were distributed to parents for free to introduce the simple procedures of using the coupons.</p> <p>To promote parents' awareness of how the mechanism of the Coupon Scheme works, the Hong Kong Infant and Young Child Nutrition Association (HKIYCNA) has outlined the Scheme and ways of obtaining the coupons on its website. The websites and hotline numbers of major suppliers are also provided. There is also a hyperlink on the HKIYCNA's website to facilitate parents in surfing the webpage of HKGCPL and obtaining information on the 92 retail outlets participating in the Scheme.</p> <p>To facilitate parents in choosing the appropriate method of buying powdered formula, suppliers have, via different media, promoted various pre-order channels and the Coupon Scheme through simple and easy-to-understand messages.</p> <p>Apart from continuing with the aforesaid promotional activities, to enhance local parents' receptiveness and understanding of the Coupon Scheme, suppliers will, on</p>

	<p>receipt of parents' enquiries such as those relating to the supply of powdered formula, proactively introduce the Scheme to parents and provide relevant information to help them understand the operation and benefits of the Scheme.</p> <p>The suppliers maintain communication with warehouses in different ways. To ensure the smooth running of the Coupon Scheme, most of the suppliers have developed standard operation procedures to ensure that staff members of the warehouses understand the operating mechanism of the Scheme.</p> <p>Response from HKGCPL:</p> <p>HKGCPL has issued guidelines to participating pharmacies in respect of the Coupon Scheme. It will maintain close liaison with the pharmacies to ensure the smooth running of the Scheme.</p>
<p>Suggestion 4 Increase the number of pharmacies</p> <p>As pointed out in paragraph 2.2.4, the Consultant considered that ideally 175 pharmacies need to participate in the Coupon Scheme to make it effective. Suppliers should therefore strive to increase the number of pharmacies, though the optimal number depends on how well the Scheme has been further enhanced to make it more receptive to local parents.</p>	<p>Response from HKGCPL:</p> <p>HKGCPL considers that it is of utmost importance to ensure the quality of the participating pharmacies. Priority should be accorded to ensure that the Scheme is working well at the existing participating pharmacies. HKGCPL will consider bringing in more pharmacies if necessary.</p> <p>Response from the Suppliers:</p> <p>Suppliers will strive to ensure sufficient supply of powdered formula to the 92 pharmacies participating in the Coupon Scheme, so as to meet the demand of the Scheme. Suppliers will also increase</p>

	<p>the replenishment frequency up to daily when required.</p> <p>Suppliers will also keep in close touch with HKGCPL and if there are new pharmacies joining the Scheme, suppliers will actively coordinate with them to ensure the sufficient supply of products.</p>
<p>Suggestion 5 Build into the Coupon Scheme a sanction mechanism</p> <p>The Coupon Scheme has been designed to operate on a voluntary basis with no accountability on the part of the designated pharmacies or the suppliers. As designated pharmacies play a critical role in the effective implementation of the Coupon Scheme, a sanction mechanism has to be built into the Scheme to ensure its integrity and to prevent sudden withdrawal of pharmacies from the Scheme.</p>	<p>Response from the Suppliers:</p> <p>Suppliers consider that the suggestion may not have a positive effect. It is more appropriate to take positive measures to encourage participating pharmacies to follow the relevant guidelines.</p> <p>To ensure the smooth running of the Coupon Scheme, suppliers will meet with HKGCPL on a quarterly basis to obtain information about the implementation of the Scheme, and make improvements when required.</p>
<p>Suggestion 6 Written Code of Practice or Guideline on proper management of the reserved stock</p> <p>Suppliers should draw up a written Code of Practice (COP) or Guideline for warehouse operators. The document should clearly set out how the reserved stock should be managed in relation to the Coupon Scheme. Briefing and training should be provided for warehouse operators on a regular basis to ensure they are conversant with the COP or the Guideline.</p>	<p>Response from the Suppliers:</p> <p>The suppliers maintain communication with warehouses in different ways. To ensure the smooth running of the Coupon Scheme, most of the suppliers have developed standard operation procedures to ensure that staff members of the warehouses understand the operating mechanism of the Scheme.</p>

Suggestion 7 Avoid abuse of the Coupon Scheme

To avoid multiple dipping, a cross-checking mechanism subject to consent obtained from applicants for subscribing to the Coupon Scheme, and in compliance with the Personal Data (Privacy) Ordinance, should be set up amongst the seven major suppliers in handling applications under the Coupon Scheme.

With regard to the fake coupon issue, coupons should be carefully designed to include anti-fraud elements. Appropriate training and guideline should be provided by suppliers for designated pharmacies. Further audit should be done at the suppliers' level to safeguard the authenticity of coupons.

Response from the Suppliers:

Suppliers consider that the Coupon Scheme would not be abused by local parents, as parents understand that the Scheme is for safeguarding the sufficient supply of powdered formula for their children. Besides, all major suppliers have pledged to replenish stock at the retail level immediately after purchases have been made using the coupons. Hence the demand can be satisfied.

Individual suppliers are actively exploring the inclusion of anti-fraud features on the coupons to avoid abuse of the Scheme or the use of fake coupons. Suppliers anticipate that the relevant work can be completed by March 2014.