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Panel on Food Safety and Environmental Hygiene

**Background Brief prepared by the Legislative Council Secretariat for the
meeting on 10 June 2014**

Supply chain of powdered formula

Purpose

This paper provides background information on issues relating to the supply chain of powdered formula and highlights the main views and concerns of the Legislative Council ("LegCo") Members on the subject.

Background

The Import and Export (General) (Amendment) Regulation 2013

2. In January 2013, there was a run on certain brands of powdered formula in Hong Kong. The Administration considered that the supply chain failure in relation to powdered formula was closely related to parallel trading activities, and announced a series of measures¹ to combat parallel trading activities on 1 February 2013.

3. The Import and Export (General) (Amendment) Regulation 2013 ("the Amendment Regulation") was gazetted on 22 February 2013 to amend the

¹ These measures included (a) setting up a 24-hour special hotline to provide assistance to local parents who were unable to purchase powdered formula in the market; (b) strengthening enforcement efforts against parallel trading of daily commodities through joint operation by the Hong Kong Customs and Excise Department and Shenzhen Customs; (c) imposing more weight limit restrictions on passenger luggage along the East Rail Line by the Mass Transit Railway Corporation Limited; and (d) introducing a legislative proposal to prohibit the export of powdered formula from Hong Kong except with a licence issued by the Director-General of Trade and Industry.

Import and Export (General) Regulations (Cap. 60 sub. leg. A) so as to prohibit the export of powdered formula to all places outside Hong Kong, except under an export licence or an exemption. The Amendment Regulation came into operation on 1 March 2013, and the House Committee agreed at its meeting held on the same day to form a subcommittee to study the Amendment Regulation. The scrutiny period of the Amendment Regulation had been extended from 27 March 2013 to 17 April 2013 by a resolution of the Council passed on 20 March 2013. To address the concerns of the members of the Subcommittee on Import and Export (General) (Amendment) Regulation 2013 ("the former Subcommittee"), the Administration agreed that it would give notice to amend the definition of powdered formula in the Amendment Regulation at the Council meeting of 17 April 2013. However, the amendments proposed to the Amendment Regulation could not be dealt with owing to an early adjournment of the Council meeting of 17 April 2013. Upon expiry of the scrutiny period on 17 April 2013, the provisions introduced by the Amendment Regulation have continued in force in their original version.

4. In response to the request of the former Subcommittee, the Administration undertook to review the implementation of the Amendment Regulation in about one year's time and to report the implementation of the Amendment Regulation to the Panel on Food Safety and Environmental Hygiene ("the Panel") at regular intervals.

Improvement measures undertaken by the trade

5. At its meeting on 28 May 2013, the Panel was briefed by the Administration on the implementation of the Amendment Regulation. Members were advised that the Administration had urged suppliers of powdered formula to improve the supply chain management to ensure a sufficient and stable supply of powdered formula for Hong Kong people. Members also noted the signing of the "Sufficient Supply Charter" and the introduction of a retail store pre-order system ("The Coupon Scheme")² by the seven major suppliers of powdered formula³ and the Hong Kong General Chamber of Pharmacy in April 2013.

² The Coupon Scheme is a "pre-order system" set up at designated pharmacies as a "safety net" to ensure sufficient local supply. Parents of local infants and young children may call the powdered formula suppliers for registration and be given "coupons". With these coupons, parents may purchase the powdered formula they need at designated pharmacies, with the maximum amount of six cans per month. In cases where parents are unable to acquire the powdered formula they need from the designated pharmacies readily, the trade has pledged that the powdered formula would be available within three working days (excluding Saturdays, Sundays and public holidays).

³ The seven major brands include Abbott, Cow & Gate, Friso, Mead Johnson, Nestle, Snow Brand and Wyeth. They account for over 95% of the market share.

6. In September 2013, the Panel received an information paper from the Administration entitled "Supply Chain of Powdered Formula: Stress Test". Members were advised that the Administration appointed in July 2013 the Committee on Supply Chain of Powdered Formula⁴ ("the Powdered Formula Committee") which was tasked to study and recommend improvement measures on the supply chain management of powdered formula. The Administration had engaged a consultancy firm to assist in examining the improvement measures proposed by the trade, including conducting the stress test to evaluate whether the improvement measures could still work effectively under stress by employing certain model scenarios in the real life environment.

Stress test

7. When discussing the Administration's review on the trade's measures to improve the supply chain of powdered formula in December 2013, the Panel members were advised that, based on the results of the stress test conducted during the period of the National Day Golden Week ("the Stress Test"), the Administration considered it premature to repeal the provisions introduced by the Amendment Regulation. The Administration had taken the following measures to further improve the supply chain of powdered formula -

- (a) suggesting the Powdered Formula Committee to continue its operation to follow up on and monitor the improvements of the supply chain of powdered formula undertaken by suppliers;
- (b) advising the trade to further improve their supply chain management and keep the Powdered Formula Committee informed of the progress; and
- (c) engaging a consultant to conduct regular surveys on the demand and supply of major brands of powdered formula across the territory, as well as whether there was any unusual fluctuation in prices.

Deliberations of relevant committees

8. Issues relating to the supply chain of powdered formula were discussed by Members in various committees, including the Panel and the former Subcommittee. Members' main views and concerns are highlighted in the ensuing paragraphs.

⁴ 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.

Review of the Amendment Regulation

9. When scrutinizing the Amendment Regulation, most members of the former Subcommittee considered that the export control and exemption arrangements made under the Amendment Regulation should not be made permanent and urged the Administration to set a timeline to review the effectiveness of and the need to continue with these arrangements. Members were concerned about the circumstances under which the Administration would consider it appropriate to discontinue the implementation of the Amendment Regulation.

10. When the Administration briefed the Panel on the outcome of the review on measures to improve the powdered formula supply chain on 10 December 2013, some Panel members held the view that the Amendment Regulation should only be adopted as a short-term measure to modulate the demand for powdered formula in Hong Kong. Some other Panel members, however, considered that the Amendment Regulation should continue to be adopted as medium- and long-term measures to combat parallel trading activities of powdered formula.

11. In the Administration's view, strengthening the supply chain of powdered formula in Hong Kong was the most important means to prevent a recurrence of the problem of serious shortage of powdered formula and allay the stress and anxieties of local parents. While pointing out that the Amendment Regulation was not intended to be a long-term arrangement, the Administration advised that it would not rush into repealing the provisions introduced by the Amendment Regulation unless stable and sufficient supply of powdered formula for local infants and young children was ensured.

Measures to improve the supply chain

12. In response to the Panel members' concern about the effectiveness of the measures undertaken by the trade to improve the supply chain of powdered formula, the Administration advised that it had urged the trade to step up the efforts to ensure stable and sufficient supply of powdered formula. Measures implemented by the trade included (a) reserving enough stock for Hong Kong infants and young children aged under 36 months; (b) increasing delivery up to daily to pharmacies when required; and (c) establishing the Coupon Scheme which sought to separate local demand from non-local demand by setting up a "dedicated supply chain".

13. The Panel members noted that, as revealed by the Stress Test, the Coupon Scheme fell short of expectation in vital areas, including insufficient number of participating pharmacies, long redemption lead time and lack of

publicity. Members urged the Administration to impress upon the suppliers to take initiative to improve their supply chain, and work out a timetable for improving the Coupon Scheme. There was also a view that the Administration could liaise with the suppliers to appeal to them to lower their prices of powdered formula supplied under the Coupon Scheme in order to enhance the patronage.

14. The Administration advised that it would urge the trade to (a) strive to increase the number of pharmacies participating in the Coupon Scheme from 95 to 175 to make it more effective; and (b) step up publicity on the Coupon Scheme to encourage those parents who were interested to enroll early. Under the Coupon Scheme, retailers were requested not to sell powdered formula at prices higher than the suppliers' recommended retail prices.

Validity of stress tests

15. While expressing support for the Administration to urge the trade to improve the supply chain of powdered formula, some Panel members expressed concern that the demand for powdered formula might surge again if the implementation of the Amendment Regulation was discontinued. Some Panel members also expressed worry that there would be shortage of powdered formula in Hong Kong during peak demand periods such as the Labour Day Holiday, National Day Golden Week and Lunar New Year. They were of the view that the Administration should not rely on stress tests for evaluating the supply chain management of powdered formula suppliers, as the genuine demand for powdered formula could only be revealed when the Amendment Regulation was repealed. However, there was another view that the stress tests were unnecessary as there was no critical shortage of powdered formula in Hong Kong. The supply chain failure in relation to powdered formula was limited to the shortage of certain brands of powdered formula at certain retail outlets.

16. According to the Administration, it would not only look at the results of stress tests but also examine the efforts, manpower and resources that the suppliers had invested into the improvement measures. The Administration also advised that while it would closely monitor the efficiency of stock replenishment between the suppliers and their holding companies, it was equally important to have stress tests to enhance public confidence in the improvement of the supply chain.

Latest development

17. The Administration will update the Panel on the progress on the

improvements of powdered formula supply chain at the meeting on 10 June 2014.

Relevant papers

18. A list of the relevant papers on the LegCo website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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**Relevant papers on
Supply Chain of Powdered Formula**

Committee	Date of meeting	Paper
Panel on Food Safety and Environmental Hygiene	4.2.2013 (Item I)	Agenda Minutes
Subcommittee on Import and Export (General) (Amendment) Regulation 2013	---	Report
Panel on Food Safety and Environmental Hygiene	28.5.2013 (Item III)	Agenda Minutes
Panel on Food Safety and Environmental Hygiene	---	Administration's paper entitled "Supply Chain of Powdered Formula: Stress Test" (LC Paper No. CB(2)1817/12-13(01))
Panel on Food Safety and Environmental Hygiene	10.12.2013 (Item III)	Agenda Minutes