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Panel on Food Safety and Environmental Hygiene

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 9 December 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 members of the Panel on Food Safety and Environmental Hygiene ("the Panel") 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. When discussing measures to stabilize the supply of powdered formula at the Panel's special meeting on 4 February 2013, members were advised of the Administration's plan to regulate the export of powdered formula from Hong Kong with a view to combating parallel trading activities. The Import and Export (General) (Amendment) Regulation 2013 ("the Amendment Regulation") was gazetted on 22 February 2013 to amend the 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.

3. In response to the request of members of the Subcommittee on Import and

Export (General) (Amendment) Regulation 2013 ("the former Subcommittee")¹, 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 at regular intervals.

Improvement measures undertaken by the trade

4. 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.

5. 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

¹ 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 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 to be in force in their original version. The deliberations of the former Subcommittee were set out its Report (LC Paper No. CB(2)942/12-13).

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.

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.

employing certain model scenarios in the real life environment.

Monitoring the supply of powdered formula

6. When discussing the review on the trade's measures to improve the supply chain of powdered formula at the Panel meeting on 10 December 2013, members noted that the Administration considered it premature to repeal the provisions introduced by the Amendment Regulation, having regard to the results of the stress test conducted during the period of the National Day Golden Week. Instead of conducting more stress tests, the Administration had engaged 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.

7. The Panel received an update from the Administration on its work in monitoring the supply and price levels of powdered formula as well as efforts of the trade in improving the supply chain of powdered formula at the meeting on 10 June 2014. The Administration advised that it had not set any specific timeframe for repealing the provisions introduced by the Amendment Regulation. According to the Administration, it had taken follow-up actions including - (i) requesting the trade to actively improve its supply chain management; (ii) continuing the operation of the Powdered Formula Committee to follow up on and monitor the improvements of powdered formula supply chain undertaken by the suppliers; and (iii) conducting regular surveys on the supply of powdered formula across the territory and on whether there was any unusual fluctuation in prices

Members' concerns

8. Major views and concerns of members expressed at the four Panel meetings between February 2013 and June 2014 on the subject are summarized below.

The Amendment Regulation

9. While some 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 members considered that the Amendment Regulation should continue to be adopted as medium- and long-term measures to combat parallel trading activities of powdered formula. There was another view that it was not necessary to prohibit the export of all powdered formula to all places outside Hong Kong, as the supply chain failure

in relation to powdered formula was related to the shortage of two brands of powdered formula (i.e. Friso and Mead Johnson) at certain retail outlets.

10. Members also raised concern about the circumstances under which the Administration would consider it appropriate to discontinue the implementation of the Amendment Regulation. While some members considered that the Administration should not repeal the Amendment Regulation as long as parallel trading activities continued to be prevalent, some other members held the view that priority should be given to improving the supply chain of powdered formula instead of combating parallel trading activities of powdered formula.

11. The Administration advised that 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 maintained 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. In the Administration's view, the Amendment Regulation to a certain extent had catered for the needs of parents of local infants and young children for powdered formula while safeguarding free trade and commerce.

Measures to improve the supply chain

12. Members expressed doubt about the effectiveness of the measures undertaken by the trade to improve the supply chain of powdered formula. Concern was raised as to whether suppliers' hotlines for pre-order services of powdered formula and the Coupon Scheme had achieved the expected outcome. Members noted at the meeting on 10 June 2014 that shortages of the two brands of powdered formula (i.e. Friso and Mead Johnson) were still observed at the retail level, and urged the Administration to follow up with the suppliers concerned so that they would make better efforts in ensuring the stable supply of the powdered formula concerned.

13. According to the Administration, the suppliers indicated that they had reserved sufficient stock to cope with orders for powdered formula from various pre-order services. Other supporting measures introduced by the suppliers included more frequent replenishment of stock if needed, and boosting the manpower for manning the hotlines when required so that all calls from customers could be returned within 24 hours. The Administration had been working closely with the Powdered Formula Committee with a view to ensuring stable supply of powdered formula. Requests had been made to the trade to

provide more specific responses on the improvement of the supply chain, including devising an action timetable and performance indicators on how to expedite the supply chain improvement. The Administration had 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, and the first round of the surveys was scheduled to commence in June 2014.

Monitoring the supply of powdered formula

14. While expressing support for the Administration to urge the trade to improve the supply chain of powdered formula, some members expressed concern that the demand for powdered formula might surge again if the implementation of the Amendment Regulation was discontinued. 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.

15. According to the Administration, it would examine the efforts, manpower and resources that the suppliers had invested into the improvement measures. The Administration reiterated that it had commissioned a consultancy firm to conduct regular surveys on the supply and price levels of powdered formula at the local retail level, so as to get a good grasp of the market situation. The survey results would be announced regularly.

Latest development

16. According to the Administration's announcement of the latest survey results on 26 November 2014, the shortage of Friso products was quite serious between June and August 2014. Although the situation improved in September 2014 and onwards, Friso products, particularly its Stage 3 products, still experienced a certain degree of shortage. The shortage rate for Mead Johnson products was lower and had remained stable. Regarding retail prices, the surveys revealed no price fluctuation in major chain stores and pharmacies, and the prices remained stable during the survey periods.

17. The Administration will update the Panel on the progress on the improvement of powdered formula supply chain at the meeting on 9 December 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
	25.9.2013*	Administration's paper entitled "Supply Chain of Powdered Formula: Stress Test" (LC Paper No. CB(2)1817/12-13(01))
	10.12.2013 (Item III)	Agenda Minutes
	10.6.2014 (Item IV)	Agenda Minutes

* Issue date