

**For discussion  
on 9 January 2018**

**Panel on Food Safety and Environmental Hygiene**

**Work on the Review on Export Control of Powdered Formulae**

**Purpose**

This paper briefs Members on the implementation of the export control of powdered formulae, survey results on the supply chain and the work on the review on the export control of powdered formulae.

**Background**

2. There was serious shortage of individual brands of powdered formula products in early 2013, owing to malfunctions of the supply chain as a result of the large number of parallel traders' activities. To safeguard the stable supply of powdered formulae in Hong Kong, the Government has implemented the export control of powdered formulae<sup>1</sup> since 1 March 2013.

3. When implementing the export control of powdered formulae in 2013, the Government indicated that the export control was meant to be a short-term measure. The export control has been implemented for over four and a half years. During this period, the Government has been reviewing the operation of the export control continuously. The Government considers that it is an opportune time to conduct a more comprehensive and thorough review on the export control of powdered formulae.

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<sup>1</sup> The export of powdered formulae for infants and young children under 36 months from Hong Kong is prohibited except with a licence issued by the Director-General of Trade and Industry. Having regard to the need for personal use, not more than a total net weight of 1.8kg of powdered formulae (approximately two cans of powdered formulae) may be carried by each person aged 16 or above on his/her first departure within a 24-hour period.

## **Measures Implemented to Improve the Supply Chain of Powdered Formulae**

4. Apart from introducing the export control of powdered formulae, the Government had discussed with the powdered formula industry and the retail industry to implement various improvement measures to safeguard the stable and sufficient supply of powdered formulae. The measures implemented to improve the supply chain of powdered formulae include –

- (a) Emergency reserve – the powdered formula suppliers have voluntarily reserved 1.65 million cans of the most popular powdered formula products for local infants and young children anytime to ensure sufficient local supply.
- (b) Dedicated local supply channel – the Hong Kong Infant and Young Child Nutrition Association<sup>2</sup> and the Hong Kong General Chamber of Pharmacy Limited have jointly implemented the Coupon Scheme as the “supply safety net” for local infants. Local mothers may apply for coupons from the powdered formula suppliers and make use of the coupons to purchase the powdered formulae at any of the 90 or so designated pharmacies.
- (c) Improving the supply chain – powdered formula suppliers have increased the frequency of delivery to pharmacies, up to a daily basis when required. Powdered formula suppliers also implemented and strengthened their pre-order services (including purchasing hotline, home delivery and collection at retail outlets).

## **Major Work of the Government on Monitoring the Operation of Export Control of Powdered Formulae**

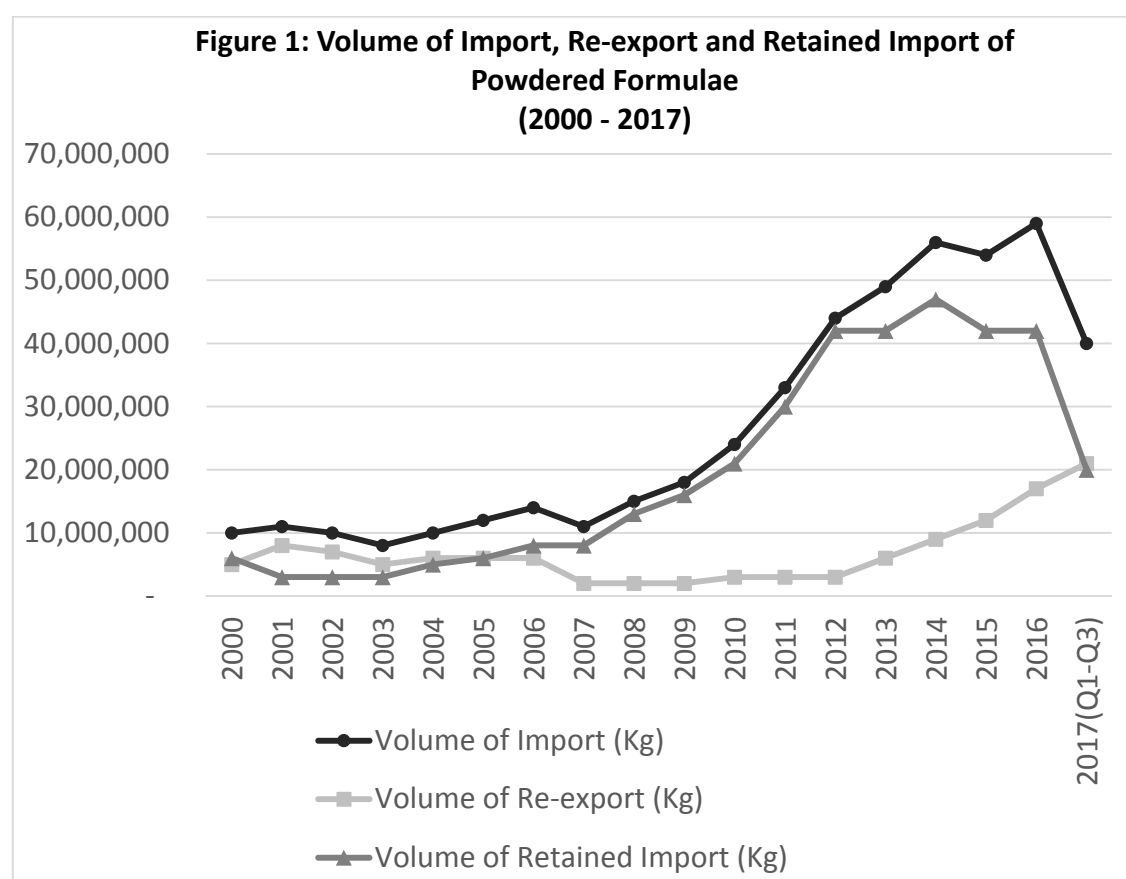
5. The Government has been monitoring the operation of the export control of powdered formulae and the operation of the supply chain through monitoring various data and conducting market surveys. The data and observations are set out below.

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<sup>2</sup> The Hong Kong Infant and Young Child Nutrition Association was set up by the local companies of various powdered formula manufacturers.

(1) Monitoring the trading of powdered formulae (volume of import, re-export and retained import)

6. Overall speaking, the volume of import and re-export of powdered formulae have been increasing in the past 10 years. Since the implementation of the export control of powdered formulae in 2013, the volume of retained import has remained stable. The trend of the volume of import, re-export and retained import of powdered formulae between 2000 and 2017 (Q1-Q3) are shown in Figure 1.



(2) Monitoring the numbers of prosecution and convicted cases

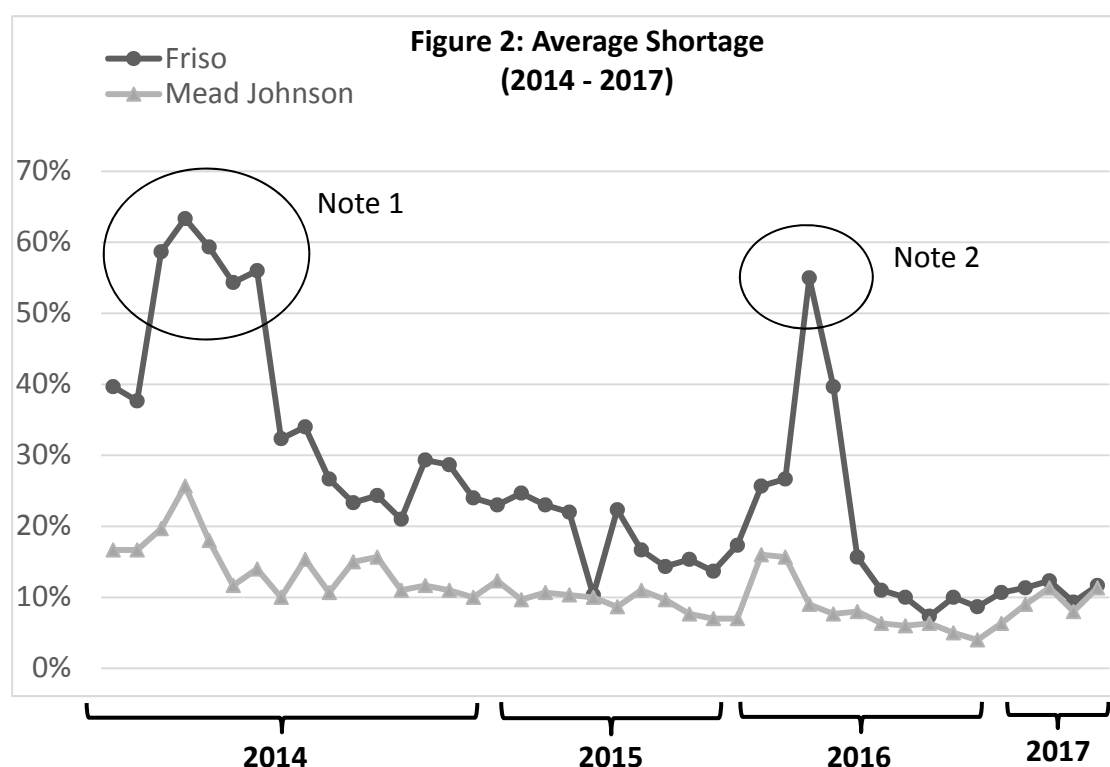
7. The numbers of prosecution and convicted cases for contravention of the export control of powdered formulae in 2014-2017 (Q1-Q3) are tabulated below –

Year	Number of Prosecution Cases for Contravention of the Export Control of Powdered Formulae	Number of Convicted Cases
2014	5 160	5 114
2015	4 490	4 445
2016	3 830	3 802
2017 (Q1-Q3)	2 884	2 850

(3) Conducting market surveys to monitor the supply and price levels of powdered formulae

8. The existing market surveys focus on the most popular products (a total of 6 products) of the 2 major brands (Mead Johnson and Friso). Each survey covers 5 districts (those with more obvious situation of the surveyed products being not immediately available at retail outlets in the past surveys). If a fieldworker fails to purchase the surveyed product immediately at a retail outlet randomly sampled, the surveyed product is counted as out-of-stock. In order to understand the market situation (including the stock and price levels) of powdered formulae more comprehensively and thoroughly, the Government will fine-tune the methodology of the survey. Details are set out in paragraph 13 below.

9. Overall speaking, the shortage rate had continued to improve. Only individual districts revealed an occasional situation of the surveyed products being not immediately available. The situation was more commonly found in Yuen Long, North, Sham Shui Po and Tai Po districts. In 2017, the average shortage rate for pharmacies was 12%, which was higher than that for the chain stores (8%). The shortage rate for Stage 3 products (generally products for infants aged 1-3) were higher than that for Stage 1 products (generally products for infants aged 0-6 months) and Stage 2 products (generally products for infants aged 6-12 months). The average shortage rates of the aforementioned 2 major brands between 2014 and 2017 are shown in Figure 2.

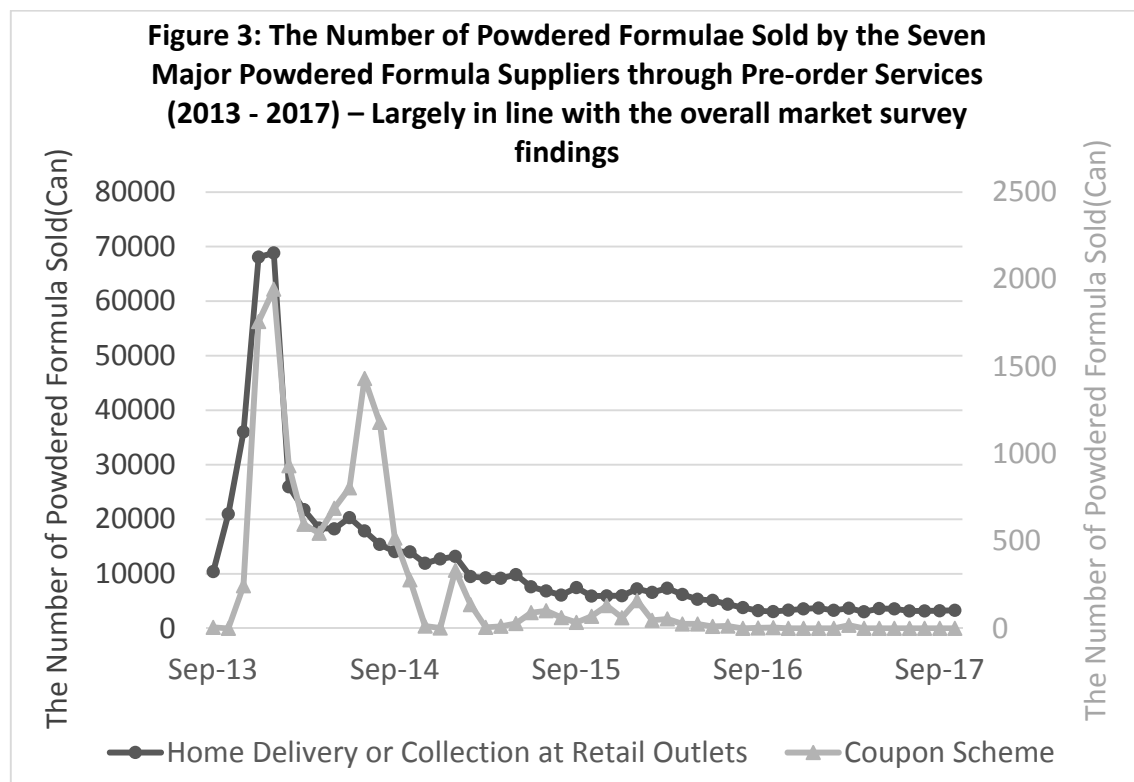


Note 1: From April to July 2014, which was the initial stage of the implementation of the export control of powdered formulae, the average shortage for Friso maintained at 30% to 50%.

Note 2: From March to April 2016, the shortage of Friso increased substantially as Friso needed to replace the product packaging, but the situation continued to improve since May 2016. At that time, the regulations on nutritional composition and nutrition labelling of infant formulae had just been implemented.

(4) Monitoring the operation of the supply chain of powdered formulae (such as the usage of pre-order services)

10. The major powdered formula suppliers have made efforts to safeguard the stability of local supply through various pre-order services. We observed that the number of powdered formula products sold through pre-order services had continued to decline. From November 2016 to September 2017, there were no powdered formulae sold through pre-order services except for the 18 cans of powdered formulae sold through the Coupon Scheme in March 2017 (details are at [Figure 3](#)). The usage of pre-order services provided by the powdered formula suppliers was low, reflecting the generally stable and sufficient supply of the powdered formulae in the market as a whole.



## **Review on the Export Control of Powdered Formulae**

### *Considerations*

11. The Government is open-minded to the review on the export control of powdered formulae. That is to say, it is premature at this stage to assume that the export control will be revoked, relaxed or will remain. The issues we will consider during the review include (1) whether sufficient and stable supply of powdered formulae to local infants can be effectively safeguarded? (2) Are there long-term measures to safeguard the effective operation of the supply chain of powdered formulae? (3) Impact of revoking or relaxing the export control of powdered formulae on the society (such as whether it will greatly aggravate the environmental hygiene problems of the districts with frequent parallel trading activities)? (4) Other related factors and developments (such as the recent adjustment on tariff in the Mainland on powdered formulae for special purposes).

### *Key steps*

12. We will map out the way forward while respecting market mechanism and taking into account public concerns. The key steps of the review include –

- (1) To understand the market situation (including the stock and price levels) of powdered formulae more comprehensively and thoroughly through the market surveys.
- (2) To further understand the consumers' behaviours of local parents in purchasing powdered formulae through questionnaires.
- (3) To explore long-term measures to safeguard the effective operation of the supply chain of powdered formulae with the Committee on Supply Chain of Powdered Formula<sup>3</sup> (last meeting held in early December 2017), and exchange views with other related stakeholders.
- (4) The Government to publish a review report.

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<sup>3</sup> In July 2013, the Food and Health Bureau set up the Committee on Supply Chain of Powdered Formula to study and recommend to the Food and Health Bureau measures to improve the supply chain of powdered formulae. The Committee comprises 14 non-official members, including major powdered formula suppliers, retailers, parents, representatives from the logistics sector, relevant academia and the Consumer Council.

### *Collecting more comprehensive information and data*

13. We consider that understanding more comprehensively and thoroughly the market situation of powdered formulae and the consumers' behaviours of local parents in purchasing powdered formulae are the important basis of the review. For the market survey, we will expand the coverage from the existing 2 major brands to major powdered formula products in Hong Kong making reference to objective market data. Regarding the districts to be surveyed, we will cover all of the 18 districts in the territory in each survey instead of only 5 districts. If a fieldworker cannot buy a certain powdered formula product in his/her first-hit at a retail outlet, the fieldworker will further check (a) the availability of the surveyed product at the same retail outlet within 3 calendar days; and (b) the availability of the surveyed product in a nearby retail outlet of the same kind. Apart from the abovementioned random sampling, we will also conduct dedicated follow-up surveys to ascertain if there is occasional or persisting shortage in retail outlets where surveyed products are not immediately available on the first-hits. We will also pay attention to the market price of the powdered formulae, including the comparison of the stock and price levels between pharmacies and chain stores.

14. We will further understand the consumers' behaviours of local parents in purchasing powdered formulae through questionnaires. We will look into the acceptable replenishment time, acceptability to shop in other retail outlets and acceptable price differences of local parents when the powdered formulae are out of stock in the retail outlet that they used to shop. We will also look into consumers' behaviours of local parents in purchasing powdered formulae, such as how low the inventory at home has reached will they proceed to purchase powdered formulae, volume per purchase and their attitudes towards pre-order services through hotline and social media.

15. We will further look into the operation of the home delivery and collection in retail outlets services of individual powdered formula suppliers. We will also further look into how to improve the operation of the Coupon Scheme.

### **Complexity of Reviewing the Export Control of Powdered Formulae**

16. The export control of powdered formulae involves livelihood issues, interests of the trade, and local sentiments. Some of the business sectors prefer revoking the export control since they believe that the export control contravenes the principle of free trade and undermines the

commerce and trade in Hong Kong. However, supporters of the export control of powdered formulae are of the view that the export control is conducive to ensuring stable supply to meet local parents' demands and are worried that the price of the powdered formulae will go up owing to the increase in non-local demand. Those who oppose to revoke the export control are worried that revoking the export control may aggravate parallel trading activities which will have an impact on the environmental hygiene of those districts with frequent parallel trading activities. The collaboration of the powdered formula industry and the retail industry to improve the supply chain is also indispensable. There are also some people who prefer not to revoke but relax the export control (for example, increasing the limit on the quantity of powdered formulae allowed to be carried out of Hong Kong).

17. With these complicated considerations in mind, the Government will uphold the principle of no presupposition and will analyse the data collected from the market surveys and questionnaires objectively, with a view to presenting to the public the current status of the supply chain and its capacity in coping with a potentially huge demand. The Government will further explore with the Committee on Supply Chain of Powdered Formula and other relevant stakeholders on long-term measures to safeguard the effective operation of the supply chain, and assess whether these measures can ensure that local parents can, under different market conditions, purchase the required powdered formulae within a reasonable time through reasonably convenient channels.

### **Advice Sought**

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

**Food and Health Bureau**  
**January 2018**