

For information

**Legislative Council
Panel on Food Safety and Environmental Hygiene**

Outcome of the Review on Export Control of Powdered Formulae

Purpose

This paper briefs Members on the outcome of the review on the export control of powdered formulae (export control) conducted by the Food and Health Bureau (FHB).

Export control of powdered formulae

2. In early 2013, the supply of powdered formulae in Hong Kong was significantly affected by a large amount of parallel trading activities. There was serious shortage of products of individual brands of powdered formulae. To stabilise the supply, the Government has implemented since 1 March 2013 the export control, prohibiting the export of powdered formulae for infants and young children aged under 36 months from Hong Kong 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 1.8 kg (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 from Hong Kong.

3. Through the export licensing scheme, the export control ensures that re-export trading activities of powdered formulae for the non-local market may continue, given there is an orderly flow of imports and exports of powdered formulae and supply to the local market is not affected. Parallel trading activities at the retail level are regulated by the upper limit of powdered formulae that can be carried by each person aged 16 or above on his/her every departure, thereby avoiding the situation when the stocks at local retail outlets are largely taken by external demand. The export

control does not adversely affect normal re-export trade, and at the same time ensures that local parents can buy their preferred powdered formulae conveniently within a reasonable time and do not have to worry about any unusual price fluctuations or sudden supply shortages.

Review on the export control

4. FHB has been keeping in view the operation of the export control and the supply chain of powdered formulae through monitoring various data (e.g. trading figures and number of convicted cases in breach of the export control) and commissioning consultancy firms to conduct market surveys. FHB started in early 2018 a comprehensive and thorough review on the export control, including conducting more extensive market surveys to collect more complete information. Details of the market surveys are at **Annex 1**. During the review, we have listened to the views of the Legislative Council Panel on Food Safety and Environmental Hygiene, the Committee on Supply Chain of Powdered Formula (CoPF)¹, those District Councils which have expressed concerns on the review and different stakeholders in society.

Review outcome

5. Having analysed the market situation and taken into due consideration the stakeholders' views, FHB has completed the review and decided to maintain status quo for the export control at this stage.

Justifications for maintaining status quo for the export control

6. The potential non-local demand for powdered formulae in the local market has remained huge. Over the past six years, the export control had effectively curbed the situation when most of the stocks at the local retail level were taken by non-local demand, thereby enabling the

¹ In July 2013, FHB set up the CoPF to make recommendations to FHB on measures to improve the supply chain of powdered formulae. Its membership comprises major powdered formula suppliers, retailers, parents, the logistics sector, academia and consumers.

supply chain of powdered formulae to operate normally. If the export control is removed or relaxed at this stage, the supply chain would hardly be able to cope with the potentially huge non-local demand notwithstanding the efforts of the trade in improving the supply chain efficiency and providing local parents with a “safety net” of powdered formulae. It would also be difficult to put local parents at ease. Also, we cannot rule out the possibility of the reoccurrence of the powdered formula shortage which disturbed all local parents before the export control was implemented in 2013. For the above reasons, we have decided to maintain the status quo for the export control.

Continued strong non-local demand

7. Since the implementation of the export control, the total import of powdered formulae was 56 million kg per year on average between 2014 and 2018. During the same period, there were about 220 000 infants and young children aged under 36 months in the Hong Kong population. On the basis that each of them consume not more than six cans of powdered formulae monthly on average, a maximum of around 16 million kg of powdered formulae was consumed in a year. The remaining 40 million kg (i.e. about 70% of the total import) was mainly re-exported out of Hong Kong through normal trading activities, or sold locally either to parallel traders or tourists. In fact, the volume of powdered formulae re-exported from Hong Kong through normal trading activities has increased significantly since the implementation of the export control, as illustrated at **Annex 2**.

8. Meanwhile, the number of convicted cases in breach of the export control has maintained at around 3 800 per year since 2016. No downward trend has been seen. It demonstrates that parallel trading activities on powdered formulae is still persistent. Relevant statistics are at **Annex 3**.

9. The Mainland has been Hong Kong’s largest export market and the major destination for parallel trading activities of the powdered formulae in Hong Kong. With the growing number of Mainland visitors to Hong Kong, the potential demand from the Mainland for powdered formulae in the local market is anticipated to remain strong.

The export control facilitates the effective operation of the supply chain of powdered formulae

10. Apart from implementing the export control, the Government has discussed with the powdered formula industry and the retail industry to put in place various improvement measures to facilitate the effective operation of the supply chain of powdered formulae (details are at **Annex 4**).

Market surveys on powdered formulae

11. For the purpose of the review, we conducted six rounds of market surveys in 2018, covering pharmacies and chain stores selling powdered formulae in the 18 districts territory-wide. The purpose of the market surveys is to check whether local parents could buy the relatively popular powdered formula products conveniently within a reasonable time over the past year. The survey results showed that, across all the districts in the territory (including those districts which had serious shortage of powdered formulae at local retail outlets before the export control was in place in 2013), 9 out of 10 times fieldworkers were able to buy designated powdered formula products immediately at the retail outlets randomly sampled. For those occasions when the retail outlets did not have readily available stocks of the designated powdered formula products, the fieldworkers could buy the same products after visiting one to two retail outlets within around 5-minute walking distance nearby in most circumstances.

12. Besides, based on the findings of the surveys on consumers' behaviours of local parents that we conducted over the past year, local parents in general would restock one to two cans of powdered formulae when there was less than one can left. This reflects that at present local parents are fairly confident that they can buy their preferred powdered formulae at retail outlets conveniently within a reasonable time.

No effective alternatives at this stage

13. The results of the market surveys showed that the operation of the supply chain of powdered formulae had been smooth in general; retail

prices of all major powdered formula products had been relatively stable; retail outlets in all the 18 districts had been largely efficient in stock replenishment with the concerted efforts of powdered formula suppliers; and local parents could buy their preferred powdered formulae conveniently within a reasonable time. Having said that, the export control is still a key factor behind all of the above as it successfully prevents the local powdered formulae in the retail market from being controlled by the potentially huge non-local demand. Relaxing or removing the export control may cause the demand of parallel trade to multiply and create adverse impact to the supply chain of powdered formulae. Local parents will probably not feel at ease even if further efforts are made to strengthen the supply chain and safety net. The export control has a significant role in safeguarding the stable supply of powdered formulae at local retail outlets. There are no other measures which can easily replace the export control.

14. In CoPF's discussion on the review on the export control, while some of the trade representatives considered that the existing supply chain improvement measures should be sufficient in meeting the demand of local parents for powdered formulae, CoPF as a whole considered that there were hardly any other measures as effective as the export control.

Public opinion

15. The public generally is concerned about whether there would again be a severe imbalance of demand and supply of powdered formulae and the impact on those districts where parallel trading activities are prevalent should the export control be removed or relaxed. The North District Council endorsed motions moved by its members in December 2017 and June 2018 respectively opposing the removal of the export control. Besides, the majority of public opinion supports maintaining the export control, while there are views that the Government should consider removing or relaxing the export control given that there is no longer serious shortage of powdered formulae currently.

Next steps

16. We will continue to implement the export control and keep in view the operation of the supply chain of powdered formulae, as well as the changes in the potential non-local demand for powdered formulae in the local retail market, so as to safeguard the stable supply of powdered formulae in Hong Kong.

Food and Health Bureau
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Market Surveys

2014 to 2017

We commissioned consultancy firms to conduct multiple rounds of market surveys between 2014 and 2017. For each round of survey, fieldworkers checked whether the most popular powdered formula products of two major brands as designated were immediately available at their first visits to the retail outlets (including pharmacies and chain stores) that were randomly sampled in five selected districts (usually those districts shown by previous surveys that powdered formula products were more obviously not immediately available at retail outlets).

2. Overall speaking, in the first half of 2014, i.e. not long after the export control was in place, on average between 30% to 50% of the surveyed products of two major brands were not immediately available at retail outlets in individual districts. The situation continued to improve afterwards. Right after the implementation of the legal requirements for nutrition composition and labelling of powdered formulae in early 2016, there was a temporary shortage of individual brands' powdered formulae due to the need to change their product packaging. The situation was not related to the export control and improved quickly afterwards. Since then, the percentage of the surveyed products not immediately available in retail outlets had remained at around 10%.

2018

Market surveys

3. We updated the methodology of the market surveys in 2018 to collect more comprehensive information, as follows:

- (a) covering seven major brands in Hong Kong (i.e. Abbott, Cow & Gate, Friso, Mead Johnson, Nestle, Snowbrand and Wyeth) with reference to objective market data;

- (b) covering a total of 21 popular powdered formula products of Stage 1 (generally for infants aged 0-6 months), Stage 2 (generally for infants aged 6-12 months) and Stage 3 (generally for young children aged 1-3) from the above brands;
- (c) randomly sampling 10 retail outlets (half from pharmacies and half from chain stores) selling the designated products in each of the 18 districts in Hong Kong, thus covering a total of 180 pharmacies and chain stores across the territory; and
- (d) fieldworkers conduct visits to check whether a designated product was immediately available at a retail outlet randomly sampled; and, if not, check further the availability of the surveyed product in a nearby retail outlet of the same kind on the same day, and at the same retail outlet originally sampled three calendar days later respectively.

4. From January to December 2018, we commissioned a consultancy firm to conduct six rounds of market surveys using the above methodology. About 24 600 checks were conducted on all designated powdered formula products (about 1 200 checks per product on average). The survey findings are summarised below.

Price levels

5. The price levels of powdered formula products in Hong Kong were stable in 2018. The full-year change in the average price levels of individual products recorded in each round of the surveys did not exceed 4%, reflecting a generally stable demand and supply situation of powdered formulae in Hong Kong.

Surveyed products not immediately available

6. Among the 24 600 checks, the surveyed products were not immediately available at the retail outlets in about 1 900 (or 8%) checks. This was broadly in line with the findings of the past market surveys on two major brands.

7. For the 1 900 checks mentioned above, fieldworkers managed to buy the same powdered formula products in one or two nearby retail outlets (1.2 outlets on average) of the same kind on the same day. Depending on the actual circumstances of individual districts, the required walking distance was about five minutes on average (or 400 to 500 metres).

8. The reasons why individual powdered formula products were not immediately available at retail outlets might be due to the large variety of formula products of individual brands and the limited storage space of retail outlets which affected their stock levels of individual products. Besides, the surveys showed that the out-of-stock situation of the two brands with higher market shares was less frequent at retail outlets relative to the other brands. It may be attributable to the supply arrangement by individual brands / suppliers to the retail outlets, and that the retail outlets placed orders having regard to their expected sales volume of individual products.

Surveys on consumers' behaviours of local parents

9. We commissioned a consultancy firm from January to December 2018 to interview a total of about 2 400 local parents feeding their infants and young children with powdered formulae to further understand their habit of purchasing formula products. The survey findings are summarised below.

- (a) Purchase channels: Almost all the respondents (99.2%) purchased in retail outlets, about half from pharmacies and half from chain stores. The rest of the respondents (0.8% or 19 respondents) purchased through pre-order services not operated by retailers;
- (b) Reasons for buying at a retail outlet: Mainly convenient locations (67%) or lower prices (42%);
- (c) When to buy: The majority of respondents restocked when they had less than one can of powdered formulae left (83%);

- (d) Quantity to buy each time: two cans (62%) or one can (25%);
- (e) What if his/her preferred product was not immediately available at a retail outlet: If he/she opted for the same retail outlet, most of the respondents considered two calendar days acceptable for stock replenishment (37%). If he/she opted for another retail outlet, most of them accepted a walking distance of not more than 10 minutes (53%); and
- (f) Acceptable price differential: Most of the respondents (56%) accepted a price differential of less than \$10 for buying the same product at another retail outlet.

10. The surveys showed that local parents were generally used to restock one to two cans of powdered formulae only when less than one can was left. This reflects that they are fairly confident that they can buy their preferred powdered formulae at retail outlets conveniently within a reasonable time. The surveys also showed that, if their preferred products were not immediately available at the retail outlets where they were used to shop, they would expect that they could buy their preferred products within a 10-minute walk to other retail outlets, or after two calendar days at the same retail outlets. In fact, the six rounds of market surveys conducted in 2018 showed that even if a powdered formula product was not immediately available at an individual retail outlet, the fieldworker in most circumstances could find the same product within about 5-minute walk to another retail outlet of the same kind (i.e. pharmacy to pharmacy / chain store to chain store), which was in line with local parents' expectations.

Annex 2

Volume of Import of Powdered Formulae, Estimated Consumption by Local Infants and Young Children, Re-export and Estimated Export through Other Channels

Year	Volume of import (kg)	Estimated maximum level of consumption by local infants and young children (kg)	Volume of re-export (kg) [Volume of re-export to the Mainland]	Estimated volume of export through parallel trading and sale to visitors (kg)
2014	56 million	16 million	9 million [0.4 million]	31 million
2015	54 million		12 million [2.7 million]	26 million
2016	59 million		17 million [9 million]	26 million
2017	56 million		27 million [19 million]	13 million
2018	55 million		25 million [18 million]	14 million

Annex 3

Number of Convicted Cases in Breach of the Export Control of Powdered Formulae

Year	Number of prosecution cases	Number of convicted cases
2014	5 160	5 114
2015	4 490	4 445
2016	3 830	3 802
2017	3 848	3 833
2018	3 863	3 843

Powdered Formula Supply Chain Improvement Measures

Apart from introducing the export control to stabilise the supply of powdered formulae in Hong Kong, the Government had discussed with the powdered formula industry and the retail industry to implement various improvement measures since 2013. The measures 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 Association² and the Hong Kong General Chamber of Pharmacy Limited³ have jointly implemented the Coupon Scheme as the “supply safety net” for local infants and young children. Local parents 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 have also implemented and strengthened their pre-order services (including purchase hotline, home delivery and collection at retail outlets, etc.).

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

³ It was estimated that there were more than 600 pharmacies in Hong Kong at the end of 2018. The Hong Kong General Chamber of Pharmacy Limited comprises about 200 pharmacies in Hong Kong.