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Date: 2/5/2013

GAIN Report Number: HK1302

Hong Kong

Post: Hong Kong

Export Permit Required for Baby Formula

Report Categories:

Agriculture in the News

Dairy and Products

FAIRS Subject Report

Sanitary/Phytosanitary/Food Safety

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Report Highlights:

The Hong Kong government has implemented export controls on baby formula by limiting each traveler/resident leaving Hong Kong to carry a maximum of 2 cans, equivalent to 1.8 kg, of baby formula out of Hong Kong. An export permit is required if the export amount exceeds the limit. The measure was announced due to complaints of a baby formula shortage in Hong Kong as a result of massive localized trading of formula across the border from Hong Kong to China.

Background

Under the Closer Economic Partnership Arrangement (CEPA), a trade agreement between the Hong Kong and Chinese government signed in 2003, Mainland Chinese can travel to Hong Kong in a private capacity. The policy has been deepened over the years allowing more people from various provinces coming to Hong Kong. A glimpse of Hong Kong's tourist figures points to the tremendous impact of the tourism liberalization policy. The number of tourists from China increased from 7 million in 2002 to 35 million in 2012, representing a robust surge of 411%. In general, the influx of tourists has boosted Hong Kong's retail sales and many areas of the economy.

Table 1: Hong Kong Tourist Arrivals (in millions)

	2002	2012	% increase
Total visitors arrival	16.57	48.62	193%
From China	6.83	34.91	411%
From other countries	9.74	13.71	41%

Source : Hong Kong Tourist Association

Since the introduction of a visa arrangement allowing Shenzhen (the Mainland Chinese city directly across the Hong Kong border) residents to have multiple entries to Hong Kong under a one-year visa in 2009, there has been a large increase of same-day travelers. Many are taking multiple trips across the border daily to run 'parallel trading' activities, buying goods in Hong Kong to sell across the border at higher prices. In 2012, out of the 35 million tourists to Hong Kong, same-day and over-night tourists accounted for 20 million and 15 million respectively. Compared to 2011, same-day travelers increased significantly (by 37 percent) while overnight visitors only by 11 percent. Although there are virtual tourists travelling to Hong Kong without staying overnight, far more are de facto parallel traders, bringing to China a variety of products ranging from popular electronic devices and daily necessities.

Given the lack of consumers' confidence in baby formula in China, baby formula has always been a popular item for parallel traders and Mainland Chinese tourists' shopping list in Hong Kong.

In recent weeks with the approach of Chinese New Year, which is traditionally characterized by shopping sprees, there have been outcries from Hong Kong mothers who are complaining that they cannot buy popular baby formula in retail outlets in different districts of Hong Kong. There were charges saying that some unscrupulous retailers have kept their stocks for mainland buyers who are willing to buy the goods at premium prices. Reportedly, a can of 900 gm baby formula which sells generally at HK\$260 (US\$33.50), if available, can now be sold for over HK\$300 (US\$38.65). On the other hand, retailers have been pointing fingers at suppliers for not replenishing their orders in a timely manner. Regardless of who may be to blame, the supply chain has not been working smoothly. Local mothers, mainland tourists and parallel traders have all been trying to stock up on infant formula fearing that there is not enough supply. Consequently, there exists a phenomenon that infant formula is not easily available at retail shops despite suppliers' assurance that there is adequate supply to meet local demand.

Attempts to Ensure Supply for Hong Kong Babies

The general shortage of infant formula at retailer levels has persisted for weeks and the problem has not been eased despite the HKG's efforts to resolve the issue through several rounds of discussion with suppliers and retailers. Finally, the Hong Kong government on February 1 announced multi-pronged approach to solve the problem.

To combat the moves of the "couriers" or the parallel traders, the Government will amend the Import and Export (General) Regulations to prohibit the export of baby formula from Hong Kong except with a permit issued by the relevant authority. Each traveler/resident leaving Hong Kong is allowed to carry two cans weighing a maximum of 1.8 kg in total. An export permit is required if any persons wish to carry more than 1.8 kg of infant formula out of Hong Kong. The effective date is to be announced when the all legislative procedures have been completed.

Furthermore, the train will also lower luggage limits from 32 kg to 23 kg in order to raise the cost for each courier wishing to trade in goods. To ensure local mothers will get adequate supply, an order hotline for seven popular brands has been established and managed by the government. This is to supplement individual suppliers' existing hotlines. The HKG also pledged to step up monitoring of cross boundaries activities. It is also seeking cooperation with the Shenzhen government to combat parallel trading of infant formula not only at the border but also along the supply chain.

The Market of Infant Formula

Hong Kong's import of baby formula has increased significantly in the past few years, which is likely due to the impact of parallel trading and tourist consumption. In 2012, Hong Kong imported a total of 44,311MT or \$687 million worth of baby formula, representing a jump of 33 and 49 percent by volume and value respectively. U.S. products also increased about 70 percent by volume and 126 percent by value reaching a total amount of \$11 million.

Table 2: Hong Kong's Imports of Baby Formula, MT

Partner Country	Quantity			% Share			% Change 2012/2011
	2010	2011	2012	2010	2011	2012	
World	23,750	33,223	44,311	100.00	100.00	100.00	33.37
Netherlands	6,286	12,350	15,206	26.47	37.17	34.32	23.13
New Zealand	790	2,733	7,169	3.32	8.23	16.18	162.34
Ireland	7,249	6,843	6,000	30.52	20.60	13.54	- 12.32
Australia	1,107	2,149	3,840	4.66	6.47	8.67	78.63
Singapore	1,073	1,023	3,706	4.52	3.08	8.36	262.28
Belgium	7	1,040	2,644	0.03	3.13	5.97	154.37
Germany	369	963	1,339	1.55	2.90	3.02	39.04
U.K.	156	448	1,158	0.66	1.35	2.61	158.09
United States	309	646	1,096	1.30	1.95	2.47	69.63

Source : Hong Kong Census & Statistics Department – Global Trade Atlas

Table 3: Hong Kong's Imports of Baby Formula, US\$ million

Partner Country	United States Dollars			% Share			% Change
	2010	2011	2012	2010	2011	2012	2012/2011
World	330	460	687	100.00	100.00	100.00	49.22
Netherlands	76	179	307	22.95	38.81	44.62	71.54
Ireland	113	114	110	34.12	24.66	15.95	- 3.52
New Zealand	8	27	74	2.31	5.95	10.71	168.76
Singapore	15	15	57	4.43	3.17	8.26	288.21
Australia	14	22	43	4.35	4.81	6.29	95.19
Belgium	0	17	34	0.02	3.58	4.88	103.06
Germany	3	11	15	0.88	2.33	2.16	38.80
U.K.	1	6	14	0.38	1.23	2.04	146.82
United States	2	5	11	0.68	1.03	1.56	126.36

Source : Hong Kong Census & Statistics Department – Global Trade Atlas

While there are over 60 brands of infant powder in Hong Kong, over 90 percent of the market is dominated by six brands, namely Abbot, Cow and Gate, Friso, Mead Johnson, Nestle and Wyeth (*Source: Ming Pao newspaper dated February 2, 2013 relaying an AC Neilson's report*).

Competition of the infant formula market is very tense. Major players spend huge sums for advertisement. In January – October 2012, the six largest suppliers spent a total of \$97 million advertising their products. Given that they accounted for over 90 percent of the total import volume of 36,021 MT of infant formula during the corresponding period, the advertising cost for each 0.9 kg-can of infant formula was equivalent to \$2.70. The average cost for a can of infant formula is about \$33.50. The table below showed the advertising spending of major suppliers of infant formula.

Table 4: Advertising Spending for Major Infant Formula Brands in Hong Kong

Brands	HK\$ million	US\$ million
Abbot	250	32.13
Friso	160	20.57
Mead Johnson	160	20.57
Wyeth	120	15.42
Cow and Gate	37.4	4.81
Nestle	29.52	3.79
Total	756.92	97.29

Source : Ming Pao dated December 13, 2012 relaying AdmanGo advertising tracking result

Meanwhile, the Hong Kong government is planning to introduce [regulation](#) governing the nutrition and labeling of infant formula. In addition, it is in the process of introducing a voluntary guideline - [Hong Kong Code](#) restricting marketing activities for infant formula and related products.