



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 1/13/2000

GAIN Report #HK0004

## Hong Kong

### Grain and Feed

### Hong Kong Rice Import Quotas

### Undergoing Gradual Liberalization

## 2000

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#### **Report Highlights:**

Various Hong Kong media have recently reported that the Hong Kong Government (HKG) is going to open up the Hong Kong rice market within 2-3 years by scrapping the existing 45-year-old rice import licensing and quota system, however, a government official informed the Agricultural Trade Office that the HKG has not yet finalized the plan for opening up the market, even though it first began loosening the import quota system in 1997.

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Hong Kong [HK1], HK

#### **The Press Reports...and The Facts**

Various Hong Kong media have recently reported that the Hong Kong Government (HKG) is going to open up the Hong Kong rice market within 2-3 years by scrapping the existing 45-year-old rice import licensing and quota system, however, a government official informed the Agricultural Trade Office that the HKG has not yet finalized the plan for opening up the market, even though it first began loosening the import quota system in 1997.

### **The Existing System**

The present Rice Control Scheme came into operation in 1955, when it was feared that a Cold War trade embargo could result in shortages of rice. The objectives of the Scheme are to ensure regular and adequate supplies of rice to consumers at reasonably stable prices, and to provide a reserve stock for emergency purposes and to cushion price fluctuations, since rice is a staple food for Hong Kong Chinese. The Scheme was designed to ensure adequate rice stocks, not to protect Hong Kong production. As a free port, Hong Kong maintains no import duties on rice and in fact does not have a rice industry to protect; all rice supplies are imported.

Under the Scheme, a limited number of companies are registered as importers who are obliged to import rice according to a quota system operated by the Trade Department. A total of 1,000 basic import units are allocated among the importers, with the largest holding 56 units and the smallest holding 8 units. At the present time, there are 40 rice importers. Before the introduction of the Optional Quota System, the overall quarterly import quota - which usually ranged from 80,000 to 90,000 tons depending on the estimated consumption level for that quarter - would be apportioned to the importers according to their respective share of basic import units.

To introduce more competition and to gradually open up the rice trade in Hong Kong, the Trade Department implemented an Optional Quota System in 1997. With the Optional Quota System, 90 percent of the overall import quota was allocated as a fixed quota to individual importers according to their respective share of units. In addition to the fixed quota, importers were allowed to apply for an optional quota, not to exceed 50 percent of their individual fixed quota. The ceiling of the aggregate optional quota was first set at 30 percent of the overall import quota.

Starting in January 1999, only 70 percent of the overall import quota was allocated as a fixed quota. The amount of optional quota each importer may obtain was increased to 100 percent of his individual quota. The optional quota ceiling is now set at 40 percent of the overall import quota.

The essence of the Optional Quota system is to introduce some flexibility to importers, allowing them to import slightly more or slightly less than their basic rice quota. The System also enhances competition among rice stockholders and thus ultimately benefits the consumers. The Hong Kong Government's intention to open up the rice market over time is evidenced by the gradual increase in the optional quota.

Meanwhile, rice continues to be regarded as a reserve commodity. The Trade Department requires importers to keep minimum reserve stocks. Each importer is required to maintain a reserve proportional to his fixed and optional quota. The overall aggregate reserve stock to be maintained by all importers is set at 40,000 tons, which is sufficient for about 45 days' consumption.

Even rice wholesalers are required to register with the Trade Department. The purpose is to provide the government if necessary with a mechanism to prevent undue stock-holding, speculation or profiteering at the wholesale level. Presently, 27 rice wholesalers are registered.

### **Further Market Opening and Its Impact**

It was recently reported in papers that the Hong Kong government is going to open up the Hong Kong rice market within two to three years by scrapping the existing 45-year-old rice import system. The new system will allow more importers to apply for an import licence. Also importers will be allowed to run wholesale businesses as well. However, an interview with a government official confirmed that the government has not yet finalized the plan for opening up the market, even though the goal to do so has been set. He declined to reveal details of the plan and to forecast when the plan will be implemented. At this point only a draft plan has been submitted to the Rice Advisory Committee for comment and approval.

Rice is a staple food for 99 percent of the Hong Kong population. With an annual import value of US\$180 million, the loosening of import quota administration will definitely attract newcomers. Large supermarkets with numerous retail outlets will naturally explore this venture in order to cut their costs.

Sources revealed that Park'N Shop, one of the two major supermarket chains in Hong Kong, has already indicated interest in importing rice directly from overseas suppliers. With more competition on the supply side, rice prices can be expected to drop in the short term following liberalization of quota allocation. But people in the industry are concerned that the complete opening of the market eventually may lead to the concentration of the import business in the hands of a few big companies. Following this consolidation of rice importers, rice prices will likely bounce back toward current levels. However, the new policy may reduce the required reserve stock, allowing importers to cut their storage costs.

All the rice consumed in Hong Kong is imported. In 1998, Hong Kong's principal suppliers were Thailand (76 percent), Australia (20 percent) and China (3 percent) and Vietnam (1 percent). Any change in import policy by itself will not change the countries supplying Hong Kong because rice imports are already sourced according to price, quality and flavor and any new rice market players will follow the same buying criteria.

Despite the increase in population, Hong Kong's total annual consumption of rice has remained more or less stable at a level of around 330,000 to 350,000 tons since 1975. With a more diverse diet resulting from improved living standards, per capita rice consumption has declined from 78 kg in 1975 to 48 kg in 1998.