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Report Highlights:

The 1999 cigarette market in Hong Kong was characterized by shrinking domestic production (-48 percent) and import (-17 percent) and export (-28 percent) trade. However, domestic consumption of cigarettes rose 1 percent despite mounting advertising campaigns against cigarettes by the Hong Kong Government. Hong Kong imports of U.S. cigarettes decreased 12 percent yet the U.S. market share rose slightly from 19 to 20 percent.

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SECTION I. SITUATION AND OUTLOOK

The 1999 cigarette market in Hong Kong was characterized by shrinking domestic production (-48 percent) and import (-17 percent) and export (-28 percent) trade. However, domestic consumption of cigarettes rose 1 percent despite mounting advertising campaigns against cigarettes by the Hong Kong Government. Hong Kong imports of U.S. cigarettes decreased 12 percent yet the U.S. market share rose slightly from 19 to 20 percent.

Production

The most significant change in the cigarette market in Hong Kong in 1999 was the sharp decline of domestic production, due to the closure of manufacturing facilities of British-American Tobacco Co. (HK) Ltd in Hong Kong in September 1998. Currently, there are three cigarette manufacturing plants in Hong Kong: Hong Kong Tobacco Co. Ltd, Nanyang Brothers Tobacco Co. Ltd and Hong Kong Hongta International Tobacco Co. Ltd. Their respective production in 1999 were 1.34 billion, 5.20 billion and 103 million sticks, amounting to a total of 6.64 billion sticks. The majority of locally produced cigarettes are Virginia cigarettes which are ultimately re-exported to Mainland China and South East Asia. The production for 2000 is expected to remain flat because there are no imminent signs that the Chinese and South East Asian economies will be able to support tremendous growth in demand for cigarettes. Also, local production facilities are not likely to be expanded in the near future.

Import & Export

Hong Kong's cigarette import market stood at 24.2 billion sticks for 1999. Illegally imported (smuggled) cigarettes accounted for an estimated 5 percent of those imports, based on a conservative estimate. Some cigarette imports were declared to be for re-export to avoid Hong Kong import duty, but then were smuggled back to Hong Kong before reaching the declared destination. Officially, Hong Kong cigarette imports in 1999 amounted to 22.96 billion sticks, representing a decline of 17 percent from 1998. The decline of imports was ascribed to the sluggish re-export trade to the South East Asian market rather than a contraction in local consumption.

With regard to supplying countries, there are several points worth mentioning. First, the U.S. was the largest cigarette supplying country to Hong Kong in terms of value and second largest in terms of volume. The 12 percent decline in volume in 1999 was attributed to the slight increase in prices (c.i.f. Hong Kong prices increased from US\$30/thousand sticks in 1998 to US\$31/thousand sticks in 1999). Second, imports from Belgium surged 94 percent as a result of 10 percent drop of average import price. Third, imports from China declined 61 percent because of 17 percent rise in average import prices. Although cigarette tastes are very unique among different brands, import quantity to a certain extent still depends on prices. Fourthly, imports from Malaysia rose as high as 100 percent. The conspicuous increase in imports was due to BAT's shifting of cigarette production from Hong Kong to Malaysia in September 1998. Hence, some cigarettes earlier manufactured in Hong Kong but now in Malaysia are being imported to Hong Kong for consumption.

As a result of declining local production and demand in the overseas market, Hong Kong's total exports dropped 28 percent in 1999, reaching an amount of 25 billion sticks. Major export markets included China, Philippines and Vietnam. In recent years, cigarette exports to China have kept declining as Mainland consumers have tightened their purse-strings. On the whole, imported cigarettes in China are more expensive than locally made ones. On the other hand, exports to Vietnam have kept increasing over recent years resulting from increased demand for cigarettes. Due to the presence of smuggled cigarettes in the trade and the changing pattern of routing among different South East Asian

countries, it is not surprising to detect significant changes over the years in Hong Kong's exports to various markets such as Singapore, Phillipines and Malaysia.

The import and export trade of cigarettes for next year is expected to experience a 5 percent increase based on the assumption that demand in South East Asian countries will rise and local production will not drop tremendously causing a corresponding drop in export. Also, consumption will remain flat.

Consumption

Domestic consumption in 1999 was 5.6 billion sticks. According to a survey in 1998, 15 percent of the population aged 15 and over were daily smokers; each on average consumed 16 sticks each day. Given the relatively high awareness of the health threat posed by cigarette smoking, the domestic market is rather saturated. Any increase in future consumption levels may reflect the high smoking rate of new immigrants from mainland China.

Hong Kong consumers prefer American blended cigarettes. The most popular brand is Marlboro. The average tar and nicotine yields of the 95 best-selling cigarettes in Hong Kong were 11.6 milligrams and 0.90 milligrams per cigarette respectively, representing a decrease of 0.8 mg in tar yield and 0.07 mg in nicotine yield as compared with the previous year's findings. This decreasing trend in tar and nicotine yields indicated that Hong Kong smokers are getting more health conscious. Of the 95 brands of cigarettes, 36 brands were classified as the low tar group (0-9 mg/cig), 38 brands as the middle tar group (10-14 mg/cig), 21 brands as the high tar group (15-17 mg/cig).

Duty on Tobacco

Hong Kong imposes duty on manufactured tobacco products, regardless imported or locally manufactured, at the following rates:

(a) \$98.45 per 1,000 cigarettes; and (b) \$126.74 per kg cigars

Cigarette Smuggling

The relatively high duty provides incentives for cigarette smuggling. In 1999 smuggled cigarettes provided about 22 percent of domestic cigarette consumption. Smuggled cigarettes included both real and counterfeit premium brands. For instance, during one of the anti-smuggling activities, the Hong Kong Customs intercepted 50 million fake Marlboro and Philip Morris cigarettes. These cigarettes were manufactured in China and declared to be re-exported to Phillipines but eventually ended up in Hong Kong without paying any duty. Cigarette smuggling is a lucrative business in Hong Kong. The cost of one packet of smuggled cigarettes is about HK\$8 (US\$1 = HK\$7.78). If they can be sold at a price between HK\$10 to HK\$13, just half of the standard price, the profit margin of each packet could be as high as HK\$5. Therefore, cigarette smuggling cannot be stemmed in Hong Kong. In 1999, the Hong Kong government detected 239 million smuggled cigarettes with a duty potential of US\$24 million.

To combat cigarette smuggling, the Hong Kong government and the Tobacco Institute of Hong Kong have an agreement to operate the Informer Reward Scheme for information leading to seizure of smuggled cigarettes. The scheme was introduced in 1994. The following table shows the scale of reward to be offered in 2000.

Quantity of cigarettes	Rate of Reward seized on any one occasion:
200,000 to 1,000,000	US\$1,285
1,010,000 to 1,500,000	US\$2,570
1,510,000 to 2,000,000	US\$3,856

2,010,000 to 5,000,000	US\$6,427
5,010,000 and above	US\$12,853

Policy

It has been the government policy to discourage smoking. A number of regulations came into force in 1999 in an attempt to further discourage smoking. From July 16, restaurants which provide indoor seating for more than 200 persons shall designate not less than one-third of the area as a no-smoking area. In addition, the sale of cigarettes in packets of less than 20 sticks was prohibited from July 16, 1999. It is also illegal for anyone to sell, offer for sale, or possess for the purposes of sale, any cigarette containing an amount of tar exceeding 17 milligrams. The prohibition of display-type tobacco advertisements and tobacco advertisements in printed publications came into operation on June 26, 1999 and December 31, 1999 respectively. New requirements for health warnings on tobacco products will come into operation on July 16, 2000. For cigarette products, the new legislation requires the amount of tar and nicotine content of the cigarette to be shown on their packages.

SECTION II. STATISTICAL TABLES**PS&D Tables**

PSD Table						
Country	Hong Kong					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	19000	12757	12245	6637	0	6700
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	19000	12757	12245	6637	0	6700
Imports	32000	28011	29655	24205	0	25415
TOTAL SUPPLY	51000	40768	41900	30842	0	32115
Exports	46000	35228	36000	25253	0	26485
Domestic Consumption	5000	5540	5900	5589	0	5630
TOTAL DISTRIBUTION	51000	40768	41900	30842	0	32115

Note : The trade matrix and PS&D table do not have the same cigarette import figure. Domestic consumption and import figures in the PS&D table include estimates for smuggled cigarettes. Conversely, figures in the trade matrix are official Hong Kong Census and Statistics Department data and do not include estimates of smuggled cigarettes.

Trade Matrices

CIF Hong Kong Prices

Import Trade Matrix			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	Million pieces
Imports for:	1998		1999
U.S.	5320	U.S.	4704
Others		Others	
UK	9357	UK	6806
Belgium	1445	Belgium	2804
China	6014	China	2360
Malaysia	969	Malaysia	1935
Singapore	1029	Singapore	1291
Switzerland	631	Switzerland	566
Germany	447	Germany	540
Japan	278	Japan	444
Total for Others	20170		16746
Others not Listed	2030		1514
Grand Total	27520		22964

Export Trade Matrix			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	million pieces
Exports for:	1998		1999
U.S.	122	U.S.	104
Others		Others	
Korea R	3220	Korea R	1432
Macau	656	Macau	643
Malaysia	1619	Malaysia	914
Philippines	3485	Philippines	4857
Singapore	5873	Singapore	940
China	9296	China	5401
Vietnam	6869	Vietnam	6996
Total for Others	31018		21183
Others not Listed	4088		3966
Grand Total	35228		25253

Price Table

Prices Table			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Prices in	US\$	per uom	thousand pieces
Year	1998	1999	% Change
Jan	25	27	8.00%
Feb	24	21	-12.50%
Mar	20	21	5.00%
Apr	21	23	9.52%
May	24	20	-16.67%
Jun	21	21	0.00%
Jul	23	24	4.35%
Aug	21	23	9.52%
Sep	22	21	-4.55%
Oct	20	21	5.00%
Nov	19	20	5.26%
Dec	19	21	10.53%
Exchange Rate	7.75	Local currency/US \$	

Table 1 Retail Price Table of Cigarettes by Brands

Price for one Pack of 20 Cigarettes

Brands	Retail Per Pack HKD (USD1=HKD7.78)
Kent	31
Viceroy	24
Hilton	21
Double Happiness	21.50
Chung Hwa	30
Peony	20
Marlboro	30
Philip Morris	26
Virginia Slims	30
Good Companion	21
Mild Seven	30
Mild Seven International	36

Note : Cigarettes retail prices for 2000 remain the same as 1999's.

Table 2 C.I.F. Price Table of Cigarettes by Countries, in US\$/thousand sticks

	1998	1999
UK	14	13
USA	30	31
Belgium	30	27
China	23	27
Malaysia	12	11
Singapore	21	27
Switzerland	18	18
Germany	26	26
Japan	27	28
Netherlands	36	21
Korea R	16	11
Philippines	24	29
Canada	16	45
Vietnam	30	18
All Countries	21	22

Table 3 Hong Kong's Import of Cigarettes by Volume, in million sticks

	1998	1999	%change	Market share 98	Market share 99
UK	9,357	6,806	-27%	34%	30%
USA	5,320	4,704	-12%	19%	20%
Belgium	1,445	2,804	94%	5%	12%
China	6,014	2,360	-61%	22%	10%
Malaysia	969	1,935	100%	4%	8%
Singapore	1,029	1,291	25%	4%	6%
Switzerland	631	566	-10%	2%	2%
Germany	447	540	21%	2%	2%
Japan	278	444	60%	1%	2%
Netherlands	860	325	-62%	3%	1%
Korea R	285	284	-0%	1%	1%
Philippines	192	238	24%	1%	1%
Canada	4	166	3844%	0%	1%
Vietnam	289	100	-66%	1%	0%
All Countries	27,520	22,964	-17%	100%	100%

Table 4 Hong Kong's Import of Cigarettes by Value, in USD thousand

	1998	1999	%change	Market share 98	Market share 99
UK	127,357	89,560	-30%	22%	18%
USA	159,564	146,550	-8%	27%	29%
Belgium	42,664	76,587	80%	7%	15%
China	137,012	63,129	-54%	23%	12%
Malaysia	11,607	21,487	85%	2%	4%
Singapore	21,739	35,238	62%	4%	7%
Switzerland	11,175	10,313	-8%	2%	2%
Germany	11,524	14,271	24%	2%	3%
Japan	7,613	12,266	61%	1%	2%
Netherlands	30,641	6,931	-77%	5%	1%
Korea R	4,690	3,035	-35%	1%	1%
Philippines	4,558	6,866	51%	1%	1%
Canada	68	7,411	10799%	0%	1%
Vietnam	8,571	1,816	-79%	1%	0%
All Countries	590,212	505,432	-14%	100%	100%

Table 5 Hong Kong's Cigarettes Export by Volume & Value, in million sticks & USD thousand

	1998 mil. sticks	1999 mil. sticks	% change	1998 US\$'000	1998 US\$'000	% change
USA	122	104	-15%	3,456	3,301	-4%
China	9,296	5,401	-42%	256,133	138,727	-46%
Philippines	3,485	4,857	39%	99,194	144,609	46%
Malaysia	1,619	914	-44%	34,540	14,671	-58%
Japan	105	256	144%	3,271	7,955	143%
Singapore	5,873	940	-84%	83,508	24,776	-70%
Macau	656	643	-2%	32,131	30,039	-7%
Korea R	3,220	1,432	-56%	59,698	37,195	-38%
Vietnam	6,869	6,996	2%	118,209	135,156	14%
All countries	35,228	25,253	-28%	802,044	641,206	-20%

Source : Hong Kong Census & Statistics Department