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## **Hong Kong**

### **Grain and Feed**

# **Hong Kong's Rice Trade Undergoes Full Liberalization 2003**

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#### **Report Highlights:**

Elimination of the rice import quota system effective January 1, 2003 has removed entry barriers to the trade, reduced operation costs, and enhanced competition among operators in the local rice trade. Although Thai rice is expected to be the dominate supplier (80% share), the drought in Australia and the new import regime could create opportunities for U.S. rice exporters in the coming months.

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

## **Summary**

Hong Kong's rice trade was fully liberalized on January 1, 2003, with the elimination of the rice import quota system after 48 years of implementation. The Rice Control Scheme was introduced in 1955 when rice supply was a major concern of the community. In view of the gradual changes in the demand and supply of rice in Hong Kong, the government reviewed the system and started to take steps to relax trade restrictions since 1997 to enhance market competition. The significant changes over the past few years included : (1) lifting capital and financial requirements, (2) any parties being allowed to register as importers, (3) allowing importers to sell directly to consumers since 2001, (4) eliminating restrictions on import quantity, and (5) reducing the reserve stock level gradually from 45,000 tonnes before 1998 to 13,500 tonnes in 2002.

All these changes have had a combined effect of removing entry barriers and reducing operation costs. It is envisaged that more new players will enter the market and retail prices will be reduced. Retail prices for rice have already dropped around 30%-50% from December 2002 to January 2003. Table 1 shows the latest retail prices at the two leading supermarket chains.

There is an opportunity for high quality and competitively priced US rice to increase its market share after full liberalization of the rice trade, as more new companies can import rice directly and they should be looking for more sources of rice that can help them maintain or even increase competitiveness.

## **Background**

Rice is a staple food for Hong Kong and there is no local production. To guarantee adequate and stable supply of rice, the Hong Kong government imposed an import quota system for rice in 1955. All stockholders ( importers) and wholesalers had to register and fulfill certain capital, financial, and residency requirements. Stockholders were allocated an import quota and were required to import rice in accordance with a schedule. The Hong Kong government required all importers to maintain a reserve stock, which was lowered to 40,000 tonnes in 1998, sufficient for 45 days' consumption by the population. Restrictions were imposed on stockholders to operate as wholesalers, and vice versa.

Government statistics show that the reliance of Hong Kong people on rice as a staple diet continues to decline sharply. The average annual per capita consumption has lowered from 78 kg in 1975 down to 48 kg in 2000.

Following a review of the rice control system in 1996, the Hong Kong government decided to gradually liberalize the rice trade. It was believed that fair competition would lower retail prices and benefit consumers in the end.

For a fuller account of the history of the rice trade in Hong Kong and the recent development leading to full liberalization, please refer to GAIN Report#HK0004 and the following website:

[http://www.tid.gov.hk/textonly/english/import\\_export/nontextiles/ricetrade.html](http://www.tid.gov.hk/textonly/english/import_export/nontextiles/ricetrade.html)

## **Impacts of Liberalization**

Being fully liberalized, the rice trade operates in a fairly free market environment. Now the entry barriers are removed. Anyone who intends to import rice into Hong Kong may apply to be registered as an importer at any time. If they wish, they can sell directly to consumers and there is no restriction on import quantity. In the past, a certain profit margin could be secured when the number of importers was limited to about 40 and strict entry barriers prohibited newcomers. The new measures should have some noticeable results.

First, the new market conditions have attracted new players with different backgrounds. 40% of imported rice goes to the retail stores whereas the rest 60% goes to the catering industry. With the liberalization of the rice trade, some caterers have decided to import rice directly. According to the government and the Hongkong Rice Importers & Exporters Association, there are currently 78 rice importers (\*), of which 36 are new players. Some larger new players include:

1. Parknshop, one of the two largest supermarket chains in Hong Kong  
(<http://www.hutchison-whampoa.com/eng/retail/retail2a1.htm>)
2. Sims Trading, a large food importer/distributor  
(<http://www.simshk.com/en/profile/about.htm>)
3. Dah Chong Hong Ltd, another large food importer/distributor  
(<http://www.dchfood.com/eng/front.htm>)
4. Maxim's, a restaurant conglomerate owning restaurant and fast food chains  
([http://www.dairyfarmgroup.com/dfarm\\_graphic/operations/maxi.html](http://www.dairyfarmgroup.com/dfarm_graphic/operations/maxi.html))
5. Sun Generation, the largest school lunch caterer (around 50% market share)
6. Wellcome Supermarket (considering to register), the other largest supermarket chain  
([http://www.dairyfarmgroup.com/dfarm\\_graphic/operations/well.html](http://www.dairyfarmgroup.com/dfarm_graphic/operations/well.html))

(\* ) *Please contact our office if you wish to obtain a full list of registered rice importers.*

Second, since importers are allowed to sell directly to retailers or consumers with the different layers of middlemen from importing to retailing reduced, the cost of operation can thus be lowered providing room for the reduction of retail prices of rice. Trade sources estimate that an importer taking the role of an wholesaler as well can save 20% to 30% of the cost. For example, Parknshop, as a registered rice importer, can now import rice directly from exporters whereas in the past, it had to rely on supplies from importers through wholesalers. Such vertical business integration will lower supply cost of rice and consequently may lead to reduction of retail prices.

Third, the lowering of stock reserves will also reduce operation costs correspondingly. Warehouse space is very precious in Hong Kong. According to the trade, the cost of maintaining a reserve stock for 15 days' consumption or 13,500 tonnes is about HK\$24 million (US\$3 million) per year, or about HK\$3.5 per person of the population. The operation cost would have been much higher if the reserve stock had remained at 45,000 tonnes as before 1998.

In short, the new measures have removed entry barriers to the trade, reduced operation cost and enhanced competition among operators in the rice trade.

## Market Assessment

Table 2 shows the imports of rice to Hong Kong during January-October (2000-2002). The table shows that the market is dominated by Thai rice, followed by Australian and Chinese rice. Post have met with members of the Hongkong Rice Importers & Exporters Association to discuss the structure of the local rice market. According to the members, Thai rice is popular in Hong Kong because of its flavor, texture and competitive price. Packs in 5kg and 8kg are most popular. Table 3 shows the average prices for rice imports to Hong Kong during 1997-2001. The table confirms that Thai rice is very competitively priced. It is envisaged that Thai rice will continue to dominate the Hong Kong market given its competitiveness in price, flavor and quality.

As regards US rice, the members commented that US rice was rather inconsistent in quality, supply and price; and therefore not many Hong Kong importers brought in US rice. However, import statistics for the first 10 months in 2002 (Table 4) show that price of US rice has been more steady and competitive.

Given Hong Kong's sluggish economy, market competition is primarily based on price. If the price for US rice can be maintained at this competitive level, there is an opportunity for US rice to gain more market share in Hong Kong, particularly when all importers (be they "old" or "new" players) want to identify more sources of high quality and yet competitively priced rice for them to better compete under the new market situation.

**Table 1 - Retail Prices of Rices in Hong Kong, January 2003**

Rice	Brand	Pack (KG)	Retail Prices (US\$)	Price Per KG
Thai	Golden Elephant (Vitamin enriched)	5	\$4.59	\$0.92
	First Choice (1)	5	\$4.08	\$0.82
	Golden Phoenix Fragrant	5	\$4.08	\$0.82
	Golden Elephant	5	\$4.00	\$0.80
	Golden Thai Fragrant	5	\$3.95	\$0.79
	Kam Heung Fragrant	5	\$3.95	\$0.79
	ParknShop (4)	5	\$3.95	\$0.79
	Golden Boat Crystal	5	\$3.78	\$0.76
	Lucky Brand Fragrant	5	\$3.71	\$0.74
	Pailin Fragrant	5	\$3.06	\$0.61
	Best Buy (3)	5	\$3.06	\$0.61
	Golden Siam Fragrant	5	\$2.87	\$0.57
	No Frills (2)	5	\$2.55	\$0.51
	First Choice	8	\$8.65	\$1.08
	No Frills	8	\$6.64	\$0.83
	Golden Siam Fragrant	8	\$6.64	\$0.83
	Golden Phoenix Fragrant	8	\$6.51	\$0.81
	ParknShop	8	\$6.51	\$0.81
	Golden Elephant	8	\$6.37	\$0.80
	Kam Heung Fragrant	8	\$6.26	\$0.78
	Lucky Brand Fragrant	8	\$5.88	\$0.74

	Best Buy	8	\$3.96	\$0.50
Australian	Double Ram Calrose	5	\$4.81	\$0.96
	Golden Crown See Mew	5	\$3.91	\$0.78
	Kangaroo See Mew	5	\$3.83	\$0.77
	ParknShop See Mew	5	\$3.83	\$0.77
	First Choice See Mew	5	\$3.59	\$0.72
	Golden Crown See Mew	8	\$6.26	\$0.78
	ParknShop See Mew	8	\$6.13	\$0.77
	Kangaroo See Mew	8	\$6.09	\$0.76
Chinese	Golden Way See Mew	5	\$4.21	\$0.84
	C. Blossom Pearl	5	\$3.95	\$0.79
	Golden Way Jim	5	\$3.44	\$0.69
	Pik Heung To	5	\$3.27	\$0.65
	Ng Fung Pearl Rice	5	\$3.05	\$0.61
	Ng Fung See Jim Rice	5	\$3.05	\$0.61

Sources: Wellcome Supermarket & ParknShop

(1), (2): Private Label Brands of Wellcome Supermarket

(3), (4): Private Label Brands of ParknShop

**Table 2 - Hong Kong's Rice Imports, January - October (2000-2002)**

Country	Millions of US Dollars			% Share		
	2000	2001	2002	2000	2001	2002
--The World--	130.420	119.957	108.440	100.00	100.00	100.00
Thailand	104.040	97.649	89.730	79.77	81.40	82.75
Australia	19.884	14.509	10.305	15.25	12.10	9.50
China	4.303	5.410	5.449	3.30	4.51	5.03
United States	1.242	1.536	2.056	0.95	1.28	1.90

Country	- T - 2000	- T - 2001	- T - 2002
--The World--	259,018	279,633	287,474
Thailand	211,200	237,564	249,625
Australia	37,133	27,179	21,569
China	7,568	9,862	9,776
United States	1,330	3,123	5,376

**Table 3 - Average Prices of Rice Imported into Hong Kong (US\$ per tonne)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
--The World--	635.38	576.31	501.14	505.48	422.95
China	550.03	400.96	572.02	555.45	549.96
Australia	625.19	627.63	608.8	540.98	528.9

United States	816.87	854.93	934.98	812.29	446.52
Thailand	647.64	572.48	472.18	494.84	404.03

Source: Hong Kong Census and Statistics Department

**Table 4 - Average Prices of Rice Imported into Hong Kong, Jan-Oct 2002 (US\$ per kg)**

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
--The World--	0.36	0.37	0.37	0.36	0.37	0.37	0.38	0.38	0.4	0.41
China	0.54	0.58	0.57	0.58	0.54	0.6	0.56	0.53	0.55	0.52
Australia	0.49	0.5	0.48	0.44	0.51	0.47	0.51	0.46	0.45	0.44
Thailand	0.35	0.34	0.34	0.35	0.35	0.35	0.36	0.36	0.38	0.41
United States	0.35	0.35	0.34	0.86	0.45	0.38	0.46	0.39	0.44	0.36

Source: Hong Kong Census and Statistics Department