



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

**Date:** 10/22/2007

**GAIN Report Number:** HK7022

## Hong Kong

### Livestock and Products (Meat, Swine)

#### Annual

#### 2007

**Approved by:**

Philip Shull & Anita Katial  
American Consulate General, Hong Kong

**Prepared by:**

Caroline Yuen

---

Report Highlights: HK's pork imports for 2007 are expected to rise by 6% reaching 293,000 MT, as a result of the short supply of live pig supplies in early 2007 and the continuing shifting of consumption of fresh pork to chilled/frozen pork. Cheaper costs for chilled/frozen pork are contributing to this change of consumption pattern. 2008 pork imports are expected to rise by 2% reaching 300,000 MT. U.S. pork imports to HK have not been affected by ractopamine. In fact, traders report some increased trade to HK may be destined for gray channel. In addition, the HK Dollar is pegged to the U.S. Dollar, therefore, the recent weakness of the US Dollar would help US exports to HK. The buoyant economy, price competitiveness of U.S. low-end cuts, quality of premium cuts and local consumers' confidence in U.S. food products are various key factors that contribute to the forecast 8% growth of U.S. pork products in Hong Kong in 2007 and 2008. The U.S., HK's 3<sup>rd</sup> largest supplier behind China and Brazil, supplied \$24 million of pork products to Hong Kong in 2006, 58% of which were processed meats. As such, U.S. processed pork exports to Hong Kong could be affected by the HKG's introduction of nutrition labeling and amendment of its Preservatives Regulation. The HKG expects to complete the legislative process for both regulations by the end of 2007 and is considering a grace period of 2 years. All U.S. processed meat exports to HK will need to be relabeled as HK's nutrition labeling requirements will be different from the U.S. In addition, with the upcoming amendment of the Preservatives Regulations, the maximum permitted level of sodium nitrite in preserved meats will be lowered from 200 ppm to 125 ppm.

---

Includes PSD Changes: yes  
Includes Trade Matrix: yes  
Annual Report  
Hong Kong [HK1]  
[HK]

### Table of Contents

<b>Situation and Outlook</b> .....	<b>3</b>
<b>Statistical Tables – Meat, Swine</b> .....	<b>5</b>
PS&D Table .....	5
Table 1: Supply and Consumption of Live Pigs .....	6
Table 2: Average Wholesales Prices of Live Pigs (head) .....	6
Table 3: Average Retail Prices of Pork Relative to Beef and Poultry (Freshly Slaughtered) ..	6
Table 4: Hong Kong Pork Imports in Value by Suppliers, US\$ million, Jan – July .....	6
Table 5: Average C.I.F. Prices of Pork by Major Suppliers, Jan – July .....	7
Table 6: Hong Kong Pork Re-exports by Destination, MT, Jan – July .....	7
Table 7: Hong Kong Pork Imports by Categories, Jan – July .....	7
Table 8: Hong Kong Pork Re-exports by Categories, MT, Jan – July .....	7
Table 9: Hong Kong Retained Pork Imports by Categories, MT, Jan – July .....	8
Table 10: Hong Kong Pork Offal Imports by Major Suppliers, US\$ million, Jan – July .....	8
<b>Narrative on Supply and Demand, Policy &amp; Marketing</b> .....	<b>9</b>
Production.....	9
Consumption .....	11
Trade .....	12
Policy.....	14

## Situation and Outlook

Hong Kong had a chilled/frozen pork import market valued at about \$410 million in 2006. China was the largest supplier accounting for 51 percent of the market share, followed by Brazil with a market share of 20 percent. The U.S. ranked as the third largest supplier, supplying \$24 million of pork products to Hong Kong in 2006.

HK's pork imports for 2007 are expected to rise by 6% reaching 293,000 MT, as a result of the short supply of live pig supplies in early 2007 and the continuing shifting of consumption of fresh pork to chilled/frozen pork. 2008 pork imports are expected to rise by 2% reaching 300,000 MT.

There is no mentioning of ractopamine in Hong Kong food regulations. The Hong Kong government, therefore, does not take any trade suspension measures against U.S. pork because of ractopamine residue. To date, we are not aware that the Hong Kong government has taken any U.S. pork samples to test for ractopamine residue. U.S. pork trade to Hong Kong continues as usual.

The 2007 U.S. pork exports to Hong Kong are expected to rise about 8 percent in quantity. The buoyant economy spearheaded by the rising stock market and inbound tourism will continue to drive the demand for quality meat products. U.S. processed meat products such as ham, bacon, and sausages are highly receptive in both catering and retailing sectors. Actually, the U.S. sells more processed meats than frozen meats in the Hong Kong market. The sales of U.S. chilled meats, though very expensive and accounting merely 2.8 percent of U.S. pork exports to Hong Kong (excluding offals), have increased significantly in the early half of 2007 because of positive economic factors and the increasing concern for food safety. Local consumers, who have a high regard for the safety of U.S. products, tend to buy U.S. products out of food safety concerns. As such, U.S. chilled pork exports to Hong Kong will be able to maintain growth in the second half of 2007. In the area of frozen meats, the U.S. products are very price competitive in a variety of cuts such as butts, front and hide feet, etc. U.S. products are sold to both catering and retail sectors.

The U.S. export value of offals to Hong Kong was even higher than that of pork products. The U.S. was the largest supplier of pork offals to the Hong Kong market in 2006 and ranked the third for the first seven months of 2007. In 2006, Hong Kong imported \$36 million of pork offals from the U.S.

About 30 percent of Hong Kong's imports of all U.S. pork products including offals, by volume, are re-exported to China. In recent years, there have been increasingly more direct shipments from the U.S. to China because of better port developments in China. Given the expensive port handling charges in Hong Kong, there are no cost benefits for shipments to China to pass through Hong Kong, particularly for products to the northern part of China. However, at the same time the Chinese government does not allow ractopamine residue in pork imports and ports in northern China have stepped up surveillance and inspections measures for imports. Consequently, more U.S. shipments to China will be re-exported through Hong Kong during the second half of 2007, to take advantage of Hong Kong's lack of a ractopamine regulation. These shipments will then enter China through the southern province.

In the area of consumption, Hong Kong is undertaking the gradual trend to consume more chilled/frozen pork at the expense of freshly slaughtered pork as a result of changes in dietary and shopping habits. In 2007, chilled/frozen pork and freshly slaughtered pork accounted for 60 percent and 40 percent respectively. Back in 1998, the market share

between chilled/frozen pork and freshly slaughtered pork were 45 percent and 55 percent instead.

On the production side, in May 2007 a year-long voluntary pig farming license surrender scheme ended. (Through the scheme, farmers were reimbursed by the government by giving up the license for pig farm operation.) As a result, the local pig population will decline drastically from 220,000 to 41,000 head when all the scheme licenses have been surrendered. Hong Kong will rely further on China for live pig supplies.

Currently, about 90 percent of live pig demand in Hong Kong are supplied from China. For decades “Ng Fung Hong”, a mainland China corporation in Hong Kong was appointed by the Chinese government to be the sole agent for China’s live pig exports to Hong Kong. The monopoly finally ended in early 2007 when the company failed to bring in adequate supplies of live pigs to Hong Kong. Since then, pork prices in China have been very high and farmers prefer to supply the domestic market rather than selling to Hong Kong through Ng Fung Hong when the company did not offer attractive prices. This resulted in short supplies of live pigs in Hong Kong. The monopoly system of supplying live pigs to Hong Kong was then blamed for the short supplies. In order to ensure adequate supply of live pigs to Hong Kong, the China and Hong Kong governments finally agreed to allow two more agents to export live pigs to Hong Kong from China. Time will tell if the live pig market will be more efficient through competition by adding two new agents.

There are two pieces of upcoming legislative amendments that would affect U.S. processed meat exports to Hong Kong. They are the Preservatives Regulation and Nutrition Labeling Regulation. The Hong Kong government expects to complete the legislative process of both regulations by the end of 2007 and is considering to provide two years grace period to the trade to comply with the new changes.

With the new nutrition labeling scheme, U.S. exports of processed meat products would likely be required to change new labels for the Hong Kong market because Hong Kong’s nutrition labeling requirements will be different from the U.S. Meanwhile, post together with other consulate generals and trade are lobbying the Hong Kong government to provide exemption to small volume products (volumes = 100,000) so as to minimize the adverse impact of the labeling requirements on trade.

Also, the Hong Kong government is updating its Preservatives Regulation trying to adhere to Codex standards. As a result, the maximum permitted level of sodium nitrite in processed meats will be reduced from 200 ppm under the exiting Regulation to 125 ppm once the Regulation is amended. U.S. exporters are encouraged to look into report HK7018 and the following link to the Hong Kong government website for more details:  
[http://www.cfs.gov.hk/english/whatsnew/whatsnew\\_fstr/whatsnew\\_fstr\\_consult\\_paper.html](http://www.cfs.gov.hk/english/whatsnew/whatsnew_fstr/whatsnew_fstr_consult_paper.html)

## Statistical Tables – Meat, Swine

## PS&amp;D Table

Meat, Swine								
1000 HEAD(1000MT CWE)(PERCENT)								
	2006	Revised		2007	Estimate		2008	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	Post Estimate New	
Market Year Begin		01/2006	01/2006		01/2007	01/2007	01/2008	MM/YYYY
Slaughter (Reference)	0	0	0	0	0	0	0	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	0	(1000 MT CWE)
Production	146	146	142	139	139	135	138	(1000 MT CWE)
Intra-EU Imports	0	0	0	0	0	0	0	(1000 MT CWE)
Other Imports	310	310	277	317	317	293	300	(1000 MT CWE)
Total Imports	310	310	277	317	317	293	300	(1000 MT CWE)
Total Supply	456	456	419	456	456	428	438	(1000 MT CWE)
Intra EU Exports	0	0	0	0	0	0	0	(1000 MT CWE)
Other Exports	0	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	0	0	0	0	0	0	0	(1000 MT CWE)
Human Dom. Consumption	456	456	419	456	456	428	438	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	0	(1000 MT CWE)
Total Dom. Consumption	456	456	419	456	456	428	438	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	0	(1000 MT CWE)
Total Distribution	456	456	419	456	456	428	438	(1000 MT CWE)
CY Imp. from U.S.	6	6	12	6	6	13	14	(1000 MT CWE)
CY. Exp. to U.S.	0	0	0	0	0	0	0	(1000 MT CWE)
Balance	0	0	0	0	0	0	0	(1000 MT CWE)
Inventory Balance	0	0	0	0	0	0	0	(1000 MT CWE)
Weights	0	0	0	0	0	0	0	(1000 MT CWE)
Production Change	-1	0	-4	-5	-5	-5	0	(PERCENT)
Import Change	2	0	5	2	2	6	2	(PERCENT)
Export Change	0	0	0	0	0	0	0	(PERCENT)
Trade Balance	-310	-310	-277	-317	-317	-293	-300	(1000 MT CWE)
Consumption Change	1	0	1	0	0	2	2	(PERCENT)

Note: PS&D production figures include local and imported pigs slaughtered in Hong Kong. All numbers used in the PS&D table are in carcass-weight equivalent, using a conversion factor of 1.30. Imports are calculated as Imports minus Re-exports. Exports are calculated as Exports minus Re-exports.

**Table 1: Supply and Consumption of Live Pigs**

	2003	2004	2005	2006	% change
Local Supply	390,900	380,850	377,000	381,220	1%
Imports	1,767,538	1,870,365	1,674,343	1,590,268	-5%
Total	2,158,438	2,251,215	2,051,343	1,971,488	-4%

Source: Hong Kong Agriculture, Fisheries and Conservation Department

**Table 2: Average Wholesales Prices of Live Pigs (head)**

US\$/MT	2004	2005	2006	2007 Jan - June	% change
Live Pigs	1,712	1,800	1,854	1,998	8%

Exchange Rate: US\$1.00 = HK\$7.78

Source: Hong Kong Census & Statistics Department

**Table 3: Average Retail Prices of Pork Relative to Beef and Poultry (Freshly Slaughtered)**

US\$/kg	2004	2005	2006	2007 Jan- Jun	% change
Chicken (whole chicken)	5.60	5.55	6.25	6.99	12%
Beef (best quality)	7.17	7.34	7.57	7.63	1%
Beef (belly flesh)	5.47	5.56	5.76	5.88	2%
Pork (best cut)	<b>4.03</b>	<b>4.27</b>	<b>4.33</b>	<b>4.60</b>	<b>6%</b>
Pork Chop	<b>4.82</b>	<b>5.06</b>	<b>5.08</b>	<b>5.29</b>	<b>4%</b>

Source: Hong Kong Census & Statistics Department

**Table 4: Hong Kong Pork Imports in Value by Suppliers, US\$ million, Jan – July**

Country	Millions of US Dollars			% Share			% Change - 07/06 -
	2005	2006	2007	2005	2006	2007	
The World-	233.71	232.67	292.46	100	100	100	25.7
China	109.08	117.17	138.98	46.67	50.36	47.52	18.62
Brazil	54.77	51.83	57.12	23.43	22.28	19.53	10.22
Vietnam	15.43	7.65	16.03	6.6	3.29	5.48	109.54
<b>U.S.</b>	<b>7.74</b>	<b>14.25</b>	<b>15.43</b>	<b>3.31</b>	<b>6.12</b>	<b>5.28</b>	<b>8.31</b>
Spain	5.43	4.44	11.49	2.32	1.91	3.93	158.98
Germany	4.87	6.32	10.87	2.09	2.72	3.72	71.95
Netherlands	7.66	5.45	9.17	3.28	2.34	3.14	68.2
Belgium	4.21	2.76	4.43	1.8	1.19	1.52	60.69
Thailand	10.47	7.86	4.20	4.48	3.38	1.44	-46.5
Others	14.05	14.94	24.74	6%	6%	8%	66%

**Table 5: Average C.I.F. Prices of Pork by Major Suppliers, Jan – July**

US\$/Kg Country	2005	2006	2007	% Change - 07/06 -
The World	1.65	1.56	1.65	5.77
China	1.72	1.61	1.8	11.8
Brazil	1.93	1.76	1.8	2.27
Germany	0.69	0.78	0.96	23.08
Spain	0.81	0.85	1.11	30.59
Vietnam	2.13	1.62	2.01	24.07
Netherlands	1.07	1.06	1.22	15.09
<b>U.S.</b>	<b>2.39</b>	<b>1.92</b>	<b>2.08</b>	<b>8.33</b>
Belgium	1.01	0.93	1.08	16.13
France	1.08	1.35	1.06	-21.48

**Table 6: Hong Kong Pork Re-exports by Destination, MT, Jan – July**

Country	2005	2006	2007	% Change - 07/06 -
--The World--	18,564	20,242	41,030	103%
China	3,452	7,505	23,434	212%
Taiwan	11,628	10,137	12,400	22%
Macau	2,640	2,518	3,436	36%
Vietnam	81	1	1,703	340480%
Malaysia	13	12	16	33%
Others	750	69	41	-41%

**Table 7: Hong Kong Pork Imports by Categories, Jan – July**

	MT		% Change 07/06	US\$ million		% Change 07/06
	2006	2007		2006	2007	
pork	148,712	177,100	19	232.67	292.46	26
chilled pork	2,475	6,761	173	6.50	15.39	137
frozen pork	102,217	106,792	4	154.14	175.30	14
processed pork	44,021	63,547	44	72.03	101.77	41
variety meats, pork	98,913	158,781	61	104.63	176.25	68.45

**Table 8: Hong Kong Pork Re-exports by Categories, MT, Jan – July**

Description	2005	2006	2007	% Change - 07/06 -
pork	18,564	20,242	41,030	102.7
chilled pork	11	0	1	196.79
frozen pork	13,078	13,747	24,244	76.35
processed pork	5,475	6,494	16,786	158.47
variety meats, pork	25,792	30,651	108,862	255%

**Table 9: Hong Kong Retained Pork Imports by Categories, MT, Jan – July**

Description	2005	2006	2007	% change
pork	123,295	128,470	136,070	6%
chilled pork	3,035	2,474	6,760	173%
frozen pork	82,774	88,469	82,548	-7%
processed pork	37,486	37,526	46,761	25%
variety meats, pork	55,372	68,262	49,920	-27%

**Table 10: Hong Kong Pork Offal Imports by Major Suppliers, US\$ million, Jan – July**

Country	2005	2006	2007	% Share			% Change 07/06
				2005	2006	2007	
The World	75.35	104.63	176.25	100	100	100	68.45
Germany	15.20	15.27	38.90	20.17	14.6	22.07	154.75
Netherlands	15.90	16.59	24.95	21.1	15.86	14.16	50.38
<b>U.S.</b>	<b>5.49</b>	<b>18.77</b>	<b>24.92</b>	<b>7.28</b>	<b>17.94</b>	<b>14.14</b>	<b>32.74</b>
Brazil	8.03	15.11	23.13	10.66	14.44	13.12	53.04
Denmark	13.37	12.86	16.92	17.75	12.29	9.6	31.53
Canada	2.15	4.87	9.17	2.86	4.66	5.2	88.22
U.K.	2.67	3.72	7.82	3.54	3.55	4.44	110.38
France	1.73	3.46	6.83	2.29	3.31	3.87	97.18
Others	10.81	13.98	23.61	14%	13%	13%	69%

Source for tables 4 to 10: World Trade Atlas – Hong Kong Census & Statistics Department

## Narrative on Supply and Demand, Policy & Marketing

### Production

#### Supplies from China

The rising pork prices in China resulted in short supply of live pigs in Hong Kong in July 2007 and finally led to the end of the decades-long monopoly of live pigs supply to Hong Kong through the sole agent of Ng Fung Hong. In July 2007, the Hong Kong and Chinese governments agreed to grant the second license of live pigs supply to Hong Kong to Guangnan Hong, a Guangdong government enterprise. In addition, the Hong Kong Agriculture Special Zone Development Association, made up of Hong Kong pig farmers also applied for the license for being the third agent of live pigs supply to Hong Kong. The application was finally approved in October.

In 2006, Hong Kong consumed about 5,400 pigs daily, about 80 percent or 4,400 head came from China. The remaining 20 percent of pig supplies came from local farms. Ng Fung Hong was appointed by the Chinese Ministry of Commerce to be the sole supplier of Chinese live pigs to Hong Kong for decades. During this period, the Ministry required Ng Fung Hong to buy 20 percent of its pig supplies from Guangnan Hong for Hong Kong.

Before 2007, live pig supplies from China to Hong Kong have been generally stable. However, supply began to shrink in early 2007, culminating to the height in July. A monthly comparison between 2006 and 2007 is given in the following table.

#### Hong Kong's Imports of Live Pigs

Imports	Jan	Feb	Mar	April	May	Jun	Jul
2006	140,987	120,731	140,793	126,255	138,067	134,519	140,223
2007	129,669	112,305	129,963	122,578	133,407	135,912	123,240
% change	-8%	-7%	-8%	-3%	-3%	1%	-12%

Source : World Trade Atlas, Hong Kong Census and Statistics Department

In early July, the daily supply declined from an average of 4,400 head to between 3,000 and 3,400 head. The short supply could be ascribed to several major reasons. Firstly, live pig supplies in China have decreased due to continuing urbanization and strengthened control of farming. Secondly, there has been an increase in feed prices and labor and transportation costs. Thirdly, animal diseases found in some parts of Mainland China have affected the production of live pigs. In addition, the growing affluence of the Chinese economy has also boosted the demand for quality pork in China. Consequently, the supply of live pigs in China could not meet increasing demand and prices. China's domestic market prices for pigs have exceeded the prices offered by Ng Fung Hong by HK\$200 (US\$26) to HK\$300 (US\$39) for every pig. The price difference between China's domestic and export prices resulted in the shortage of live pig supplies to Hong Kong.

Since the short supply of live pigs to Hong Kong threatened the livelihood of the pork trade industry including transport companies, the trade lodged serious complaints to the Hong Kong government accusing Ng Fung Hong not being able to provide adequate live pig supply to Hong Kong. On July 20, 2007, Hong Kong's Food and Health Bureau and China's Ministry of Commerce reached an agreement to add Guangnan Hong as another agent apart from Ng Fung Hong to import live pigs directly from China to Hong Kong. Both Hong Kong and Chinese governments also agreed to add a third agent. Three months later in September, a

Hong Kong company made up of Hong Kong farmers has applied for the third agent license. These farmers are operating pig farming in China and wanted to supply live pigs to Hong Kong. The application is currently under review by the Chinese government.

The average consumption of live pigs in Hong Kong is approximately 5,500 head daily. The government has not yet revealed the allocation of the quota among the three agents. However, these series of events prompted by the rising pork prices in China finally led to the ending of the monopoly of live pig supplies to Hong Kong.

With an average daily demand for about 5,400 live pigs, the Chinese and Hong Kong governments could not appoint too many agents in order to make the business viable. Both governments hope that the addition of two new agents would ensure the supply and quality of live pigs to Hong Kong. The move should be able to bring fair competition as well as efficiency to the market.

#### Local Supplies

The local supply of live pigs has drastically dwindled after the voluntary pig farm license surrender scheme launched by the Hong Kong government on June 1, 2006. The Hong Kong government policy is to discourage local pig farming due to environmental problems such as waste pollution. It, therefore, launched the license surrender scheme which lasted between June 1, 2006 and May 31, 2007. Farmers were reimbursed by the government by giving up the license for pig farm operation.

Before the inception of the scheme, there were 265 pig farms in Hong Kong rearing about 330,000 pigs. These farms used to supply about 20 percent of the local fresh pork market. The actual total rearing capacity was about 430,000 pigs. By the end of the scheme, 244 pig farms submitted their license. If all the applications are granted, the local pig population will decline from 220,000 to 41,000 head. The current pig population is 150,000 head.

The current daily supply of live pigs from local farms averages 300 to 400 head, representing less than 10 percent of daily demand.

Some of the farmers who have surrendered their license have set up or are planning to set up farming operations in China. Their initial plan is to supply the domestic market in China. With the opening up of the Hong Kong live pigs import market, they have formed a Hong Kong company, which has applied to be the third agent to supply live pigs to Hong Kong.

#### The Forecast

The short supply of live pigs will affect the 2007 production level. The local supplies of live pigs have decreased due to the license surrender scheme while Ng Fung Hong has not been able to bring in enough live pigs imports to Hong Kong for consumption. As such, the 2007 production level may drop 5 percent reaching 135 KMT. Once the quota details are worked out, the 2008 production level of live pigs will be able to rise slightly to 138 KMT. Nonetheless, it is very unlikely to have drastic increase of live pig production in Hong Kong in the future because consumers are getting more and more acceptable to replace freshly slaughtered pork with chilled or frozen pork.

In 2006, local supplies accounted for about 20 percent of total supplies, while imports for 80 percent. With the closing up of local farms in Hong Kong, local supplies have dwindled to less than 10 percent of total supplies. When the applications for license surrender are approved and the licenses are expired, the local supplies of live pigs will be further decreased

to 2 percent of total supplies. By then, 98 percent of the live pigs consumption in Hong Kong will be supplied from China by the three appointed agents.

### Consumption

Pork is a popular meat in Hong Kong. Hong Kong people, however, gradually consume more chilled and frozen pork at the expense of freshly slaughtered pork because of change of dietary and shopping habit. Ten years ago, Hong Kong people mainly shopped in wet markets. They rarely bought groceries and meat in supermarkets. However, in the past decade, this changed significantly as supermarkets changed to include meat and groceries counters. Supermarkets, unlike wet market stores, equipped with refrigerating facilities have made it possible to display and sell chilled and frozen meats. The table below depicts the change of consumption pattern among freshly slaughtered and chilled/frozen pork. This trend is expected to continue in the future, given the growing receptivity of chilled and frozen meats by Hong Kong consumers.

Consumption Percentage of Freshly Slaughtered Pork and Chilled/Frozen Pork

	Freshly slaughtered pork	Chilled/Frozen Pork	Total
1998	161,480 (55%)	131,086 (45%)	292,566 (100%)
2004	161,434 (43%)	216,004 (57%)	377,438 (100%)
2005	147,611 (45%)	181,284 (55%)	328,895 (100%)
2006	142,195 (43%)	185,348 (57%)	327,543 (100%)
2007	135,000 (40%)	199,030 (60%)	334,030 (100%)

- Note: 1 Products are in carcass weight. Chilled and frozen pork use the conversion rate of 1.30.
- 2 2007 estimates are based on first seven months' figures.
- 3 The consumption of pork in 2004 was exceptionally high because Hong Kong suspended chicken imports from the U.S. and China for several months due to Avian Influenza cases in the two countries. As a result of substitution effect, the consumption of pork was exceptionally high in 2004.

### Chilled Pork Supply from China

Hong Kong consumers have gradually established the habit of buying chilled pork from China instead of spending more money for the same quantity of freshly slaughtered pork. This trend will deepen with time resulting in the gradual decline of fresh pork consumption. Effective August 2006, Hong Kong allowed entry of chilled pork from China. Chilled pork from China has constantly been increasing since then with salient jump in March 2007 when there was a short supply of fresh pork. The expensive pork prices in 2007 serves as a stimuli to Hong Kong consumers to switch the consumption of fresh pork to chilled pork, primarily chilled pork from China because of price consideration and geographical proximity. Given the significant price difference of freshly slaughtered and chilled pork, consumption of chilled pork dramatically has increased. (China's chilled pork is US\$2.30/lb versus freshly slaughtered pork costs US\$3/lb.)

The following table shows Hong Kong's imports of chilled pork from China starting August 2006 and the remarkable increase in March 2007. When the supply of fresh pork gradually returned to normal in May, Hong Kong's imports of chilled pork from China then started to decline; but the import level in July was still higher than that in February.

## Hong Kong's Imports of Chilled Pork from China

	US\$ million	MT
	0	
Aug-06	0.07	36,819
Sep-06	0.46	234,139
Oct-06	0.60	306,128
Nov-06	0.61	309,979
Dec-06	0.88	445,992
Jan-07	1.33	649,778
Feb-07	1.10	569,321
Mar-07	1.95	971,180
Apr-07	1.96	948,240
May-07	1.85	888,030
Jun-07	1.91	856,473
Jul-07	1.87	791,619
Aug-07	1.87	759,907

Source : World Trade Atlas – Hong Kong World Trade Atlas

### Trade

Since Hong Kong's food regulations do not have any mention of Ractopamine, it has not taken any action against U.S. pork imports because of Ractopamine residue in meat products. U.S. pork products continue to flow into Hong Kong as normal. Actually, some meat products which should have been destined to China and Taiwan have been diverted to Hong Kong because these places do not allow meat products with detectable Ractopamine residue.

The U.S. ranked as the fourth largest supplier of pork to Hong Kong after China, Brazil and Vietnam for January – July 2007. In the first seven months of 2007, Hong Kong imported US\$15.4 million of pork products and another \$24.9 million of variety meats from the U.S. About 98 percent of the U.S. pork products to Hong Kong are for mass consumption. The most popular items include neck-bone, brisket bone, offals, pork-feet, stomach, tongues, ears, etc. For these low-end products, U.S. products could be very competitive with its key competitor, Brazil. They are sold primarily to fast food restaurants and both Chinese and western food restaurants.

U.S. chilled meats are very expensive in Hong Kong because most of them are flown in by air. The key competitor of U.S. chilled pork in the Hong Kong market is Australia. U.S. products in Hong Kong are more expensive than comparable products from Australia because of higher freight costs. Therefore, U.S. chilled products are supplied only to the very high end retail outlets and five-star hotels.

The table below depicts the breakdown of U.S. imports to Hong Kong.

January - July	Millions of US Dollars,			% Share			% Change
	2005	2006	2007	2005	2006	2007	- 07/06 -
pork	7.74	14.25	15.43	100	100	100	8.31
processed pork	5.29	6.76	8.94	68.43	47.45	57.94	32.24
frozen pork	2.34	7.26	6.06	30.29	50.94	39.26	-16.52

chilled pork	0.10	0.23	0.43	1.27	1.61	2.8	88.94
Variety Meats	5.49	18.77	24.92	100	100	100	32.74

In 2007, Hong Kong's imports of U.S. pork are expected to rise about 8 percent in quantity. The category of processed pork, accounting for 58 percent of all U.S. pork imports, is expected to grow given the buoyancy of the economy. U.S. bacon, ham and sausages are very receptive in the Hong Kong market both for retail and catering sectors. In addition, as a result of the growing concern for food safety, more Hong Kong consumers are willing to pay the premium for U.S. chilled pork. U.S. chilled pork is expected to have significant growth in 2007. Furthermore, Hong Kong's imports of U.S. frozen meats will likely to rise in the latter half of the year because more shipments to China would pass through Hong Kong for transshipment, resulting from the stringent inspection measures currently enforced in some northern ports in China.

In recent years, there have been increasingly more direct shipments from the U.S. to China because of better port developments in China. Given the expensive port handling charges in Hong Kong, there are no cost benefits for shipments to China to pass through Hong Kong, particularly for products to the northern part of China. However, the Chinese government prohibition on ractopamine residue in pork imports will likely encourage U.S. pork products re-exported to China through Hong Kong. It was reported that ports in northern part of China have stepped up surveillance and inspections measures for imports. Consequently, more U.S. shipments to China will be re-exported through Hong Kong during the second half of 2007. These shipments will then enter China through the southern province. (Direct shipments from the U.S. to China have been growing constantly. According to U.S. Meat and Export Federation, 77 percent of U.S. pork to China are exported directly while only 23 percent are re-exported through Hong Kong.)

China and Brazil are the two largest pork suppliers to Hong Kong. They are very strong in a variety of cuts including pork loin, sparerib, etc. China in fact is the largest supplier for chilled pork for the Hong Kong market. Chilled pork from China accounted for 77 percent of all Hong Kong chilled pork imports. For frozen cuts, there is a huge demand for butt because the cut is suitable for preparing a very popular Chinese dish - roast pork. Other good sales cuts include fillet, and loins. Most of the Chinese frozen pork products are sold to restaurants. Brazilian products are popular not only among caterers but also for retailers because specifications are good for retail. Their products are very price competitive.

Traditionally, pork demand became sluggish after the peak season in Chinese New Year. The demand for pork this year is exceptionally high. Demand has been high even after the Chinese New Year and is expected to remain acute throughout the year. In 2007, short supplies of domestic pork and growing demand have pushed up pork prices in China. As such, Hong Kong's re-exports of pork to China have tremendously increased by 212 percent between January – July 2006 and the same period in 2007.

As a result of these increasing demands in both the local and re-export markets in China, Hong Kong's pork imports in 2007 are expected to rise for 12 percent in 2007. When the re-export element is excluded, the local market will also boost imports by 6 percent as a result of positive economic environment and substitution between freshly slaughtered pork and chilled/frozen pork.

## Policy

As mention earlier in this report, there are two pieces of upcoming legislative amendments that will likely affect U.S. processed meat exports to Hong Kong. These are the Preservatives Regulation and Nutrition Labeling Regulation.

U.S. processed pork exports to Hong Kong may be affected by a nutrition labeling proposal. The Hong Kong government is planning to have the legislative process completed before the end of 2007. According to the latest proposal, mandatory nutrition labeling for all prepackaged foods will take place as early as 2009. The presentation format of nutrient format in Hong Kong's proposal is different from that of the U.S. labeling system. Therefore, U.S. processed meat exports will be required to change nutrition labels for the Hong Kong market. Considering that about 58 percent of U.S. pork products (excluding offals) to Hong Kong are processed meat, the upcoming nutritional labeling requirements will have a significant impact on U.S. pork exports to Hong Kong.

Even though, the Hong Kong government allows nutrients to be expressed in metric units per servings, U.S. exports to Hong Kong still need to change the label specific for the Hong Kong market because of discrepancy in Nutrients Reference Value (or Daily Values called in the U.S.), the definition of carbohydrates and the labeling of vitamins and minerals between the U.S. and Hong Kong systems.

For more details and impact of the report, please refer to gain reports: HK5020 & 7011.

Another important legislative change that might affect U.S. processed meat exports to Hong Kong is amendments to the Preservatives Regulation. As a result of the amendment, the maximum permitted level of sodium nitrite in processed meats will be reduced from 200 ppm under the existing Regulation to 125 ppm.

The HKG is in the process of bringing its list of permitted preservatives and tolerances into alignment with Codex before the end of 2007. This is expected to result in an increase in the permitted level of preservatives in about 70 specified products, and a decrease in levels for nearly 30 specified products. Sodium nitrite in processed meats is one of the preservatives whose permitted level will be lowered.

U.S. exporters are encouraged to review details of the changes of the Preservatives Regulation, which can be found in Gain reports 7003 & 7018, and the Hong Kong government website at:  
[http://www.cfs.gov.hk/english/whatsnew/whatsnew\\_fstr/whatsnew\\_fstr\\_consult\\_paper.html](http://www.cfs.gov.hk/english/whatsnew/whatsnew_fstr/whatsnew_fstr_consult_paper.html)