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## Hong Kong

### Retail Food Sector

### Annual

### 2007

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**Report Highlights:** With a population of just 7 million, Hong Kong (HK) is a top 10 market for U.S. food and beverage exports. For 2007, post estimates HK's total imports of U.S. Consumer Oriented Agricultural Products (COAP) and Seafood will surge over 16% to well over US\$1 billion, compared to US\$875 million in 2006. In addition, given the weak U.S. dollar, U.S. exports will likely continue to enjoy price competitiveness over other suppliers. Moreover, the 2008 Olympics Games in Beijing, as well as HK are expected to attract 2-3 million more tourists. Though still hampered by unjustified restrictions on bone-in beef, U.S. exports of red meat to HK have more than doubled in 2007. HK's affluent economy, consistent rule of law, transparent import regulations and sophisticated business infrastructure make it an attractive market for U.S. exports. As an important transshipment point, HK re-exported 27% of its gross imports of COAP and Seafood to other markets. For the first 10 months of 2007, retail sales of food and beverages have increased over 7% compared to the same period in 2006 and are expected to maintain this pace for the rest of the year. The top U.S. export items to HK include nuts, poultry meat and fruit. Items that have increasing growth potential include eggs, vegetables, wine and ginseng root. In 2008, HK's economy is expected to grow by 6%.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Hong Kong [HK1]  
[HK]

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## SECTION I. MARKET OVERVIEW

## Food Imports

- Due to limited land resources, Hong Kong relies on imports for about 95% of its food supply. Local production contributes to only 4% of fresh vegetables, 52% of live poultry, and 18% of live pigs. In 2006, Hong Kong's agricultural industry produced US\$152 million in agricultural products in total.

**Hong Kong's Imports (2001-2007)**  
**Consumer Oriented Agricultural Products<sup>1</sup> (COAP) and Seafood**

Supplier	(in US\$ million)	2001	2002	2003	2004	2005	2006	(Post Est.) 2007	Growth 07/06
The World	Gross Imports	6,889	6,834	6,770	6,976	7,152	7,647	9,093	19%
	Re-exports	2,146	2,000	1,835	1,529	1,474	1,775	2,528	42%
	Retained Imports <sup>2</sup>	4,743	4,834	4,935	5,447	5,678	5,873	6,566	12%
China	Gross Imports	1,543	1,593	1,614	1,718	1,827	1,854	1,975	6%
	Re-exports	281	291	264	267	287	296	306	3%
	Retained Imports	1,261	1,302	1,350	1,451	1,541	1,558	1,669	7%
Brazil	Gross Imports	277	290	363	435	481	645	1,018	58%
	Re-exports	88	120	180	105	124	273	518	90%
	Retained Imports	189	170	183	331	357	372	500	34%
United States	Gross Imports	1,231	1,146	1,085	882	824	875	1,017	16%
	Re-exports	629	535	428	201	191	220	335	52%
	Retained Imports	601	611	657	681	633	655	682	4%
Japan	Gross Imports	307	342	360	382	439	485	591	22%
	Re-exports	41	37	38	36	36	38	37	-3%
	Retained Imports	266	305	321	346	403	446	554	24%
Australia	Gross Imports	463	450	441	458	440	485	523	8%
	Re-exports	56	53	42	38	37	41	58	44%
	Retained Imports	407	397	399	421	403	444	465	5%
Thailand	Gross Imports	380	374	341	328	319	338	428	27%
	Re-exports	140	145	130	140	143	161	237	48%
	Retained Imports	240	229	211	188	177	177	190	8%
France	Gross Imports	105	99	105	140	140	147	257	75%
	Re-exports	36	35	35	23	27	39	84	115%
	Retained Imports	69	64	70	117	114	108	173	61%
New Zealand	Gross Imports	219	176	152	168	164	191	213	12%
	Re-exports	47	26	27	50	42	75	27	-64%
	Retained Imports	171	151	125	118	121	116	186	60%
Netherlands	Gross Imports	177	154	141	147	156	166	211	27%
	Re-exports	59	48	32	32	28	34	92	169%
	Retained Imports	118	106	109	115	127	132	118	-10%
Canada	Gross Imports	192	207	196	210	216	208	206	-1%
	Re-exports	85	72	55	59	27	26	37	46%
	Retained Imports	107	135	140	151	190	182	168	-8%
Total of Above Top 10 Suppliers	Gross Imports	4,892	4,832	4,796	4,870	5,006	5,393	6,438	19%
	Re-exports	1,462	1,362	1,231	950	942	1,203	1,733	44%
	Retained Imports	3,430	3,469	3,564	3,920	4,064	4,190	4,705	12%
Rest of the World	Gross Imports	1,997	2,003	1,975	2,107	2,146	2,254	2,655	18%
	Re-exports	684	638	604	579	532	571	795	39%
	Retained Imports	1,313	1,365	1,371	1,527	1,614	1,683	1,860	11%

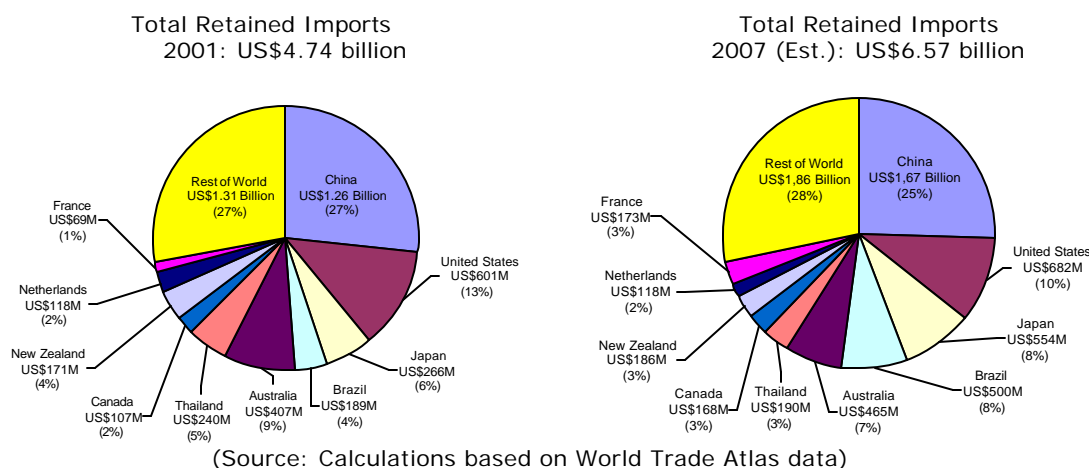
(Source: Calculations based on World Trade Atlas data)

<sup>1</sup> Consumer Oriented Agricultural Products (COAP) refers to agricultural products that require little or no additional processing and are generally ready for final consumption at either the food retail or food service level. Examples of COAP are: red meat, poultry meat, snacks, breakfast cereals, pancake mix, fruits and vegetables, fruit and vegetable juices, tree nuts, wine, beer, cut flowers and pet foods.

<sup>2</sup> Retained Imports = Gross Imports – Re-exports

- Hong Kong is a mature and sophisticated market with a growing demand for gourmet foods. At the same time, most Hong Kong shoppers are price conscious consumers looking for “value for money” products. Hong Kong’s imports of COAP and Seafood products are expected to reach US\$6.8 billion and US\$2.2 billion respectively in 2007, an increase of 22% and 10% over 2006. The increase was mainly due to the continued growth of the Hong Kong economy which has raised the demand for food imports. Major import items include red meats, fruits, poultry meat, seafood and tree nuts.
- “Retained” imports of COAP and Seafood products have grown from US\$4.74 billion in 2001 to US\$6.57 billion in 2007, an increase of 39%. However, U.S. market share has fallen by about 3% as Brazil’s meat exports to the region have picked up significantly so did Canada. The following charts show the market share of the major suppliers of these products in 2001 and 2007 (figures for 2007 are estimated).

**Market Share of Agricultural Product Suppliers to Hong Kong**



- China continues to lead as the largest supplier of COAP and Seafood products to Hong Kong, followed by the U.S. In 2007, post estimates that retained imports of products from China and the U.S. will reach US\$1.67 billion and US\$682 million respectively, representing market shares of 25% and 10%.
- It should be noted that in terms of “gross imports” of COAP and Seafood products, Brazil overtook the U.S. position as the 2nd largest food supplier to Hong Kong in 2007:

**Hong Kong Gross Imports of COAP and Seafood (US\$ million)**

Rank	Supplier	Jan-Oct 2006 (A)	Jan-Oct 2007 (B)	Growth (B)/(A)
	The World	6,198	7,370	19%
1	China	1,539	1,639	6%
2	Brazil	520	821	(+US\$300M) 58%
3	United States	681	792	16%
4	Japan	389	474	22%
5	Australia	394	425	8%
6	Thailand	281	356	27%
7	France	114	199	75%
8	New Zealand	162	181	12%
9	Netherlands	139	176	27%
10	Canada	171	169	-1%

(Source: Calculations based on World Trade Atlas data)

## Hong Kong Imports of COAP and Seafood Products from Brazil (US\$ million)

HS	Description	Jan-Oct 2006 (A)	Jan-Oct 2007 (B)	Growth (B)/(A)
	COAP Total	493	793	61%
	Seafood Products	27	28	4%
	COAP + Fish & Seafood Products	520	821	58%
<b>TOP 5 items from Brazil to Hong Kong</b>				
0207	Meat & Ed Offal Of Poultry	244	400	64%
0206	Ed Offal	122	203	67%
0203	Meat Of Swine	61	98	59%
0202	Meat Of Bovine Animals	52	70	35%
0305	Fish, Dried, Salted Etc	26	28	5%

- The most significant growth in gross imports from Brazil in 2007 has been meat and edible offals, which accounted for over 73% of Brazil's COAP and Seafood export growth to Hong Kong in 2006-07. This growth is largely due to the large demand in mainland China which has a short supply of those products. For the first 10 months of 2007, of its US\$7.37 billion gross imports of COAP and Seafood products, Hong Kong re-exported US\$1.99 billion, or 27% to the world. Of the US\$1.99 billion re-exports, US\$1.06 billion, or 53% went to China. Out of that US\$1.06 billion re-exported to China, US\$236 million of those products were of Brazilian origin, compared to US\$99 million for the same period in 2006. In addition to being a lucrative market in its own right, Hong Kong serves as an important gateway to China as well as the Asia-Pacific region. About 27% of Hong Kong's imports of COAP and Seafood products are re-exported and 53% of all those re-exports went to China and 10% went to Macau.
- Hong Kong's imports of COAP and Seafood products from the World** continue to grow in 2007.

## Hong Kong Imports of COAP and Seafood Products from the World (US\$ million)

HS Code	Description	Jan-Oct 2006 (A)	Jan-Oct 2007 (B)	Growth (B)/(A)	
	COAP	4,540	5,548	22%	
	Seafood Products	1,658	1,823	10%	
	COAP and Seafood Products	6,198	7,370	19%	
<b>TOP 20 Items</b>					
0207	Meat & Ed Offal Of Poultry	535	735	37%	*
0307	Molluscs	517	600	16%	
0206	Ed Offal	308	530	72%	*
0305	Fish, Dried, Salted Etc	311	331	7%	
0306	Crustaceans Live Fresh Etc	289	329	14%	
0203	Meat Of Swine	227	294	29%	*
2201	Waters, Natural Etc	233	267	15%	
0802	Nuts	144	229	59%	*
1602	Prepared Or Preserved Meat	153	211	38%	*
0402	Milk And Cream	189	203	7%	
0810	Fruit, Fresh	144	192	33%	*
210690	Food Preparations	160	172	8%	
2204	Wine	82	154	88%	*
0301	Fish, Live	135	153	13%	
0202	Meat Of Bovine Animals	108	149	38%	*
0805	Citrus Fruit, Fresh Or Dried	163	148	-9%	
1905	Bread, Pastry, Cakes Etc	131	140	7%	
0806	Grapes, Fresh Or Dried	136	130	-4%	
1704	Sugar Confection	111	125	13%	
2202	Waters, Sweetened Etc	113	121	7%	

(Source: Calculations based on World Trade Atlas data)

(\* Fast-growing items are marked with an asterisk)

- Hong Kong imports of COAP and Seafood products from the U.S.** have also grown impressively in 2007. Hong Kong is the 10th largest U.S. export destination for COAP and Seafood products. Hong Kong imported over US\$722 million worth of consumer-oriented products from the U.S. in the first 10 months of 2007, which accounted for 13% of the market share. The top U.S. exports to Hong Kong in 2007 are poultry meat, tree nuts, fruit & vegetables are the leading items (please see table below). U.S. products have been more price-competitive because of the weakening of the U.S. Dollar. In addition, as the Hong Kong economy continues to improve, consumers have been looking for better quality products from around the world. The frequent food scares originating from food supplies in China have also driven the demand of high quality products from the U.S., and are opening up more opportunities for organic products. Post anticipates continued growth and forecasts a rise of 16% in U.S. COAP and Seafood exports to Hong Kong in 2008.

**Hong Kong Imports of COAP and Seafood Products from the U.S.**

HS Code	Description	Jan-Oct 2006 (A)	Jan-Oct 2007 (B)	Growth (B)/(A)
	COAP	619	722	17%
	Seafood Products	63	70	11%
	COAP and Seafood Products	681	792	16%
<b>TOP 20 Items</b>				
0802	Nuts	42	113	167% *
0207	Meat & Ed Offal Of Poultry	69	64	-7%
0805	Citrus Fruit, Fresh Or Dried	92	60	-35%
0206	Ed Offal	27	50	89% *
0806	Grapes, Fresh Or Dried	52	45	-13%
0307	Molluscs	38	43	13%
0809	Apricots, Cherries, Peaches, Plums & Sloes	30	32	5%
210690	Food Preparations	29	30	1%
0808	Apples, Pears And Quinces	25	28	10%
121120	Ginseng Roots, Fresh Or Dried	12	22	77% *
0202	Meat Of Bovine Animals	4	19	357% *
2004	Vegetables	15	19	31% *
0407	Birds' Eggs	12	19	52% *
0810	Fruit	10	15	58% *
1601	Sausages	16	15	-8%
2103	Sauces & Prep	18	15	-17%
230910	Dog And Cat Food	14	15	4%
1602	Prepared Or Preserved Meat	11	14	28% *
0306	Crustaceans Live Fresh Etc	8	13	64% *
2009	Fruit Juice	17	12	-30%

(Source: Calculations based on World Trade Atlas data)

(\* Fast-growing items are marked with an asterisk)

- For Seafood products, Japan, Australia, China, Indonesia and Thailand, New Zealand and the U.S. are the top seven suppliers to Hong Kong. The U.S. is expected to export US\$85 million worth of Seafood products to Hong Kong and maintain 4% of the market share in 2007, a rise of 11% over 2006. The high quality of U.S. Seafood products and the weak U.S. Dollar contribute to its export growth. Importers are optimistic that the growth of U.S. Seafood exports to Hong Kong will continue to be at around 11% in 2008.
- Additionally, many more products have been transshipped to China but not officially recorded in Hong Kong trade statistics, as some of these transshipments were going through the "grey" channels. Although a majority of Chinese imports are shipped directly to mainland China without landing in Hong Kong, traders report that a significant amount of the decision making process, including placing orders, takes

place in Hong Kong. Many U.S. exporters, particularly those new to Asia, have said they feel more comfortable dealing with Hong Kong traders who generally conduct business in English. U.S. exporters can also take comfort in Hong Kong's consistently applied import regulations, rule of law, efficient business infrastructure, free flow of capital and zero tariffs on all agricultural products except alcoholic beverages. With 12% of U.S.-origin COAP and Seafood products transshipped, Hong Kong remains a stepping stone to China.

## Economy

- Hong Kong strong economy has continued to grow in 2007, thanks to the robust performance of its export markets (especially China<sup>3</sup>), the external sector and an upsurge of consumer spending and investment. The following figures illustrate the size of the Hong Kong economy and the purchasing power of its consumers, indicating that virtually all of them can afford imported food:

	2007 (estimated <sup>4</sup> )	Growth over 2006
GDP	US\$200 billion	+6%
GDP per capita	US\$29,000	+6%
Retail sales on Food	US\$7 billion	+5%
Restaurant receipts	US\$8.5 billion	+8%
No. of tourists	26.5 million	+5%

(Source: Hong Kong Census and Statistics Department)

- Hong Kong's real GDP rose 6.2% in the 3<sup>rd</sup> quarter of 2007. The Hong Kong Government (HKG) expects GDP growth has been upward revised to 6% for 2007 as a whole. The unemployment rate fell to 3.6% in September-November 2007, from its peak of almost 9% in 2003. The drop in unemployment was mainly due to improvements in the wholesale trade, restaurant and construction sectors.
- Consumer spending posted solid growth amid stronger consumer sentiment and improving employment prospects. Retail sales grew by 6.1% in value in 2006 and 5.5% in the first nine months of 2006. Inflation has been edging up, particularly in the food retail sector because of increased prices from short Chinese supplies and a strong Renminbi (the Chinese currency), with year-on-year increase in food prices enlarged from 4.6% in August 2007 to 6% in September 2007.
- In 2008, it is expected that both the GDP and retail sales on food will continue to grow at a rate of 6%. As more tourists will visit Hong Kong before or after their visits to Beijing for The Olympics Games, restaurant receipts are expected to grow at 15% in 2008<sup>5</sup>.
- The second phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA II) was concluded in August 2004, providing further liberalization measures on trade in goods and services on top of its first phase agreed in June 2003. China imposes high import tariffs but based on CEPA, Hong Kong products enjoy duty-free access to China. This would allow U.S. products that face import restrictions from China to undergo some "value-added process" such as re-packaging and re-labeling in Hong Kong, after which those products may be eligible to enter China under CEPA.

<sup>3</sup> Hong Kong's total exports in 2006 were over US\$322 billion, a jump of 10.4% over 2005. Hong Kong's exports to its largest market – China reached US\$149 billion in 2006, an increase of 14.6% over 2005. Source: Calculations based on World Trade Atlas data

<sup>4</sup> Forecast by the Hong Kong government and the tourism trade

<sup>5</sup> Forecast by the Hong Kong government and interviews with members of the HRI trade

- In addition, under CEPA's Individual Visit Scheme (IVS), Mainland Chinese can visit Hong Kong individually. Prior to this new measure, Mainland residents could only visit Hong Kong if they joined a tour group. Macau is also included under this scheme, which has played a major role in Macau's rapidly growing casino and tourism sectors. This measure has ensured that Hong Kong and Macau will continue to be supplied with a significant number of tourists from mainland China, estimated to reach 26 million in 2007 for Hong Kong and Macau combined.
- Despite having one of the world's lowest income tax rates (16%) and no sales tax, the HKG had a budget surplus of over US\$7 billion, equivalent to US\$1,000 per Hong Kong citizen in 2006. Among various measures to stimulate economic growth, the HKG reduced the high tax on wine (80% to 40%) and beer (40% to 20%). This is expected to further fuel the growth of the businesses of food retailers, restaurants and pubs by another 10%<sup>6</sup>.

### Retail Sales and Outlets

- Total retail sales of food and drinks in Hong Kong for 2006 reached US\$6.7 billion, representing a growth of 5% compared to 2005. (Restaurant receipts in 2006 amounted to US\$7.9 billion.) For January – September 2007, retail sales of food for traditional markets and supermarkets, increased 7.7% and 5.7% respectively, compared with the same period last year. The outlook for spending is promising. Given a continuing buoyant economy, post estimates that retail sales will continue to grow by around 7% in 2008.
- Despite a highly centralized supermarket retail network, with two supermarket chains accounting for about 80% of the supermarket turnover, the total number of retail establishments stands at approximately 14,842. These retail establishments include (1) 72 supermarkets and convenience store establishments (the number of supermarkets and convenience stores is about 1,384 if branch outlets are included) and (2) 13,458 wet market stalls and "mom and pop" shop operators. Retail shops in Hong Kong generally are very small in size, about 98% of which hire less than 10 employees<sup>7</sup>.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and mom-and-pop shops. While both wet market and supermarket sales are increasing, supermarkets are taking a greater share of total sales. The supermarket's share in terms of retail sales rose from 44% of total sales in 1995 to 53% in 2006.
- Although there will not be significant growth of the number of supermarkets<sup>8</sup>, retail sales share of supermarket is expected to continue to expand in the future at the expense of that of traditional markets. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets.

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<sup>6</sup> Interviews of retailers, restaurants and pubs by the local media

<sup>7</sup> Based on latest available statistics (2005) from the Hong Kong Census and Statistics Department and GAIN Report HK6028

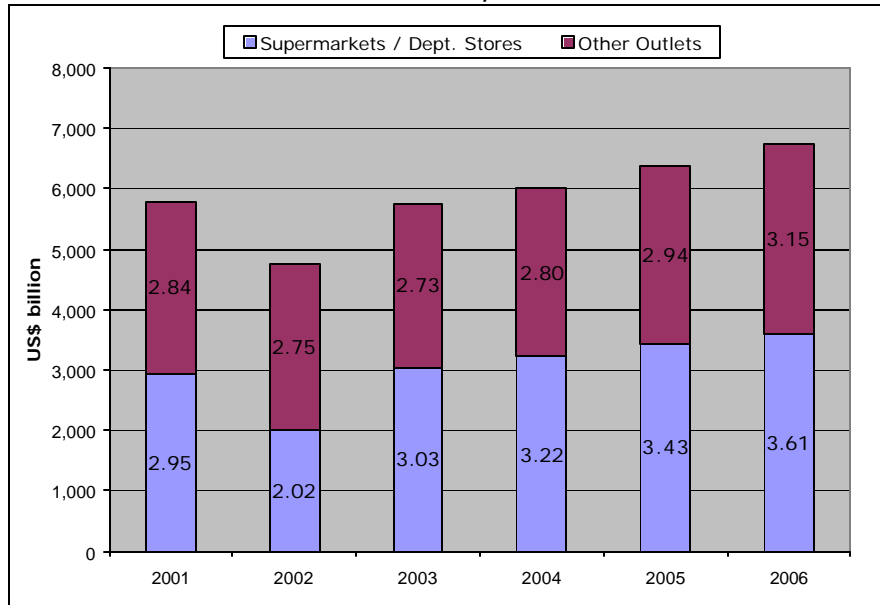
<sup>8</sup> Statistics on the number of supermarkets between 2001-2005, Hong Kong Census and Statistics Department



**Retail Sales between 2001 – 2006, in US\$ billion**

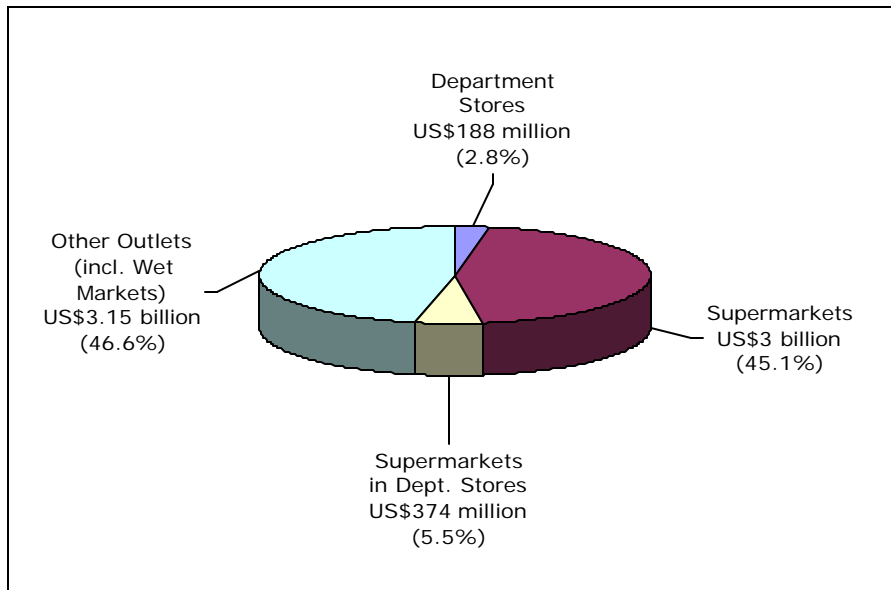
	2001	2002	2003	2004	2005	2006
Supermarkets/Dept. stores	2.95	3.02	3.03	3.22	3.43	3.61
Other outlets	2.84	2.75	2.73	2.80	2.94	3.15
<b>Total</b>	<b>5.79</b>	<b>5.76</b>	<b>5.76</b>	<b>6.02</b>	<b>6.37</b>	<b>6.76</b>

**2006 Retail Sales, US\$6.76 billion**



**Percentage of Sales by Retail Outlets**

	2001	2002	2003	2004	2005	2006
Supermarkets/ Dept. stores	51%	52%	53%	53%	54%	53%
Other outlets	49%	48%	47%	47%	46%	47%
Total	100%	100%	100%	100%	100%	100%



- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, chilled and frozen, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have turned air-conditioned and provide free shuttle to nearby residential areas.

## Import Regulations

- **Import Duties & Import Certificates**

Food products can be imported to Hong Kong duty free except for cigarettes, wine, beer and spirits. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The HKG accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government. For details of general import regulation, please refer to GAIN Report #7017.

- **Proposed Nutritional Labeling Law**

The HKG has proposed a nutrition labeling law for retail packaged foods and beverages. The proposed regulation would impose a unique, rigid labeling scheme. Nearly every product would require thousands of dollars in initial and/or recurring costs, including nutritional analysis, new label printing/stickering, and administrative oversight. While suppliers of large volume items could economically justify complying with the new law, suppliers of the rapidly growing number of small volumes could not. Organic, ethnic, seasonal, and other niche products would be among those most seriously affected. The disappearance of these products and the probable closing of stores that specialize in supplying them would fundamentally alter the long standing international complexion of the Hong Kong retail scene and its international status as a retail trendsetter. Government representatives, consumer organizations, and trade associations are working together to see what adjustments might be made to reduce the severe impact on commerce and consumer choice that the current proposal appears certain to impose. For details, please refer to GAIN Report #HK7011.

- **Preservatives Regulations**

U.S. packaged food exports to Hong Kong may be affected by impending amendments to its Preservatives Regulations. The HKG is in the process of bringing its list of permitted preservatives and tolerances into alignment with Codex in early 2008. While the permitted level of preservatives in about 70 specified products will be increased, that in 30 specified products will be lowered. Because U.S. tolerances on preservatives do not always follow Codex, some U.S. exports to Hong Kong may be affected by this change. However, even with the amendment, the HKG list remains incomplete. For example, the proposed amendment fails to include some Codex-approved preservatives which are specifically permitted when used in accordance with Good Manufacturing Practices (GMP) e.g. sodium erythorbate. U.S. exporters are encouraged to review the HKG's proposed preservatives list and tolerance levels with their importers and inform us of any common preservatives used in the U.S. which are allowed under Codex but are not included in Hong Kong's proposed list (link provided in the report). This amendment is a continuation of the HKG's attempt to strengthen and update its food import regulations. For details, please refer to GAIN Report #7018.

- **Biotech Food Related Regulations**

Presently, Hong Kong does not have any specific regulations regarding biotech foods. HKG released a set of guidelines on voluntary labeling for biotech foods last year and will be conducting a survey to evaluate the effectiveness of voluntary labeling. The trade said that there is virtually no positive labeling of biotech foods, given the voluntary nature of the guidelines. While the government has not announced its decision to implement a mandatory labeling scheme, industry sources have said they are certain the HKG is moving in this direction and will use the survey result to support their initiative. Meanwhile, the legislative drafting of the bill for the implementation of Cartagena Protocol has halted pending the Protocol's developments of detailed implementation requirements. For details, please refer to GAIN Report #HK7016.

### Consumer Preference

- There has been growing popularity of frozen foodstuffs because more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods, especially in their pre-prepared sections that are virtually serving ready-to-eat foods.
- There is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Hong Kong consumers have become more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package have been a good marketing strategy for health foods.
- The sales of organic products have been increasing steadily. A representative of "Great" Supermarket revealed that there were only 200 organic items for sale four years ago compared to over 2000 items currently. The price discrepancy between conventional and organic foods has also narrowed over the years. Currently, organic products are priced between 10-20% higher. The most popular organic products are baby foods, vegetables, fruits, eggs, fresh meats, and fruit juices.
- Health foods continue to grow in popularity in Hong Kong because of consumers' desire to enhance general health. The most appealing factors of health foods are "low Glycemic Index" and "Antioxidants".
- Foods categorized as Natural and having benefits to health are also appealing to Hong Kong consumers. For example, nut suppliers promote nuts as healthy snacks good for the heart, and many cereals are marketed as an effective means of controlling cholesterol.
- According to a AC Nielsen's survey, the top three functional food types in Hong Kong are soy milk, whole/high fiber products, and fruit juice with added supplements/vitamins and fermented drinks containing good bacteria.
- A survey conducted by the HKG indicated that about 22.8% of all persons aged 15 and over in Hong Kong had taken health supplements during the twelve months

before enumeration. Popular health supplements include “vitamins”, “Chinese herbs”, “calcium”, “cod-liver oil/ pills”, “products for strengthening immune system”, etc.

- Consumption of wine is growing in popularity in Hong Kong. The number of wine retail stores is steadily expanding. In February 2007, the HKG reduced its import duty on wine from 80% to 40% which stimulated a surge in volumes and quantity of wines imports into Hong Kong. Hong Kong’s wine imports for the first 10 months in 2007 reached US\$154 million and 18 million liters, an increase of 88% in value and 26% in quantity compared with the same period in 2006. For more information on the wine market in Hong Kong, please refer to GAIN Report #HK7005.
- Demand for promotion package and discounts. They are very price sensitive. Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- Various promotions have varying impact on consumers’ purchasing decisions. According to the findings of a survey conducted by the Consumer Council, nearly 75% of the respondents opted for “Direct Price-Cut” as the most important factor in prompting them to buy the goods. This was followed by “Buy One Get One Free” or “Buy Two Get One Free” (55.5%); “Add \$1 for One More” (42.7%); “Add-Volume Pack” (39.8%); and “Free Gift/Coupon” (19.8%) which had the least impact on bargain hunters.
- According to a survey by AC Nielsen, Hong Kong consumers are by far the most impulsive shoppers in the region with 67% who make unplanned purchases. In contrast, other countries with a relatively high proportion of non-planners are Thailand (14%) and Singapore (14%). As such, in-store promotions seem to be effective to introduce new products and to stimulate impulsive purchases.
- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk pack food products do not sell well in Hong Kong, and small package food products are preferred.
- Since ice-cream is a very popular snack, Hong Kong has witnessed the opening of more and more ice-cream specialty shops such as New Zealand Natural, Kida Garden, Papagallo, along with the long established Ben & Jerry’s, Double Rainbow and Haagen Daz.

## Exporting to Hong Kong – Advantages and Challenges

Advantages	Challenges
World's freest economy (2006 Heritage Foundation/Wall Street Journal Index of Economic Freedom). Consistent free trade and free enterprise policies. Free flow of information. Transparent government. No import duty except on wine, liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls.	Severe competition between different supplying countries.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates. There is an advantage when the U.S. dollar is weak, as it has been over last few years.	A very price sensitive market; importers' buying decisions depend largely on price, though Hong Kong has a strong niche market for high end products.
Foreign and local businesses operate on a level playing field.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food.	A virtual duopoly in food retailing allows retailers to charge high slotting (shelf space) fees. See section on Supermarkets.
English labeling is often accepted*.	Labeling regulation getting tougher. Effective July 2007, allergens and additives have to be listed *
Sophisticated, reliable banking system.	
English is widely spoken.	
Consistent import regulations and rule of law.	

\*Details see GAIN Report #HK7011 & HK7018.

## SECTION II Road Map for Market Entry

### A. Entry Strategy

To set up a representative office in Hong Kong is one of the most effective means that U.S. companies can use to sell their products to this market, but it is very costly. Apart from this entry strategy, there are three different ways for new-to-market exporters to get into the Hong Kong market:

1. Through agents: U.S. exporters may consider hiring a local agent. There are several factors to consider when hiring an agent. 1) Does the prospective agent already have an account with major supermarkets? Supermarkets will more readily accept new brand products when the agent already has an account with the supermarkets. 2) Does the prospective agent have a good marketing record and widespread distribution network?

The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets but to very extensive distribution outlets.

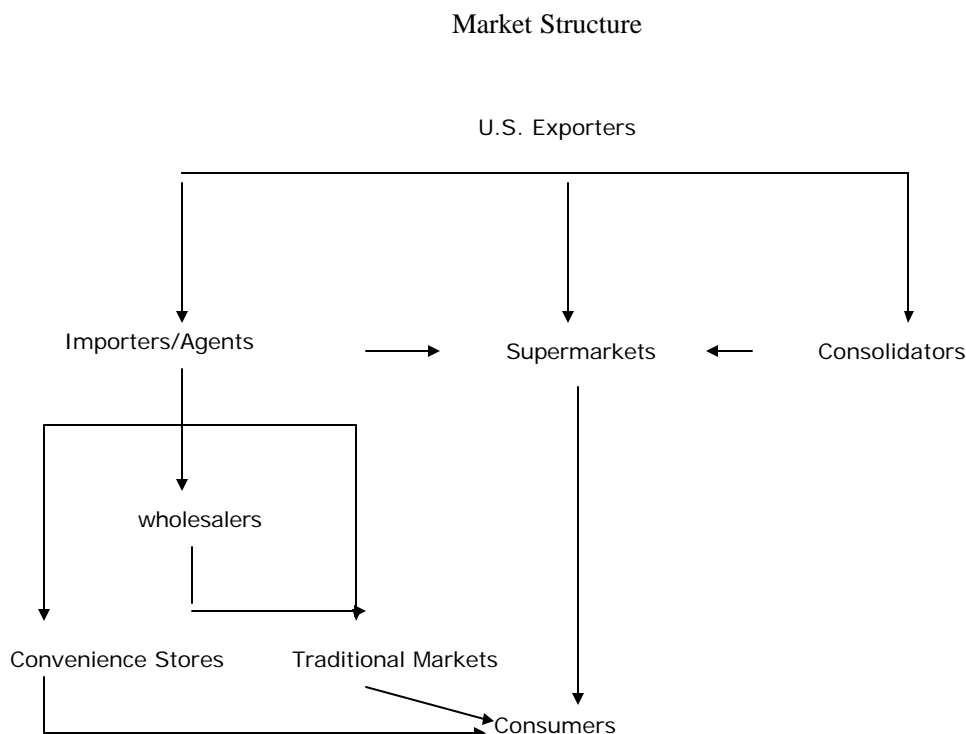
2. Direct to supermarkets: For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if dealing directly with retailers.

3. Through consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. Their purpose is to introduce new products, which have already been very popular in other overseas markets, to Hong Kong.

Supermarkets in Hong Kong sometimes rely on consolidators to offer them new products for consideration. More often, supermarkets in Hong Kong conduct researches to identify unmet consumer needs and ask consolidators to source new products to meet those needs.

## B. Market Structure



- U.S. exporters intending to sell to supermarkets can go through either one of the above channels. For perishable products with large and regular turnover such as meats, fruits and vegetables, major supermarkets try to order directly from exporters in order to cut costs. While certain supermarkets have tried to order an assortment of imports through consolidators, the bulk of supplies come from local agents or importers.
- Convenience stores and traditional retail outlets buy goods from local importers and agents. Due to relatively little turnover, they are not interested in buying direct from exporters or through consolidators. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores or traditional markets.
- For a list of local supermarkets and importers/wholesalers to U.S. exporters contact the Agricultural Trade Office (ATO) of the U.S. Consulate in Hong Kong. We are also happy to line up appointments if U.S. exporters come to Hong Kong exploring the market.
- To promote U.S. food products, ATO sponsors major trade shows in Hong Kong such as Vinexpo Asia Pacific (May 27-29, 2008), the Natural Products Expo Asia (June 26 – 28, 2008) and Restaurant and Bar Show (September 9-11, 2008). U.S. exporters may wish to consider participating in these trade shows so as to introduce their products to Hong Kong buyers as well as buyers from other countries in the region.

## C. Supermarkets – Company Profiles

Name of Retailer	Ownership	Food Sales US\$	No. of Outlets	Location	Type of Purchasing agent
Wellcome	Hong Kong	over US\$1 billion	246, 20 which are superstores <sup>9</sup>	Hong Kong	Importers/Agents Exporters Consolidators
ParknShop	Hong Kong	over US\$1 billion	230, 50 of which are superstores <sup>10</sup>	Hong Kong	Importers/Agents Exporters Consolidators
China Resources Supermarket	China	not available	99, 5 of which are superstores	Hong Kong	Importers/Agents Exporters
Dah Chong Hong	Hong Kong	not available	50	Hong Kong	Importers/Agents Exporters
Jusco Stores (HK) Ltd.	Japan	About US\$247 million	6 within department stores and 3 separate stores <sup>11</sup>	Hong Kong	Importers/Agents
CitySuper	Hong Kong	not available	4 and 1 other called Log-on selling snacks only; 1 convenience store called Pit-in	Hong Kong	Importers/Agents Consolidators
Oliver Delicatessen	Hong Kong	Not available	1	Hong Kong	Importers/Agents Consolidators
Uny	Japan	Not available	1	Hong Kong	Importers/Agents
Sogo	Japan	Not available	2	Hong Kong	Importers/Agents

- According to the latest figures available, in 2005 there were 72 supermarkets in Hong Kong but only 9 of them had 5 or over branch outlets. About 56 supermarkets had only one store without any branch outlets<sup>12</sup>.

<sup>9</sup> Website of the Dairy Farm Group

<sup>10</sup> Website of the Cheung Hong Group and Hutchison Whampoa Group

<sup>11</sup> Annual Report of AEON (HK) Stores Company Ltd.

<sup>12</sup> Latest available statistics (2005), Hong Kong Census and Statistics Dept and GAIN Report #HK6028



- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (246 outlets with 20 superstores) and ParknShop (over 230 with 50 superstores). ParknShop and Wellcome account for about 80% of all supermarket turnover in Hong Kong. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.
- In the past decade, a “superstore” concept has emerged in the operation of supermarkets, blending the Western supermarket style with a traditional Hong Kong wet market. Superstores offer traditional Chinese fresh food like live fish, meats, ready-to-eat foods and market-style fruit and vegetables as well as the most extensive range of international products.
- ParknShop opened its first superstore in 1996 with a floor area of 45,000 sq. ft. Presently, its largest supermarket in Hong Kong has a floor area of 72,000 sq. ft. giving customers a modern one-stop shopping solution. The store sells over 20,000 product categories ranging from snacks to electrical household appliances. The ParknShop supermarket chain carries two of its own-label product lines, namely PARKnSHOP and Best Buy, first introduced in 1995. ParknShop is also associated with three other supermarkets by the name of Great, Taste, and Gourmet. These three high-end supermarkets cater mostly to the expatriates and more affluent clientele. They are ideal outlets for innovative, quality and priced international food products. These stores also carry a wide selection of organic products. Great adopts a stylish international food hall concept and its flagship store offers over 46,000 gourmet items. The first 35,000 square feet TASTE food galleria was opened in November 2004, and features more than 25,000 quality food items sourced from around the world. Gourmet, opened in 2005, occupied 15,000-square-foot store offering a selection of over 20,000 products carried across 30 merchandise categories of quality and premium foods. The average expenditure per customer for Gourmet and Taste is expected to be US\$18 and US\$13 respectively.
- Dairy Farm, which owns another major supermarket chain – Wellcome, has opened an upscale supermarket in Hong Kong’s central commercial area catering to the more affluent clientele. The new store called “Three Sixty” was opened in November 2006. With a floor area of 23,000 square feet, it is Hong Kong’s largest retail outlet for organic and natural products. About 6,000 items or 70% of the items in the store will be organic or natural products. The store includes an organic sector for baby products. “Health” and “natural” are the key concepts of this store. The second “Three Sixty” was opened in October 2007.
- China Resources focuses on local customers. While carrying a variety of products from different countries, a major portion of them comes from China.
- Dah Chong Hong’s outlets are generally located near wet markets. While being an importer of a variety of products, its retail outlets focus on frozen meat and seafood products. Dah Chong Hong is a major food importer too.
- CitySuper and Oliver Delicatessen capture an upscale market. Clientele includes mainly well-off middle class and expatriates. Customers are generally receptive to western foods. Both high-end supermarkets require no listing fees. Oliver carries over 6,000 SKUs.

- Gateway Superstore and PrizeMart are two supermarkets in Hong Kong selling primarily U.S. products. PrizeMart has 11 stores and carries about 1,500 SKUs. Gateway, with only one store in the Central district, carries over 4,500 SKUs, all of which imported directly from US consolidators. Both supermarkets do not charge listing fees.
- Jusco, Sogo and Uny are Japanese department stores with a supermarket section. These supermarkets attract many middle-class customers, who are receptive to new products and do not mind to pay for higher prices for higher quality products. These three stores are popular spots for in-store promotions as they are packed with consumers seven days a week. In 2006, Jusco opened 2 separate supermarkets, which were not set up within a department store.
- Hong Kong supermarkets that require listing fees, are fees charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. Major supermarket chains, such as Wellcome and ParknShop which have many branch stores, have expensive listing fees. Industry sources revealed that key supermarket chains may charge HK\$1,000 (US\$130) per SKU for each of its store. A 30% discount may be offered to certain suppliers. The discount offered varies tremendously depending on the popularity of the products and the bargaining power of the supplying companies. Agents/importers will not bear this cost as it is normally just transferred to their principals.
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15% of the annual turnover has to be rebated to the major supermarkets and 8% to small ones. Agents representing very popular items with large turnover usually have a stronger bargaining power and will be able to negotiate for a lower rebate rate.
- Different products have different mark-ups. A dried fruit importer revealed that an importer usually operates on a mark up of 5% to retailers who would then mark up another 30% to 35% to consumers.
- In face of strong competition, major supermarket stores often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- There is excellent growth potential in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

#### D. Convenience Stores – Company Profiles

Note: Gas station marts are not included in this section because they are not significant in Hong Kong.

Retailer Name	Ownership	No. of Outlets	Locations	Purchasing agent	Year established	Clients' age
7-Eleven	Hong Kong	747	Hong Kong	Importers Agents	1981	15-35
Circle K	Hong Kong	260	Hong Kong	Importers Agents	1985	15-35

- There are around 1,000 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (747 outlets) and Circle K (260 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are “convenience” in nature, i.e. goods are normally bought in small quantities for immediate consumption. Good sales items include packaged drinks, beer and snack food. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- 7-Eleven is owned by Dairy Farm, which is also the parent company of the giant supermarket chain of Wellcome. Many of 7-Eleven stores are strategically located in MTR (subway) and KCR (train) stations, popular shopping malls and housing developments throughout Hong Kong.
- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 1,000 stores presently, there is still a room for expansion. The primary strategy of convenience stores is to increase services providing “convenience” to consumers and to increase the number of stores so as to reach economies of scale. 7-Eleven, operated on a franchise basis, is able to expand the number of stores quickly. Circle K is owned by a listed company and does not work on franchise basis.

#### E. Traditional Markets – Sub-Sector Profile

- Almost all of the clientele of the traditional markets are local Hong Kong Chinese people.
- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion’s share of food retail. For example, they occupied around 54% of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and deepen in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.

- Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods. One feature of traditional markets is that stalls are small, but the service they offer is personal.
- A traditional mom-and-pop shop which started business in 1990 has expanded to 67 stores spreading all over Hong Kong in recent years. The stores are called Yu Kee, with floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies come from China and South East Asia. They also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.
- Another chain store worth mentioning is called Appolo (Magic House) Superstore Ltd. The company owns 46 retail stores, which are operated like "convenience stores" except that their business hours are only around 10 hours instead of 24 hours. They primarily sell snack foods, drinks and ice cream.

### SECTION III. COMPETITION

Note: 2006 statistics; Market Share in terms of Import Value

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

#### Major Product Categories of Hong Kong's Imports of COAP and Seafood Products And Competition

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<b>Breakfast Cereals &amp; Pancake Mix</b>  Imports US\$33 million 14,191 MT  Retained Imports US\$29 million 12,807 MT	1. China – 52%  2. Thailand– 13%  3. U.S. – 11%	China is the largest supplier, imports include some international brands, which have manufacturing establishments in China.  In recent years, Thailand has been a popular tourist resort for Hong Kong residents, who are becoming increasingly receptive to Thai tastes and cuisine. This is conducive to the growth of Thai food exports to Hong Kong.	Local production is insignificant

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p><b>Red Meats, chilled/frozen</b></p> <p>Imports US\$879 million 580,886 MT</p> <p>Retained Imports US\$643 million 350,765 MT</p>	<ol style="list-style-type: none"> <li>1. Brazil – 33%</li> <li>2. China – 21%</li> <li>3. U.S. – 7%</li> <li>4. Australia – 6%</li> <li>5. Canada – 5%</li> </ol>	<p>Products from Brazil and China are price competitive, but they are of different market segments from U.S. products.</p> <p>53% of Brazilian red meat exports to Hong Kong are offals, 25% pork and 21% beef.</p> <p>80% of Chinese red meat exports to Hong Kong are pork.</p> <p>For U.S., about 57% of the red meat exports to Hong Kong are offals, 25% and 18% are high-end beef and pork products respectively.</p> <p>U.S. market share dropped from 21% in 2003 to 3% in 2005 as a result of the ban to U.S. beef. Market share increased to 7% in 2006 following Hong Kong's opening to U.S. beef since the beginning of 2006. Hong Kong currently allows U.S. boneless beef derived from animals less than 30 months of age.</p> <p>Bone-in beef and offals from the U.S. are not yet allowed entry into Hong Kong. The challenges facing U.S. beef exports to Hong Kong include competition posed by Canadian beef and Hong Kong Government's zero tolerance on bone fragments.</p>	<p>Local production is largely on freshly slaughtered meats.</p>

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
		U.S. beef is highly regarded in Hong Kong. It is always the first choice for high-end restaurants and sophisticated consumers. U.S. beef is largely for the high-end market.	
<p><b>Red Meats, Prepared/preserved</b></p> <p>Imports US\$266 million 158,182 MT</p> <p>Retained Imports US\$245 million 141,667 MT</p>	<p>1. China – 45%</p> <p>2. U.S. – 13%</p> <p>3. Thailand – 6%</p>	<p>Chinese supplies dominate the market because there is a big demand for price competitive prepared/preserved meatballs and other products typical in Chinese dishes in Chinese restaurants and processing in China is cost effective.</p> <p>About 56% of the U.S. preserved red meat exports to Hong Kong belong to sausages. The U.S. is the largest supplier of sausages in the Hong Kong market.</p>	<p>Local production is insignificant.</p>
<p><b>Poultry Meat (Fresh, chilled &amp; frozen)</b></p> <p>Imports US\$660 million 585,556 MT</p> <p>Retained Imports US\$389 million 304,153 MT</p>	<p>1. Brazil – 46%</p> <p>2. China – 26%</p> <p>3. U.S. – 12%</p>	<p>Brazil has become the leading supplier of poultry for Hong Kong market since 2004 when Hong Kong banned entry of U.S. poultry products between February 11, 2004 and April 30, 2004 due to outbreaks of Avian Influenza cases in the U.S. Though the ban was then lifted, Brazil continues to be the largest supplier due to price competitiveness of its products and established business relationship between Brazilian exporters and Hong Kong importers.</p>	<p>Local production is on freshly slaughtered meats.</p> <p>HRI sector tends to use chilled and frozen chicken products rather than freshly slaughtered chickens because the latter are far more expensive.</p>

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
		<p>The reduced supplies of live chickens to Hong Kong have resulted in increased demand for chilled whole chickens from China.</p> <p>Hong Kong's new certification requirement for U.S. chicken feet, which took effect in May 2005, has reduced U.S. chicken feet supplies to Hong Kong. By the new requirement, U.S. chicken feet are required to have ante mortem and post mortem inspection.</p>	
<p><b>Dairy Products</b></p> <p>Imports US\$ 315 million 164,484 MT</p> <p>Retained Imports US\$240 million 145,118 MT</p>	<p>1. Netherlands – 20%</p> <p>2. China – 15%</p> <p>3. New Zealand – 13%</p> <p>4. Ireland – 13%</p> <p>5. Australia – 11%</p> <p>6. Singapore – 7%</p> <p>U.S. – 4%</p>	<p>Netherlands is strong in dairy product supplies and it has established position in Hong Kong.</p> <p>Dairy products from Netherlands and New Zealand primarily include concentrated dairy and cream.</p> <p>Chinese dairy products to Hong Kong primarily include not-concentrated milk and cream.</p> <p>Dairy products from the U.S. primarily include ice cream.</p>	<p>Local companies supply fresh milk drinks, which are processed in Hong Kong with milk originated from farmlands in the southern part of China.</p> <p>Local companies can easily fulfill local milk registration requirements.</p>
<p><b>Eggs</b></p> <p>Imports US\$66 million 1,564 million eggs</p> <p>Retained Imports US\$66 million 1,558 million eggs</p>	<p>1. China – 57%</p> <p>2. U.S. - 23%</p> <p>3. Thailand – 12 %</p>	<p>Eggs from China are price competitive. (Some Chinese eggs were found tainted with Sudan red, which is a dye for industrial use, in late 2006). Hong Kong consumers lost confidence in the safety of all Chinese eggs.</p> <p>U.S. dominates the white egg markets.</p>	<p>Local production is insignificant.</p>

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p><b>Fresh Fruit</b></p> <p>Imports US\$770 million 942,693 MT</p> <p>Retained Imports US\$546 million 584,102 MT</p>	<ol style="list-style-type: none"> <li>1. U.S. – 31%</li> <li>2. Thailand – 18%</li> <li>3. Chile – 10%</li> <li>4. Australia – 8%</li> <li>5. South Africa – 7%</li> <li>6. China – 7%</li> </ol>	<p>U.S. fresh fruits are highly regarded as having good quality.</p> <p>Thai Trade commission in Hong Kong aggressively sponsors trade promotion activities. Thai's tropical fruits are very popular in Hong Kong.</p> <p>Chile's biggest fruit item to Hong Kong is grapes. The supplying season is different from the U.S.</p>	<p>No local production.</p>
<p><b>Fresh Vegetables</b></p> <p>Imports US\$160 million 514,217 MT</p> <p>Retained Imports US\$124 million 486,891 MT</p>	<ol style="list-style-type: none"> <li>1. China –74%</li> <li>2. U.S. – 7%</li> <li>3. Australia – 6%</li> </ol>	<p>Products from China are very price competitive. Due to expensive operation costs in Hong Kong, some farmers in Hong Kong move their operations to China and sell their products back to Hong Kong.</p> <p>Australian products are advantaged over American products because of shorter freight time and lower transportation cost.</p> <p>High-end restaurants and five-star hotels prefer to use high quality U.S. products. A lower U.S. dollar value helps U.S. exports to Hong Kong.</p>	<p>Local production is about 5 % of total demand. Production costs, both in terms of land and labor, in Hong Kong are high. The Hong Kong Government has encouraged organic farming so as to find the niche market for local vegetables.</p>
<p><b>Processed Fruit &amp; Vegetables</b></p> <p>Imports US\$284 million 233,615MT</p> <p>Retained Imports US\$219million 173,895 MT</p>	<ol style="list-style-type: none"> <li>1. China - 36%</li> <li>2. U.S. – 24%</li> <li>3. Thailand – 9%</li> </ol>	<p>Supplies from China are price competitive. Besides, some international brands have operations in China and their exports to Hong Kong are considered as imports from China.</p>	<p>Local production is insignificant.</p>



Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
		Products from the U.S. are more for the high-end market. Potato chips and French fries are major U.S. export categories to Hong Kong.	
<p><b>Tree Nuts</b></p> <p>Imports US\$271 million 83,823 MT</p> <p>Retained Imports US\$149 million 42,351 MT</p>	<p>1. Iran –54%</p> <p>2. U.S. –34%</p> <p>3. Thailand -2%</p>	<p>58% of the tree nuts imported to Hong Kong are pistachios.</p> <p>Iran is very strong in supplying pistachios, occupying about 97% of total import supplies in Hong Kong.</p> <p>The U.S. is very strong in supplying almonds and hazelnuts.</p> <p>Some of the imports are re-exported to China for processing.</p>	No local production
<p><b>Fruit &amp; Vegetable Juices</b></p> <p>Imports US\$31 million 20,524 MT</p> <p>Retained Imports US\$28 million 18,394 MT</p>	<p>1. U.S. – 58%</p> <p>2. China –10%</p> <p>3. Australia –6%</p>	<p>U.S. products are highly regarded in the local market.</p> <p>Products from China include international brands manufactured in China.</p> <p>Australian products are generally perceived as natural.</p>	Local companies are well established in the market with well distribution and marketing network. However, they rarely are considered as premium products.
<p><b>Wine</b></p> <p>Imports US\$ 107 million 18 million liters</p> <p>Retained Imports US\$78 million 14.7 million liters</p>	<p>1. France – 52%</p> <p>2. Australia – 15%</p> <p>3. U.S. – 7%</p> <p>4. Chile – 6%</p> <p>5. Spain – 2%</p>	<p>France is the major supplier for wine. French wine is highly regarded in Hong Kong though expensive.</p> <p>Hong Kong people are becoming more familiar with California wine.</p> <p>Wine is subject to 40% tax.</p>	Hong Kong does not have any wine production.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p><b>Beer</b></p> <p>Imports US\$178 million 129 million liters</p> <p>Retained Imports US\$67 million 126 million liters</p>	<p>1. China – 46%</p> <p>2. S. Korea – 28%</p> <p>3. Netherlands – 6%</p> <p>4. U.S. – 6%</p>	<p>China and Korea are major suppliers for beer.</p> <p>Beer &amp; liquor with less than 30% alcohol is subject to 20% tax.</p>	<p>Locally produced beer is subject to the same tax rate as imports.</p> <p>San Miguel is a popular local brand for beer with its major production line in China.</p>

**SECTION IV. BEST PRODUCT PROSPECTS**

## Notes :

- 1 Hong Kong food supplies largely rely on imports. Domestic production is very minimal so the market size in the following table is equal to retained imports without taking into account local production. U.S. exports to Hong Kong are also based on imports minus exports.
- 2 Import tariff rate for all products in the tables is zero. (Exceptions: Beer & liquor with less than 30% alcohol – 20%; all wines - 40%, liquor with more than 30% alcohol: 100%).
- 3 Products listed below are primarily consumer-oriented food categories and seafood products. They are chosen based on opportunities in the overall market rather than in the Retail Food Sector only.

**Category A: Products Present in the Market which Have Good Sales Potential**

<b>Product Category</b>	<b>2006 Retained Imports (MT)</b>	<b>2006 Retained Imports (US\$ million)</b>	<b>2002 – 2006 Average Annual Retained Import Growth</b>	<b>Key Constraints Over Market Development</b>	<b>Market Attractiveness For USA</b>
<b>Citrus fruit</b>	164,260 MT	US\$147 million	-5% (vol)  3% (value)	Hong Kong imports oranges from other countries including South Africa and Australia.  U.S. citrus fruits also face great competition from other fruit types, including apples, peaches, strawberries, water melons etc.	U.S. exported US\$78 million worth of citrus fruits to Hong Kong, accounting for 53% of the market share. About 11% of U.S. citrus fruits to Hong Kong are lemons.  Consumers are brand loyal to Sunkist and are willing to pay a premium for this brand.

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
<b>True Nuts</b>	42,351 MT	US\$149 million	-10% (vol)  0% (value)	The most popular tree nuts in Hong Kong are pistachios, which accounts for about 58% of Hong Kong's tree nuts imports. U.S. pistachios, however, accounts for merely 2% of all pistachios imports.	U.S. exported US\$47 million worth of tree nuts to Hong Kong, accounting for 31% of the market share.  The U.S. accounts for over 90% in the supplies of almonds, hazelnuts and in-shell walnuts in the Hong Kong market.  Tree nuts imports from the U.S. experienced a 13% increase last year.
<b>Pork &amp; Offals</b>	301,571 MT	US\$469 million	10% (vol)  13% (value)	China and Brazil are the major suppliers because their products are very price competitive. Also, there is a big demand for price competitive prepared/preserved meatballs and other products typical in Chinese dishes in Chinese restaurants. China enjoys the advantage of low processing cost.	U.S. exported US\$45 million worth of pork and offal products to Hong Kong, accounting for 10% of the market share.  U.S. pork imports grew over 85% between 2005 and 2006. The growth was primarily in sausages. U.S. is the largest supplier of sausages.

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
					<p>Hong Kong has a high demand for U.S. front &amp; hide feet, and offals.</p> <p>U.S. products are highly regarded for quality and food safety.</p>
<b>Molluscs</b>	50,178 MT	US\$580 million	<p>6% (vol)</p> <p>9% (value)</p>	<p>U.S. scallops and oysters compete severely with products supplies from Australia and Canada. Australia products enjoy a relatively cheaper freight cost.</p>	<p>U.S. exported US\$43 million worth of molluscs to Hong Kong, accounting for 7% of the market share. Popular U.S. products in Hong Kong include scallops, oysters, geoduck, and conches. U.S. molluscs exports to Hong Kong grew 13% between 2005 and 2006.</p> <p>Demand for seafood in Hong Kong is strong. U.S. oysters and scallops are highly regarded in the market.</p>

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
<b>Chicken Products</b>	267,176 MT	US\$341 million	8% (vol) 16+% (value)	<p>Brazil has become the leading supplier of poultry for Hong Kong market since 2004 when Hong Kong banned entry of U.S. poultry products between February 11, 2004 and April 30, 2004 due to outbreaks of Avian Influenza cases in the U.S.</p> <p>Though the ban was then lifted, Brazil continues to be the largest supplier due to price competitiveness of its products and established business relationship between Brazilian exporters and Hong Kong importers.</p> <p>The reduced supplies of live chickens to Hong Kong have resulted in increased demand for chilled whole chickens from China.</p> <p>Hong Kong's new certification requirement for U.S. chicken feet, which took effect in May 2005, has reduced U.S.</p>	<p>U.S. exported US\$32 million worth of chicken products to HK, accounting for 9% of the market share.</p> <p>U.S. products are highly regarded in food quality and food safety.</p>

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
				chicken feet supplies to Hong Kong. By the new requirement, U.S. chicken feet are required to have ante mortem and post mortem inspection.	
<b>Grapes</b>	45,192 MT	US\$95 million	2% (vol) 5% (value)	Strong competition from Chile & Australia	<p>U.S. exported US\$37 million worth of grapes to Hong Kong, accounting for 39% of the market share.</p> <p>Competitors supply grapes in different seasons.</p> <p>Grapes are one of the popular fruits served after meals in HRI.</p>
<b>Dairy Spreads (less than 39% milkfat)</b>	50,110 MT	US\$166 million	-2% (vol) 3% (value)	China and Japan are catching up in the market rapidly.	U.S. exported US\$31 million worth of dairy spreads to Hong Kong, accounting for 19% of the market share.

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
<b>Sauces</b>	71,181 MT	US\$103 million	3% (vol)  7% (value)	China and Thailand are the two major competitors. The oriental flavor of sources from these countries is a distinct advantage.	<p>U.S. exported US\$19 million worth of sauces to Hong Kong, accounting for 18% of the market share. U.S. exports of sauces to Hong Kong grew 12% between 2005 and 2006.</p> <p>Hong Kong people are receptive to new tastes. The availability of much international cuisine offers a demand for U.S. sauces.</p>
<b>French Fries</b>	20,854 MT	US\$18 million	-1% (vol)  1% (value)	<p>Canada and New Zealand supply french fries to the market.</p> <p>Also, french fries companies have plants in China providing products to Hong Kong.</p>	<p>U.S. exported US\$17 million worth of french fries to Hong Kong, accounting for 94% of the market share.</p> <p>Hong Kong has a burgeoning catering industry offering a variety of international cuisine, thus creating a demand for french fries.</p>



**Category B: Products Not Present in Significant Quantities but Which Have Good Sales Potential**

<b>Product Category</b>	<b>2006 Retained Imports (MT)</b>	<b>2006 Retained Imports (US\$ million)</b>	<b>2002 – 2006 Average Annual Retained Import Growth</b>	<b>Key Constraints Over Market Development</b>	<b>Market Attractiveness For USA</b>
<b>Fruit &amp; Vegetable Juices</b>	18,394 MT	US\$28 million	6% (vol) 12% (value)	U.S. fruit and vegetable juices are not price competitive. Local consumers are very receptive to freshly squeezed fruit juices.	U.S. exported US\$15 million worth of fruit and vegetable juices to Hong Kong, accounting for 54% of the market.  Hong Kong consumers are getting more and more health conscious. There is a growing market for high quality fruit & vegetable juices.
<b>Eggs</b>	1.558 billion pieces	US\$66 million	1% (vol) 3% (value)	Eggs from China are very price competitive.  The market is mature.	U.S. exported US\$15 million worth of eggs to Hong Kong, accounting for 23% of the market share.  The market has a high demand for U.S. small white eggs.  Hong Kong Government may be requiring egg imports to be accompanied by health certificates.

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
					<p>Egg supplies to Hong Kong may be reduced due to the new certificate requirement. Short egg supplies to Hong Kong could provide export opportunities for U.S. egg suppliers.</p> <p>Hong Kong consumers are very impressed by U.S. egg product quality and safety.</p>
<b>Beef</b>	63,654 MT	US\$188 million	6% (vol) 10% (value)	<p>Because of BSE cases in the U.S., Hong Kong currently allows boneless beef derived from cattle under 30 months of age from U.S. E.V (Export Verification) approved plants.</p> <p>Bone-in beef and variety beef from the U.S. are not yet allowed in.</p>	<p>U.S. exported US\$15 million worth of beef exports to Hong Kong in 2006, accounting for 8% of the market share. Although U.S. beef were banned entry in Hong Kong in 2004 and 2005, Hong Kong consumers still have high regards for U.S. beef in terms of quality and safety.</p>

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
				<p>Currently only 25 plants have been EV approved and are eligible to export beef products to Hong Kong.</p> <p>Short U.S. beef supplies make U.S. beef very expensive.</p>	
<b>Crustaceans, including lobster, shrimps, and crabs</b>	52,124 MT	US\$442 million	<p>4% (vol)</p> <p>4% (value)</p>	<p>U.S. products face strong competition from Australia and New Zealand. Seafood products from Australia and New Zealand are also highly regarded by Hong Kong consumers.</p> <p>Freight costs from these countries to Hong Kong are relatively cheaper than that between Hong Kong and the U.S.</p>	<p>U.S. exported US\$13 million worth of crustaceans products to Hong Kong, accounting for merely 2%.</p> <p>Hong Kong consumers love seafood. A burgeoning economy encourages consumers to spend more on high-end seafood products. Between 2005 and 2006, U.S. crustaceans exports to Hong Kong recorded a 102% increase, mainly in lobsters.</p>

Product Category	2006 Retained Imports (MT)	2006 Retained Imports (US\$ million)	2002 – 2006 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
<b>Wine</b>	14,751,501 Liter	US\$78 million	10% (vol)  11% (value)	Competition is keen in Hong Kong. Major competitors come from France and Australia. French wine is traditionally more popular in Hong Kong.	U.S. exported US\$6 million of wine to Hong Kong, accounting for 8% of the market share.  Hong Kong consumers are getting more and more receptive to wine drinking practice. The wine duty was reduced from 80% to 40% in February 2007.

### Category C. Products Not Present Because They Face Significant Barriers

Currently, U.S. bone-in beef products and offals are not allowed entry to Hong Kong, because of BSE cases in the U.S.

**SECTION V. POST CONTACT AND FURTHER INFORMATION**

Foreign Agricultural Service (FAS)

Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office

American Consulate General

18<sup>th</sup> Floor, St. John's Building

33 Garden Road, Hong Kong

Tel: (852) 2841-2350

Fax: (852) 2845-0943

E-Mail: [ATOHongKong@usda.gov](mailto:ATOHongKong@usda.gov)Internet Homepage : <http://www.usconsulate.org.hk><http://www.usfoods-hongkong.net>

Department to implement food safety control policy

Food &amp; Environmental Hygiene Department

Center for Food Safety

43/F., Queensway Govt Offices

66 Queensway

Hong Kong

Tel: 852-2868-0000

Fax: 852-2834-8467

Web site: <http://www.fehd.gov.hk>E-mail: [enquiries@fehd.gov.hk](mailto:enquiries@fehd.gov.hk)

Department to control the importation of plants &amp; live animals

Agriculture, Fisheries &amp; Conservation Department

5-8/F., Cheung Sha Wan Govt Offices

303, Cheung Sha Wan Rd

Kowloon, Hong Kong

Tel: 852-2708-8885

Fax: 852-2311-3731

Web site: <http://www.info.gov.hk/afcd>E-mail: [mailbox@afcd.gov.hk](mailto:mailbox@afcd.gov.hk)

Department to register health foods containing medicine ingredients

Department of Health

Pharmaceuticals Registration

Import &amp; Export Control Section

18<sup>th</sup> Floor, Wu Chung House

213 Queen's Road East, Wanchai

Hong Kong

Tel : 852-2961-8754

Fax : 852-2834-5117

Web site : <http://www.info.gov.hk/dh/index.htm>

Department to issue licence for imported dutiable commodities

Hong Kong Customs & Excise Department  
Office of Dutiable Commodities Administration  
6-9th floors, Harbor Building  
38 Pier Road  
Central  
Hong Kong  
Tel: 852-2815-7711  
Fax: 852-2581-0218  
Web site: <http://www.info.gov.hk/customs>  
Email: [customsenquiry@cutsoms.gov.hk](mailto:customsenquiry@cutsoms.gov.hk)

Department for Trade Mark Registration

Intellectual Property Department  
Trade Marks Registry  
24th and 25th Floors, Wu Chung House  
213 Queen's Road East  
Wan Chai  
Hong Kong  
Tel: 852-2803-5860  
Fax: 852-2838-6082  
Web site: <http://www.info.gov.hk/ipd/eng/index.htm>

Semi-government Organization Providing Travel Information

Hong Kong Tourist Board  
9<sup>th</sup> - 11<sup>th</sup> floors, Citicorp Center,  
18 Whitfield Road, North Point, Hong Kong  
Tel: (852) 2807-6543  
Fax: (852) 2806-0303  
E-mail: [info@hkta.org](mailto:info@hkta.org)  
Home Page: [www.hkta.org](http://www.hkta.org)

Semi-government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council  
38<sup>th</sup> Floor, Office Tower, Convention Plaza  
1 Harbor Road, Wan Chai, Hong Kong  
Tel: (852) 2584-4188  
Fax: (852) 2824-0249  
E-mail: [hktdc@tdc.org.hk](mailto:hktdc@tdc.org.hk)  
Home Page: <http://www.tdctrade.com>