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Poultry and Products

Annual

2006

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Report Highlights:
In the first half of 2006, Hong Kong imported a total of $211 million worth of chicken products plus $75 million worth of chicken feet. Compared to the corresponding period in 2005, value and volume increased by 22 percent and 23 percent respectively. The significant increase has been brought by a robust increase in re-exports coupled with stable domestic demand. Imports of chicken products to Hong Kong, re-exports excluded, are expected to rise modestly at about 5 percent in 2006, amounting to 234,000 MT. The biggest challenge for U.S. chicken products is price competition. The U.S. has continued to lose market share to Brazil and China. However, even though low-end retail and HRI outlets have opted for Brazil and China chicken products as a result of competitive prices, high end users still stick to U.S. chicken products, primarily due to quality and food safety concerns. U.S. chicken feet exports to Hong Kong plummeted by 53 percent and 72 percent in terms of value and volume respectively between January – June 2005 and the same period of 2006. The drop was the result of an import requirement change for U.S. chicken feet effective April 30, 2005. The new regulation requires U.S. chicken feet be only from birds given both ante-mortem and post-mortem inspections. Many existing U.S. plants cannot meet this requirement unless modifications are made.

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

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Situation and Outlook

In the first half of 2006, Hong Kong imported a total of $211 million worth of chicken imports plus $75 million of chicken feet. Compared to the corresponding period in 2005, value and volume increased by 22 percent and 23 percent respectively. The significant increase has been brought by a robust increase in re-exports coupled with stable domestic demand. Hong Kong is a mature market for chicken products. Assuming no avian influenza cases will occur in Hong Kong affecting consumers' confidence in consuming chicken products, the domestic demand for 2006 will be able to rise modestly by 5 percent, amounting to 234,000 MT. The reason is that Hong Kong consumers will continue to replace freshly slaughtered chickens with chilled chickens from China and become increasingly receptive to frozen chicken parts.

Overtaken by Brazil and China, the U.S. remains the third largest supplier of chicken products to the Hong Kong market. In the first half of 2006, the U.S. exported $22 million worth of chicken products (excluding chicken feet) to Hong Kong, representing a 22 percent decline from the same period in 2005. Based on first half year trade figures, U.S. exports to Hong Kong are forecast to drop from 33,000 MT in 2005 to 29,000 MT in 2006.

The U.S. has lost much of its market share since 2004 following Hong Kong's ban on U.S. chickens in early 2004. Competitive pricing is the dominant factor in Brazil maintaining its leading position in Hong Kong's chicken market even when the market is open to U.S. chicken supplies. Hong Kong's new import requirement for U.S. chicken feet, effective April 2005, is also an unfavorable factor for U.S. chicken feet exports. If U.S. plants do not adjust facilities to make ante-mortem and post-mortem inspection of birds possible, as required by the new requirement, U.S. chicken feet exports could hardly rebound to previous levels. ($42 million and $20 million in Jan-June 2005 and 2006 respectively).

Hong Kong banned live chicken imports from China for 21 days twice in the past six months following two individual human infection cases of H5N1 in southern China. Hong Kong consumers' confidence in live chicken was adversely affected for a while but soon rebounded. However, the Hong Kong government reduced the daily supply of live chickens to around 40,000 from the original 60,000 quota, after the resumption of live chicken exports from China. The 40,000-supply-quota is equally shared between imports and local supplies.

According to the Hong Kong government's plan to reduce the risks of avian influenza cases, Hong Kong's chicken population should be reduced to 2 million from the 2005 level of 3.7 million. Through a year-long voluntary license surrender scheme, which ended in early August this year, the current chicken population has been reduced to 2.2 million. Those farms which have chosen to return the license to the government are required to stop operation within nine months. Hong Kong's chicken population is expected to be reduced to well below 2 million at the end of the 9-month closing-down deadline for poultry farms who surrendered their license.

Statistical Table – Poultry, Meat, Chicken

PS&D Table

Hong Kong (1000 MT)(MIL HEAD)							
	2005	**Revised**	**2006**	**Estimate**	**2007**	**Forecast**	**UOM**
	USDA Official [Old]	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Inventory (Reference)	3	3	2	2	0	2	(MIL HEAD)
Slaughter (Reference)	22	22	22	18	0	15	(MIL HEAD)
Beginning Stocks	15	15	8	8	0	4	(1000 MT)
Production	39	39	39	31	0	28	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	222	222	226	234	0	237	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	222	222	226	234	0	237	(1000 MT)
TOTAL SUPPLY	276	276	273	273	0	269	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Consumption	268	268	273	269	0	269	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	268	268	273	269	0	269	(1000 MT)
TOTAL Use	268	268	273	269	0	269	(1000 MT)
Ending Stocks	8	8	0	4	0	0	(1000 MT)
TOTAL DISTRIBUTION	276	276	273	273	0	269	(1000 MT)
Calendar Yr. Imp. from U.S.	33	33	35	29	0	30	(1000 MT)

Note: Re-exports are taken from Imports and Exports refer to domestic exports. Slaughter (Reference) does not include the importation of live chickens that are less than 185 grams. All figures above do not include chicken feet/paws.

Table 1: Production of Live Chicken

(Number)	2002	2003	2004	2005	05/04 % change
Local Supply	8,604,000	10,154,000	7,821,054	11,676,000	49%
Import	27,119,047	23,779,281	9,307,874	10,519,675	13%
Total	35,723,047	33,933,281	17,128,928	22,195,575	30%

Source: Hong Kong Agriculture, Fisheries and Conservation Department

Table 2: Average Retail Prices of Chicken Relative to Pork and Beef (freshly slaughtered)

US$/kg	2001	2002	2003	2004	2005	2006 (Jan – May)
Chicken (whole chicken)	$4.60	$4.58	$4.22	$5.60	5.55	6.15
Beef (best quality)	$7.20	$7.15	$7.2	$7.17	7.34	7.58
Beef (belly flesh)	$5.36	$5.35	$5.45	$5.47	5.56	5.75
Pork (best cut)	$4.54	$4.26	$4.10	$4.03	4.27	4.31
Pork Chop	$5.58	$5.18	$4.89	$4.82	5.06	5.05

Source: Hong Kong Census & Statistics Department
Exchange Rate: US$1=HK$7.75

Table 3: Average Retail Prices of Chicken Relative to Pork and Beef (frozen) HK$

Product Categories	Origin	Retail Price
Chicken		
Mid-joint wings	U.S.A.	HK$45.00/4 lbs
Legs	U.S.A.	HK$8.00/lb
Whole Wing	Brazil	HK$50.00/5 lbs
Boneless Leg (Skin-on)	China	HK$50.00/2 kg
Boneless Breast (Skin-off)	China	HK$50.00/2 Kg
Whole Chicken (1600 gm)	Brazil	HK$30.00 each
Whole Chicken (800 gm)	Brazil	HK$16.00 each
Beef		
Prime *	U.S.	HK$263/lb
Angus*	U.S.	HK$273/lb
Prime*	Canada	HK$236/lb
Prime*	Australia	HK$173/lb
CAB Tenderloin	Canada	HK$128.00 /lb
CAB Rib Eye	Canada	HK$128.00/lb
CAB Striploin	Canada	HK$80/lb
Tenderloin	New Zealand	HK$48/lb

Sirloin (P.S)	New Zealand	HK$38/lb
Rib Eye (P.S.)	New Zealand	HK$48/lb
Rib Finger	Canada	HK$24/lb
Boneless Shortrib (CAB)	Canada	HK$52/lb
Knuckles	Brazil	HK$16/lb
Pork		
Black Pork*	U.S.	HK$182/lb
Pork*	U.S.	HK$114/lb
Bone-in pork chop	Brazil	HK$17.60/lb
Sparerib	Brazil	HK$17.60/lb
Butt	Brazil	HK$19.60/lb

Source: A retailer
*: prices are quoted from a high-end retail outlet

(All the figures below include re-exports but exclude chicken feet. The latest figures available are June 2006.)

Table 4: Hong Kong Chicken Imports by Major Suppliers in Value, US$M, Jan - June

				% Share			% Change
Country	2004	2005	2006	2004	2005	2006	- 06/05 -
--The World--	149	173	211	100	100	100	22
Brazil	66	59	100	44	34	48	69
China	28	59	59	19	34	28	1
United States	26	28	22	18	16	11	-22
Thailand	6	6	6	4	4	3	-2
United Kingdom	4	4	5	3	2	2	20
Netherlands	1	1	3	1	1	2	240
Chile	2	2	3	1	1	2	103
Others	16	14	13	11	8	6	-7

Table 5: Hong Kong Chicken Imports by Major Suppliers in Volume, Jan - June

Country	MT, 2004	MT, 2005	MT, 2006	% Change
--The World--	135,751	143,597	177,286	23%
Brazil	60,067	48,453	87,611	81%
China	19,232	38,490	39,812	3%
United States	29,766	32,934	24,434	-26%
Netherlands	1,859	1,408	4,440	215%
United Kingdom	3,985	3,889	4,282	10%
Canada	3,104	2,933	3,045	4%
Chile	1,842	1,499	3,023	102%
Others	15,896	13,991	10,639	-24%

Table 6: Average C.I.F. Prices of Chicken Products by Major Suppliers, Jan – June

Country	-/ KG - 2004	-/ KG - 2005	-/ KG - 2006	% Change 06/05
--The World--	1.1	1.2	1.19	-0.83
Brazil	1.09	1.22	1.14	-6.56
China	1.46	1.52	1.49	-1.97
United States	0.89	0.86	0.91	5.81
Netherlands	0.58	0.69	0.75	8.7
United Kingdom	0.94	0.97	1.06	9.28
Canada	0.81	0.7	0.76	8.57

Table 7: Chicken Re-exports by Major Destinations in Value, US$M, Jan – June

Country	2004	2005	2006	% Share 2004	2005	2006	% Change 06/05
--The World--	37	26	59	100	100	100	122.6
China	30	15	29	80.94	56	49.53	96.88
Taiwan	0	8	26	0	28.83	44.69	245.09
Macau	3	4	3	7.57	13.89	5.63	-9.88
Others	4	0	1	10	0	1	---

Table 8: Chicken Re-exports by Major Destinations in Volume, Jan – June

Country	MT, 2004	MT, 2005	MT, 2006	% change
--The World--	41,614	28,636	60195	110%
China	33,986	16,335	31840	95%
Taiwan	0	9,477	26180	176%
Macau	1,996	2,378	2094	-12%
Vietnam	5,447	410	53	-87%
Others	185	36	28	-22%

Table 9: Hong Kong Chicken Imports by Categories in Value, US$M, Jan – June

	2004	2005	2006	% change
chicken	149	173	211	22%
chicken wings	79	78	105	35%
chicken frozen cuts	32	39	42	7%
chicken, whole	22	36	37	3%
Others	16	20	27	35%
chicken feet	67	68	75	10%

Table 10: Hong Kong Chicken Imports by Categories in Volume, MT, Jan-June

	2004	2005	2006	% change
chicken	135,751	143,597	177,286	23%
chicken wings	77,945	72,608	95,384	31%
chicken frozen cuts	30,050	34,232	34,755	2%
chicken, whole	16,238	23,697	25,573	8%
Others	11,518	13,060	21,574	65%
chicken feet	86,748	107,574	86,607	-19%

Table 11: Hong Kong Chicken Re-exports by Categories in Volume, MT, Jan-June

	2004	2005	2006	% change
chicken	41,614	28,636	60,195	110%
chicken wings	25,719	21,911	48,376	121%
chicken frozen cuts	11,544	4,273	4,434	4%
chicken, whole	671	117	159	36%
Others	3,680	2,335	7,226	209%
chicken feet	42,185	41,358	67,248	63%

Table 12: Hong Kong Retained Chicken Products by Categories, MT, Jan – June

	2004	2005	2006	% change
chicken	94,137	114,961	117,091	2%
chicken wings	52,227	50,697	47,008	-7%
chicken frozen cuts	18,506	29,960	30,322	1%
chicken, whole	15,567	23,580	25,414	8%
Others	7,837	10,724	14,347	34%
chicken feet	44,563	66,215	19,359	-71%

Table 13: U.S. Chicken Exports to Hong Kong by Categories in Value, US$M, Jan–June

	2004	2005	2006	% change
chicken	26	28	22	-22%
chicken wings	11	15	12	-14%
chicken frozen cuts	13	11	7	-40%
chicken, whole	1	0	0	-90%
Others	1	2	3	50%
chicken feet	29	42	20	-53%

Table 14: U.S. Chicken Exports to Hong Kong by Categories in Volume, MT, Jan – June

	2004	2005	2006	% change
chicken	29,766	32,934	24,434	-26%
chicken wings	12,413	16,973	12,037	-29%
chicken frozen cuts	14,699	12,708	8,547	-33%
chicken, whole	565	250	8	-97%
Others	2,089	3,003	3,842	28%
chicken feet	36,169	64,803	18,295	-72%

Table 15: U.S. Chicken Exports to Hong Kong being Re-exported, MT, Jan – June

	2004	2005	2006	% change
chicken	16,900	9,445	10,184	8%
chicken wings	6,256	6,179	6,308	2%
chicken frozen cuts	8,708	2,551	2,457	-4%
chicken, whole	572	0	71	---
Others	1,364	715	1,348	89%
chicken feet	18,676	21,813	16,825	-23%

Table 16: Hong Kong's Retained Imports of U.S. Chicken Products, MT, Jan - June

	2004	2005	2006	% change
chicken	12,867	23,489	14,250	-39%
chicken wings	6,157	10,794	5,729	-47%
chicken frozen cuts	5,991	10,157	6,089	-40%
Others	719	2,538	2,432	-4%
chicken feet	17,493	42,990	1,470	-97%

Source: Hong Kong Census & Statistics Department

Narrative on Supply and Demand, Policy & Marketing

Production

Hong Kong Bans Backyard Poultry

Hong Kong reported no outbreaks of avian influenza cases in commercial poultry or humans in the past six months since the last report. However, the Hong Kong government found H5N1 virus in 16 dead wild birds between October 2005 and March 2006. They included migratory birds, resident birds and backyard poultry. The Hong Kong government determined that backyard poultry keeping activities may be a threat to public health as they are not subject to farm licensing requirements and no biosecurity measures are imposed. Because of the risk of cross infection between wild birds and backyard poultry, the Hong Kong government gazetted legislation on February 8 banning backyard poultry keeping. The legislation became effective February 13, 2006. Hong Kong's backyard poultry, however, is not commercially significant.

Hong Kong Government Introduced a Poultry Farm-license Buy-back Scheme

As a measure to reduce the risk of avian influenza outbreak, the Hong Kong government has introduced a poultry farm-license buy-back scheme in August last year. The objective is to reduce the number of chickens in Hong Kong to 2 million so that depopulation of all chickens will be completed within one week if there is an outbreak in Hong Kong.

Farmers were given one year to consider whether to return the license to the Hong Kong government. The scheme ended in August 2006. Before the introduction of the scheme, there were 147 farms with a 3.7 million chicken capacity allowed. When the scheme ended this August, a total of 115 farmers had applied to return the license to the Hong Kong government. These farms are required to stop operation within 9 months after the application for surrendering the license. These 115 farms have a raising capacity of 2.4 million. In other words, in 9 months' time, the number of Hong Kong's chicken farms will be reduced to 32 with a capacity of 1.3 million. When chicken population maintains at 1.3 million, local farms will be able to produce 5.2 million birds a year or supply 14,000 birds daily to the market. Presently, Hong Kong still has 118 farms in operation that maintain 2.2 million live chickens.

Hong Kong Government Imposed Ban on Live Chicken Imports from China

In the past six months, Hong Kong imposed a 21-day ban on live chicken imports from China twice due to two respective human H5N1 infection cases. Upon confirmation of an H5N1 human infection case in Guangzhou, the Hong Kong government suspended live poultry supplies from the Guangdong Province effective March 5 for 3 weeks. Despite the fact there were no other human cases or H5N1 outbreaks in poultry farms reported, the Hong Kong government imposed the temporary suspension as a precautionary measure. The Hong Kong government took similar action when there was another confirmed human case in Shenzhen. The second ban took place between June 16 and July 6. Both Guangzhou and Shenzhen cities are very close to Hong Kong.

Hong Kong Government Revises Guidelines and Daily Live Poultry Imports from China

Because live chicken suspensions from China have such a tremendous impact on trade, the Hong Kong government announced a guideline that if human avian influenza cases are detected in Guangdong again in the future and no avian flu outbreak is recorded among poultry population, the general suspension period of live poultry supply from China will be revised to 14 days after the confirmation of a human case. This revision is based on recommendation drew from a government advisory scientific committee. The previous practice of suspending trade for 21 days has been drawn from the OIE (World Organization for Animal Health) Terrestrial Animal Health Code in which 21 days referred to the incubation period if avian influenza is found in poultry.

In the past, Hong Kong consumed about 100,000 chickens a day with local supplies constituting about 30 percent. After the outbreak of highly pathogenic avian influenza (HPAI) in China in 2004, Hong Kong banned the imports of live poultry and poultry meats from China starting January 30. As the threat of HPAI subsided in March, Hong Kong's importation of live chickens resumed on April 20. Since then, the Hong Kong government started to restrict the number of live chicken imports to 30,000 daily with another 30,000 birds supplied locally. When Hong Kong resumed the importation of live chicken on March 26 this year, the Hong Kong government restricted the number further to 40,000 daily, with imports and local supplies each accounting for half of the quota. The government explained that the imminent threat of an avian influenza outbreak warrants the reduction of poultry stock in Hong Kong. Despite the protests by the trade, the daily quota of 40,000 is in place with some adjustments made for festival seasons when demand is higher than normal. Many Hong Kong consumers traditionally prefer freshly slaughtered chicken to frozen or chilled chicken.

Hong Kong Blueprint for Private Sector Poultry Slaughtering

The Hong Kong government has claimed that their ultimate policy objective has been to achieve complete segregation of humans from live poultry. To achieve this end, the government has the intention to invite a tender for the development and operation by the private sector of a poultry slaughtering plant. According to a tentative blueprint, the slaughtering plant will operate throughout the year with a daily slaughtering capacity of 20,000 - 40,000 live chickens and a maximum of 3,000 pigeons and other small sized poultry except water birds, with the capacity for expansion to 60,000 live chickens. Dressed poultry will undergo a chilling process and be individually packed and tagged before distribution to retail outlets by enclosed refrigerated vehicles. This plant will start operation by 2009 at the earliest. Upon the operation of the proposed poultry slaughtering plant, the sale of live poultry in retail outlets will be prohibited.

Consumption

Poultry Consumption Expected to Remain Stable in 2006

In 2006, the consumption level of chicken in Hong Kong is expected to be 269,000 MT, very close to the 2005 level. The stable consumption of chicken products is due to the fact that Hong Kong is a mature market. However, the share of live chickens will be reduced, as there are administrative measures to limit daily supplies to 40,000 head including both imports and local supplies. The reduced demand is a compound effect of increased prices and restricted supplies of live chickens. Additionally, Hong Kong people have become used to buying competitively priced chilled/frozen whole chickens from China.

Consumption of Whole Chickens, freshly slaughtered, chilled/frozen

	MT, 2002	MT, 2003	MT, 2004	MT, 2005	Yr 2005-2002
Live chicken	60,910	58,310	28,973	38,790	**-22,120**
Whole chicken	26,264	33,154	41,118	49,748	23,484
chilled	668	6,343	22,762	34,408	**33,740**
frozen	25,596	26,810	18,357	15,340	-10,256

The table above indicates that the consumption of chilled whole chickens supplies have fully compensated for the reduced consumption of live chickens. Hong Kong started to import chilled whole chickens from China starting December 2002 after reaching an inspection protocol between the two governments. Since then Hong Kong consumers have gradually substituted freshly slaughtered chickens with chilled chickens due to price considerations. Retail prices of chilled chickens stand at around HK$30 (US$4), weighing 1.4 kg approximately compared to HK$60 (US$8) of freshly slaughtered chickens. Moreover, the Hong Kong government started to restrict live chicken imports from China to 30,000 head daily starting April 2004. This explains the conspicuous decrease in consumption of live chicken in 2004. This trend will continue in 2006 when daily supplies of chicken are currently restricted to 40,000 head, including both imports and local supplies.

China supplies 73 percent of the frozen chickens and almost 100 percent of the chilled chickens in Hong Kong.

The two human cases of H5N1 in Guangzhou and Shenzhen in March and June impacted consumers' confidence in buying freshly slaughtered chickens in wet markets for a short while only. Prices, however, did not plummet because the Hong Kong government suspended live poultry imports from China immediately after the confirmation of the human infected cases. Market supplies immediately were cut in half when the market was filled with local chicken supplies only. Retail prices of live chickens were about HK$22/catty (US$4.7/kg) when daily imports amounted to 30,000 head. During the import suspension, retail prices of live chicken jumped to HK$28/catty (US$6/kg). Retail prices now are about HK$26/catty (US$5.60/kg) with daily supplies from China restricted to 20,000 head. The sporadic avian influenza cases in China have not had a long-term negative impact on Hong Kong consumers' confidence in chicken. Once Hong Kong consumers get used to the news, they do not tend to overreact to recurrent cases.

The consumption of chilled chicken in March and June was slightly affected. But consumption confidence soon picked up.

Main Developments Affecting U.S. Chicken Sales in Hong Kong

The consumption of frozen chicken products remains stable despite cases of AI in China, while Brazilian chicken products outperformed U.S. products in Hong Kong. Traders indicated that 2004 was the turning point when Hong Kong banned U.S. products and Brazilian products then became the leading supplier for frozen chicken products for Hong Kong. They cite price as the key factor. Also, Hong Kong retailers and consumers prefer the "soldier layer" packing of Brazilian products to the layer packing of U.S. products. Such packing is convenient if consumers choose to buy a few chicken legs at a time instead of the whole pack. In contrast, restaurants do not have a strong preference with regard to packaging. Despite the fact that U.S. Individual Quick Frozen (IQF) packaging is very convenient, it entails higher prices which defers demand. In recent years, IQF packaging is also available for some Brazilian products.

Comparing U.S. and Brazilian products, traders commented that the size of U.S. chicken products within a box could have a wider range than that of Brazilian products. Given the inconsistent number of products within a box, retailers prefer to use Brazilian products.

Nonetheless, U.S. products are highly regarded in terms of quality and food safety. Despite the fact that many fast food chains and supermarkets have replaced U.S. chicken products with Brazilian products, some upscale outlets still use U.S. products because of product quality and safety concerns. One supermarket chain indicated that they sell Brazilian whole chickens but not Brazilian chicken parts because Brazilian products do not pass their in-house microbiological tests. Mostly they sell U.S. chicken parts. The most popular U.S. chicken parts in Hong Kong are mid-joint wings. Hong Kong has a big demand in mid-joint wings.

With regard to chicken parts, some fast food chains are trying to replace drumsticks with 3-joint wings so as to lower food costs. As fast food chains are very competitive, they do not want to raise the prices of teatime set menus. They, therefore, try to maintain the profit margins by lowering food costs. To lower food costs, they have substituted drumsticks from menus with 3-joint wings. These products are sourced from Brail. Also, supplies from Brazil and China largely dominate the chicken whole leg market for low to medium scale retail outlets and restaurant chains.

Trade

In the first half of 2006, Hong Kong imported a total of $211 million worth of chicken imports plus $75 million of chicken feet. Compared to the corresponding period in 2005, value and volume increased by 22 percent and 23 percent respectively. The significant increase has been brought by a robust increase in re-exports coupled with stable domestic demand. This trend is expected to continue in the second half of 2006. Discounting the effect of re-exports and chicken feet, Hong Kong will likely import a total of 234,000 MT of chicken products in 2006. The modest increase is based on the expectation that chilled whole chicken from China will continue to replace live chicken and that Hong Kong will not have avian influenza cases that would affect consumer's confidence in chicken. Moreover, consumers will increasingly receptive to chilled/frozen chicken products. This should provide opportunities to U.S. exporters.

Brazil has overtaken the U.S. as the leading supplier of chicken products to Hong Kong since 2004. The market share of U.S. chicken has continued to decrease. U.S. chicken exports plummeted from 33 percent in 2003 to 11 percent in 2006. The year 2004 was a turning point for U.S. exports to Hong Kong. Hong Kong banned U.S. chicken exports due to AI cases in the U.S., giving a chance for Brazilian products to expand their market share. Apart from packaging merits, price is the dominating factor that Brazilian product can outperform the U.S. For example, Brazilian C&F prices of whole legs are around 40 –50 cents per pound versus 60-70 cents of U.S. whole legs. Brazil used to be strong in 3-joint wings but not in mid-joint wings. However, Brazil has tremendously increased its supplies of mid-joint wings in Hong Kong in recent years. Brazilian mid-joint wings in "soldier layer pack" sell at 80 cents per pound with size ranging 30 – 35 gms. In contrast, U.S. products sell at $1 per pound with no weight of individual wings specified. Price conscious traders, therefore, opt for Brazilian supplies.

Nonetheless, traders commented that U.S. chicken exports performed well between February and May, 2006 because U.S. prices were relatively weak when poultry demand became sluggish in many places, including Europe, as a result of the Avian Influenza impact. U.S. leg quarters at one point were as low as 17 cents per pound, resulting in increased re-exports to China. Prices have now risen to over 45 cents per pound. Traders indicated that U.S. leg quarters would hardly sell well to China once price exceeds 25 cents per pound. The demand for chicken feet is high in summer in both Hong Kong and China. The current U.S. prices at 70 cents per pound are considered extremely high. Again, many importers therefore opt for Brazilian supplies.

Chicken Feet Imports

Between January-June 2006 and 2005, U.S. chicken feet exports to Hong Kong declined over 53 percent and 72 percent by value and volume respectively. The significant drop was the result of an import requirement change for U.S. chicken feet effective April 30, 2005. The new regulation required U.S. chicken feet to be from birds which have been given ante-mortem and post-mortem inspection. Most U.S. plants may need to modify their plant facility to meet the new requirement. Not many plants are willing to do this; it has been long expected that U.S. chicken feet export would slash by half once the new requirement became effective.

In contrast, Brazilian chicken feet products surged by 159 percent by volume. Supplies, however, could not fully compensate for the reduction of U.S. chicken feet supplies in the market.

Hong Kong's Chicken Feet Imports

	January - June US$ million			% Change	Market Share		
Country	2004	2005	2006		2004	2005	2006
--The World--	66.71	68.41	75.17	10%	100%	100%	100%
Brazil	20.17	12.17	39.18	222%	30%	18%	52%
United States	29.23	41.83	19.68	-53%	44%	61%	26%
Argentina	1.66	1.16	5.52	376%	2%	2%	7%
Others	15.65	13.25	10.79	-19%	23%	19%	14%

					Market Share		
Country	MT, 2004	MT, 2005	MT, 2006	% Change	2004	2005	2006
--The World--	86,748	107,574	86,607	-19%	100%	100%	100%
Brazil	27,991	19,022	49,313	159%	32%	18%	57%
United States	36,169	64,803	18,295	-72%	42%	60%	21%
Argentina	1,956	1,925	6,439	235%	2%	2%	7%
Others	20,632	21,824	12,560	-42%	24%	20%	15%

China Expected to Continue to be the Major Supplier for Most Chicken Products

China is the second largest chicken product supplier for Hong Kong. About 57 percent of China exports to Hong Kong are whole chickens. Actually, China accounts for 90 percent of whole chicken supplies in Hong Kong. In the future, China is expected to continue to dominate the market in chilled whole chicken and expand its market share in frozen chicken cuts like drumsticks and whole legs. Products from China are price advantaged and enjoy low freight costs compared to products from other countries. However, the table below shows that China is not yet strong in chicken wings supplies.

China's chicken products exports to Hong Kong between Jan-June

	US$ million			% Share			% Change
Description	2004	2005	2006	2004	2005	2006	- 06/05 -
Chicken	28.16	58.54	59.18	100%	100%	100%	1.09
whole chicken, chilled	11.4	25.13	26.72	40%	43%	45%	6.35
whole chicken,frozen	7.54	8.34	6.83	27%	14%	12%	-18.16
frozen chicken cuts	5.43	17.83	20.11	19%	30%	34%	12.79
chicken wings	0.26	0.35	0.73	1%	1%	1%	107.85
Others	4	7	5	13%	12%	8%	8%

Hong Kong Re-exports

Effective November 1, 2004, Hong Kong's meat re-exports to China became subject to compulsory pre-inspection by China Inspection Co. (CIC) in Hong Kong. The compulsory inspection service provided by CIC costs HK$1,300 (US$1=HK$7.75) per container. The inspection processes will cause an additional cost of HK$4,000 inclusive of inspection and transport cost. According to information provided by CIC, they inspected 4,441 containers of frozen meats in 2005 and 2,125 of which came from the U.S. These numbers are very close to Hong Kong meat re-export figures to China.

Hong Kong Meat Re-exports to China 2005

	From the World		**From the U.S.**	
	MT	**Containers**	**MT**	**Containers**
Poultry	105,503	3,768	41,974	1,825
Beef & Offals	6,494	232	98	4
Pork & Offals	25,962	927	4,897	213
		4,927		2,042

Note: The number of containers is based on the calculation that a U.S. container carries an average of 23 MT of frozen meat whereas one from other countries, where container weight control is not as stringent as in the U.S., may load an average of 28 MT of products.

Source: Hong Kong Census & Statistics Department

The additional cost associated with the compulsory pre-inspection service is an incentive that drives direct shipments from the U.S. to North China. It is expected that the trend of direct shipments will continue, particularly to northern ports in China.

Also, Hong Kong meat imports are very often re-exported to China through a third place, particularly for Brazilian and European products which are not allowed into China. It is worth noting that Hong Kong's meat re-exports to Taiwan (table 8) surged by 176 percent in the past 6 months. Most of the products re-exported to Taiwan may very well end up in China. Hong Kong's chicken re-exports to Taiwan are accounted mostly by products originated from Brazil (66 percent), with the rest coming largely from Europe. Very little U.S. product is re-exported to China through Taiwan. This is because China allows U.S. products but not products from Brazil or some European countries.

Hong Kong meat re-exports to China are handled by transport companies. The transport cost depends very much on the value of products. Market prices range from RMB 2,600/MT to RMB 3,000/MT. Transport costs usually will be lower if consignments are accompanied with a full set of documentation.

Policy

Countries with Live Poultry and Poultry Meat Import Restrictions to Hong Kong

Hong Kong has imposed restrictions on imports of live poultry and poultry meat from countries where AI cases have been reported. As of August 21, 2006 Hong Kong has restricted live poultry and poultry meat from the following countries.

Countries

Afghanistan	Albania
Azerbaijan	Cambodia
Cameroon	Cote D'lvoire
Croatia	Democratic People's Republic of Korea
Denmark	Egypt
France (Ain, Isere, Rhone, Saone-et-Loire)	Germany
Hungary	India
Indonesia	Iraq
Israel	Japan (Ibaraki Prefecture, Saitama Prefecture)
Jordan	Kazakhstan
Laos	Malaysia
Myanmar	Netherlands (Gelderland)
Niger	Nigeria
Pakistan	People's Republic of China (Anhui, Guizhou, Hubei, Hunan, Inner Mongolia Autonomous Region, Jiangxi, Ningxia Autonomous Region, Shanxi, Sichuan, Tibet Autonomous Region, Xinjiang Autonomous Region, Yunnan)
Republic of South Africa	Romania
Russian Federation	Sudan
Sweden	Thailand
Turkey	Ukraine
United Kingdom (Norfolk)	Vietnam
Zimbabwe	

Source: Hong Kong Government

Reorganized Center for Food Safety

The Hong Kong government set up a Center for Food Safety under the Hong Kong Food and Environmental Hygiene Department (FEHD) in May 2006. The Center is the food regulatory authority in Hong Kong. It is responsible to enforce regulations on food import and export and implements policies on food safety control. Actually, the Center has been transformed from a division, namely, Food and Public Health, under FEHD. There are not any significant changes between the two except in name.