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Report Highlights:

H.K. remains an important market for consumer-oriented American foods. The economic downturn in the past few years and present high unemployment have affected consumers' eating and shopping habits. Whereas most people used to eat out frequently, now more are shopping for groceries and preparing more meals at home, or eating more meals at low-end or fast food restaurants. H.K.'s relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. Demand for grocery store products, meats, poultry, eggs, and fresh fruit continues to be very strong. There is potential for growth in the processed/convenience sectors of H.K.'s retail food markets for U.S. high value consumer foods such as grocery items, ingredients for home meal replacement, wine, health food, etc.

Includes PSD changes: No
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SECTION I. MARKET OVERVIEW

- Hong Kong remains an important market for consumer-oriented American foods. Hong Kong imported US$1.172 billion of consumer-oriented products from the U.S. in 2001, accounting for 23% of the market share. Of all U.S. consumer-oriented exports to Hong Kong, poultry meat, fresh fruit, red meats, processed fruit & vegetables and tree nuts are the leading items. For fish and seafood products, the US exported US$42 million worth of products to Hong Kong.

- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 2001, local production contributed only 6% of fresh vegetables, 23% of live poultry, and 25% of live pigs. However, Hong Kong's total imports of consumer-oriented products and fish & seafood products amounted to US$5.1 billion and US$1.766 billion respectively.

- Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish. However, there has been growing popularity of frozen foodstuffs because many working women cannot afford the time to do grocery shopping daily. Besides, more and more consumers believe that frozen foods are more hygienic.

- Being one of the most affluent economies in Asia, Hong Kong has a per capita GDP of around US$24,000. Hong Kong's GDP grew by 0.5% in the second quarter of 2002, reverting from the 0.5% decline from the previous quarter. However, consumer spending remained sluggish due to the continued weaknesses in the asset markets and the worsening labor market conditions. Hong Kong is currently experiencing relatively high unemployment of 7.6%.

- The economic downturn in the past few years and present high unemployment have affected consumers' eating and shopping habits. Whereas most people used to eat out frequently, now more are shopping for groceries and preparing more meals at home, or eating more meals at low-end or fast food restaurants.

- Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. Demand for grocery store products, meats, poultry, eggs, and fresh fruit continues to be very strong.

- There is potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as grocery items, ingredients for home meal replacement, wine, health food, etc. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to the EU, 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.

- Demographic Factors: 1. An increasing number of women in the work force. In 2001, 51.1% of women in Hong Kong were in the labor force. 2. A youthful work force: 59.7% of labor force is in the age group of 25 - 44. These two demographic trends indicate that there is a good potential for "convenience" foods. In addition, this younger population is very receptive to new food varieties.

Advantages	Challenges
World's freest economy (Heritage Foundation's 2001 Index of Economic Freedom). Consistent free trade and free enterprise policies. No import duty except on liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls	Severe competition between different supplying countries. A very price sensitive market; importers' buying decisions depend largely on price.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
Foreign and local businesses operate on a level playing field	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
As one of the most affluent economies in Asia, a market leader for new products.	A virtual duopoly in food retailing allows retailers to change high slotting (shelf space) fees.
International city; residents travel frequently and are receptive to western and novel food	
Port facilities are world-class, making Hong Kong a regional trade center and entrepot.	

SECTION II. EXPORTER BUSINESS TIPS

Importer lists: ATO provides Hong Kong importer lists to US exporters and assists to arrange meeting appointments provided adequate lead time is given.

Language: The official written languages in Hong Kong are Chinese and English. The official spoken languages are Cantonese (the prominent Chinese dialect in Hong Kong and South China) and English. In general, all correspondence can be in English.

Travel Visa: Even though Hong Kong is now part of China, there is still a border boundary between Hong Kong and China. If you are traveling with a U.S. passport, you do not need a travel visa for Hong Kong. However, if you are planning to go to Mainland China, you need to apply for a travel visa into China.

Legal System: Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Hong Kong's legal system is separate from Mainland China. Also, Hong Kong is a separate customs territory from China.

General Consumer Tastes and Preferences:

- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Most shopping is still done in traditional markets including wet markets and mom-and-pop shops. However, sales in supermarkets are increasing. The supermarket's share in terms of retail sales has risen from 44% of total sales in 1995 to 52% in 2001. 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.

- 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.

- 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 in Hong Kong, and small package food products are preferred.

- Hong Kong consumers have become increasingly more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package is certainly a good marketing strategy for health foods.

- Health products are well received in Hong Kong. A recent sales survey indicated that sales of milk surged in Hong Kong in 2001 as a result of aggressive marketing promoting its health benefits. Milk is promoted as one of the best sources of calcium and a health product. Since some Chinese have an intolerance to lactose, a component of milk, they may develop intestinal problems such as gas and diarrhoea. Therefore, Nestle has recently launched a lactose-reduced milk. Adult consumers are particularly interested in low-fat milk.

- According to the survey, other top sales growth products include breakfast cereal, chewing gum, soya drinks, drinks containing fruit juice, and ready-to-drink tea. Breakfast cereal and soya drinks are promoted as health food items. Marketers have been very creative in positioning chewing gum as an effective cold remedy. Money spent on chocolate grew by more than 10 per cent, as did that spent on corn or potato chips. Frozen dim sum sales also grew, in what retailers said was a mark of its convenience, low price and quality.

AC Nielsen Survey in 2000

- There are 2.123 million households in Hong Kong. Each household on average spends US$259 on food monthly (excluding eating out in restaurants). According to a survey conducted by AC Nielsen, a household with children spends 20% more on food than those without children. Children aged around 5 to 9 like snacks such as biscuits and candies while youngsters aged from 10 to 19 like drinks.

- The same survey also showed that Hong Kong people spend 25% more on Sunday than on weekdays. With regard to frequency, each household on average makes 21 shopping trips for food each month. Families with children shop as frequent as 26 times each month and those without children 16 times only. In terms of shopping frequency, Hong Kong consumers rank second in the world after Italians.

- According to AC Nielsen's survey, the average monthly household expenditure on convenience or ready to cook food was about US$8 , accounting for approximately 3% of total food retail sales. Among all convenience food, instant noodles are the most popular followed by frozen dim-sum and canned soup.

- To better understand Hong Kong consumers' preferences for western foods, the Hong Kong Agricultural Trade Office commissioned a pilot study from a Hong Kong market research firm on consumer preferences among Hong Kong Chinese consumers for four different categories of food products: hot dogs, salty snacks, fruit juice beverages and celery. The purpose of the study is to identify consumer attitudes and buying habits so as to help U.S. exporters gain an insight as to how to introduce western foods in the most effective way to Hong Kong consumers. For details, please refer to Gain Report # HK0056.

General Import and Inspection Procedures:

Food products can be imported to Hong Kong duty free. 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 Hong Kong government accepts import applications from Hong Kong importers; U.S. exporters are not required to apply for import permits. However, U.S. exporters may need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.

The Hong Kong Food and Environmental Hygiene Department requires importers to provide an official certificate for the importation of meat products, frozen confection and dairy products. When a consignment arrives and before its release, the products will be inspected and if necessary sampled. Upon the satisfaction of the Department, a "release" letter will be issued to the importer. Traders are required to submit import and export declarations to the Hong Kong Customs and Excise Department. A declaration charge of 0.025% applies for imports and exports.

For more information on food import regulations, please also refer to the "Hong Kong Food and Agricultural Import Regulations and Standards, Importation of Food & Agricultural Products to Hong Kong 2002". Gain Report #HK2031.

Labeling of Genetically Modified (GM) Foods

Towards the end of 1999, the Hong Kong public, particularly the green groups and consumer organizations, started to demand that the Hong Kong government have a labeling policy on GM foods mainly on the grounds of consumers' right to know. The Legislative Council also forwarded a motion to urge the government to look into the issue. In the face of mounting pressure, the government conducted a long run consultation and education exercise, which included two public forums discussing the safety and labeling of GM foods respectively. In February 2001, the Environment and Food Bureau issued a "GM Food Labeling" consultation paper and solicited views from the public. Three options for implementation were proposed: voluntary labeling, mandatory labeling, and voluntary labeling to be followed by mandatory labeling at a later date. The consultation period ended in the end of May. For results of the consultation exercise, please refer to GAIN Report#HK1072.

The Hong Kong government basically does not question the safety of GM foods. It relayed the findings of the World Health Organization (WHO) and the Food and Agriculture Organization (FAO) that "the use of modern biotechnology does not result in food becoming inherently less safe than that produced by conventional means." No implementation timetable for GM labeling has been set. Currently, the government is conducting a study on the economic impact of a mandatory labeling policy. Taking a wait and see attitude, the Hong Kong government explicitly reiterated that it is closely following the development of Codex's discussion on GM labeling and will draw reference from international consensus.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Among the three major market sectors of Hong Kong: the retail and HRI (Hotel, Restaurant and Institutional) sectors present the best opportunity for U.S. exporters. The Food processing sector in Hong Kong is very small and presents less opportunity for market development.

Food Retail

- Total retail sales of food and drinks in Hong Kong for 2001 reached US$6.622 billion, rising 2.5% from US$6.462 billion in 2000. For January - July 2002, retail sales of food, alcoholic drinks, and tobacco for traditional markets decreased 3.5%, while that for supermarkets increased 1.4 %, compared with the same period last year.

- Retail establishments in 2000 approximately amounted to 16,296, which included (1) 91 supermarkets and convenience stores establishments (including retail outlet branches, estimated at about 800) and (2) 16,205 wet market stall 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.

- Although the supermarket category constitutes a very tiny number of Hong Kong's total retail outlets, its share in terms of retail sales has risen from 44% of total sales in 1995 to 52% in 2001. The significant jump may indicate that supermarkets have taken much business away from traditional wet markets.

Pattern of purchasing fresh food

- The Hong Kong government conducted a survey on the pattern of purchasing fresh food. Of 1.9 million households surveyed between October and November 2000, 87.6% usually chose to purchase fresh food from wet markets, while 12.4% usually chose to purchase fresh food from supermarkets.

- Comparing households shopping in wet markets with those in supermarkets, it was found that the older the decision-makers responsible for purchasing fresh food produce in the households, the higher was the tendency of the households to go to wet markets to purchase fresh food. Some 94.7% of the households with decision-makers aged 60 and over usually chose to purchase fresh food from wet markets and the percentage decreased to 74.2% for those households with decision-makers aged below 30.

- Analyzed by educational attainment, households with decision-makers having higher educational attainment had higher tendency to purchase fresh food from supermarkets as against wet markets. Some 95.2% of the households with decision-makers having primary educational attainment chose to purchase fresh food from wet markets while 85.3% for households with tertiary education decision-makers.

- Regarding the outlets for purchasing the respective types of fresh food, about 90% of the households purchased fish, seafood and meat products from wet markets. For vegetables, fruits and eggs, the percentages of households which purchased these types of fresh food from wet markets were relatively lower, at 86.8%, 79.3% and 77.4% respectively.

Supermarkets

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (254 outlets) and ParknShop (206 outlets). ParknShop and Wellcome account for about 80 percent of the supermarket turnover. 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 recent years, a "shopping mall' concept has emerged in the operation of some new superstores, i.e., a variety of services are provided. For example, a newly opened Wellcome, with a floor area of 54,000 square feet, provides massage service. A doctor specializing in Chinese medicine has an office within the store providing consultation to patients. Presently, Wellcome has 17 superstores. The largest ParknShop store in Hong Kong has a floor area of 72,000 square feet and sells over 20,000 product categories ranging from snacks to electrical household appliances. New features include a drug store operating inside the superstore with a full-time pharmacist. Also, this new superstore provides free internet service to customers once they have made a minimum purchase. This ParknShop megastore contains a zone in which all goods are priced at HK$8, in a move that could set off a war with existing HK$10 bargain stores. The HK$8 zone features 1,000 Japanese-style items ranging from cooking utensils to skin-care products.

- In 2001, there opened a new upscale supermarket called Great Food Hall, with one outlet at the moment. It is associated with ParknShop but products on the shelf are more upscale. Located in a commercial area, it targets at a better-off clientele. Both Great Food Hall and City Super are competing in the same market segment. The opening of the Great Good Hall provides another excellent retail outlet for quality US products. When new products are proved popular in this new outlet, then they can find their way easily to ParknShop's chain stores.

- Almost all Hong Kong supermarkets require listing fees, that is, a fee 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. For example, Welcome and Park'N Shop, which have many branch stores, have expensive listing fees. A product with five SKU categories is expected to pay US$26,000 to US$39,000. On the other hand, Jusco, a supermarket in a Japanese department store, charges US$150 for all its stores. The agent will not bear this cost, which is transferred to the principal. In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only Japanese department store food retailer that requires a listing fee.)

- 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 percent of the annual turnover has to rebated to the major supermarkets and 8 percent to small ones.

- 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.

- Some significant supermarket highlights in 2001 included the collapse of adMart and Guangnan (KK). Following the closure of Carrefour and Market Republic in the earlier part of 2000, adMart, a forerunner in on-line food retailing in Hong Kong, announced its closure on December 2000 after only a year and a half of operation. A company representative claimed that Hong Kong is not yet ready for full-fledged internet retail business and that its home delivery cost was too expensive. He said these were the two main reasons leading to adMart's failure.

- Guangnan (KK) became the latest in a string of competitors to fall. Guangnan had a total of 34 chain stores which were closed in June 2001 without giving any prior notice. Poor management was one of the reasons leading to Guangnan's failure. However, mid-sized supermarkets like KK were in a particularly difficult position because they can neither compete with the giants in resources and price, nor with small grocery stores in fresh ideas and convenience. In August 2001, Wellcome announced that it bought 8 of Guangnan's stores.

- There is excellent potential growth 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 the EU, 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.

Market Entry Approach:

- Through setting up a representative office in Hong Kong: While this is the most effective approach, it is very costly.

- Through U.S. Consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. However, the product quantities requested per shipment are usually small, especially when new products are purchased to test the market.

- Through Hong Kong agents: This is the most popular approach. 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.

- 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 they deal directly with retailers.

Convenience Stores

- There are around 600 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (430 outlets) and Circle K (156 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. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.

- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 600 stores presently, there is still 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. The owners of 7-eleven will increase to 500 stores by early 2004.

Market Entry Approach:
Convenience stores only buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

Traditional Markets

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for a lion’s share of food retails. For example, they occupied around 54 percent 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 enlarge 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 55 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 stores worth mentioning is called Magic House. With 72 retail stores, they operate 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.

Market Entry Approach:

- U.S. exporters must go through local importers/agents that have a good distribution networks.

Trends in Promotional/Marketing Strategies and tactics

- *Supermarkets expanding store size:* The supermarket industry is undergoing a face-lift to introduce larger size stores. Supermarkets are moving towards larger, more modern stores with more fresh food. Wellcome currently has 17 superstores and is planning to open 10 new stores and expand its fresh food sections in 30 existing outlets in 2003. The supermarket chain has already opened 10 new stores so far this year. At present, 110 of Wellcome's 254 supermarket stores have fresh food outlets. Among them, 54 sell fresh pork. ParknShop has already opened five new stores and plans to open five more this year.

- *Increasing demand for promotion package and discounts:* Hong Kong is experiencing an economic downturn and consumers 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. To lure elderly consumers to shop in supermarkets, ParknShop and Wellcome started to offer discounts to them in September if purchases are made during morning business hours. After a few days, China Resources Supermarket (CRC) announced that all of its branches would also give this offer to elderly consumers.

  In face of strong competition, major supermarket stores very often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.

- *Internet direct sales of food:* Currently ParknShop, Wellcome, and City Super are the three supermarkets offering grocery shopping over their website. The service is however not attracting a lot of interest, due to the convenience of shopping in Hong Kong, security concerns and the cost of delivery. According to a survey conducted by the government in 2001, personal computers and Internet connections were getting more and more common in Hong Kong. Some 1.3 million households, or 61% of all households had a PC at home, of which some 1 million households had their PC connected to the Internet, representing 49% of all households. This represents a significant increase compared to the situation in 2000 when only 50% of all households had a PC and 36% of all households had their PC connected to the Internet. Regarding on line purchasing services, popular items are tickets and books.

- *Growing awareness of U.S. products fit supermarkets' needs to diversify product range*: With awareness of the high quality and variety of U.S. food products increasing among supermarkets, there are many opportunities to introduce new U.S. products to the local market. ATO Hong Kong selectively invites key supermarket buyers to the U.S. on U.S. buying missions, which are followed by in-store promotion highlighting U.S. products. Buyers from Hong Kong supermarkets realize the quick-changing consumption temperament of local consumers, and many have expressed to us the need to source new products to capture changing tastes. With strong support from exporters and state regional trading groups, we continue our efforts to promote U.S. products and help supermarkets expand the range of U.S. products they carry.

As an example, the ATO has been working with local retailer Wellcome Supermarkets to develop and advertize their 5-A-Day concept. Since May 2002, Wellcome has carried out a 5-A-Day fresh fruit and vegetable promotion in the produce sections of most of their 254 stores in Hong Kong. The ATO provided financial support for the promotion during the months of July, August and September. Each month at least 5 U.S. fruits and vegetables were included as the featured 5-A-Day food items. The retailer has been so pleased with the results to date, that they are planning to conduct a U.S. foods promotion for the entire month of November in all of their stores. In addition, they plan to continue the 5-A-Day program into calendar year 2003.

- *Consumers become increasingly health-conscious, and organic products pick up in popularity:* There has been a gradual change in what consumers want in Hong Kong. The importance of meat, especially red meat, has declined, while poultry and other food groups, such as fruits and vegetables, are gaining in popularity. Consumers increasingly look for freshness, healthiness, new varieties and shorter meal-preparation time for food. Consumers want foods of higher nutritional value, but also increasingly pay attention to food safety and hygiene. In short, the marketing trend is to position food products as healthy, natural, nutritional, etc.

  The market for organic food, especially fresh vegetables, has picked up considerably in the last year. Park'N Shop, the biggest supermarket in Hong Kong, set up a separate organic food section in many of their stores in the past year. A trader of mainland grown organic vegetables has seen his orders steadily increasing. A local producer of organic vegetables said his produce has been experiencing strong demand, and his farm broke even two years after it started operating in 1988. Organic produce typically costs 5 - 6 times more than vegetables grown traditionally, but the middle class and expatriates in Hong Kong are willing to pay for what they perceive as "safe" and "hygienic" products. (A report on Organic Products is available, #HK0008)

- For further information on the Hong Kong food retail sector, please refer to "Retail Food Sector Report 2001" (Gain Report #HK1068).

Hotel, Restaurant and Institutional (HRI)

- Total sales of all the eating establishments in 2001 were over US$7.252 billion. Local households spend approximately 50 to 60 percent of their food budget on dining out. Since Hong Kong people usually have small homes, they prefer to entertain at restaurants instead of in the home.

- The local Chinese population, especially the under 30 age group, is opting for more western lifestyles and eating habits, and are moving toward higher consumption of convenience foods. McDonald's, Dominos, Pizza Hut, Kentucky Fried Chicken, Hardee's, Fairwood, Café de Coral, Starbucks and others have all grown rapidly in numbers over the past years and now have become fixtures in the Hong Kong market. The fastest developing sector of the market is the fast food outlets. While fast food business have recorded strong growth providing budget alternatives for Hong Kong consumers during the economy downturn, consumer sentiments have changed. Consumers are now more value conscious, and demand better "bang for the buck". This change in sentiment has forced the major fast food operators, Café De Coral, Maxim's and Fairwood, to innovate their menus by introducing numerous new ingredients, such as breaded chicken patties, premium juice drinks, etc. Café de Coral and Fairwood are also renovating their older restaurants and adding "cyber corners" to give them a more upscale look, in order to create more value in patrons' minds.

- In recent years when the economy has been sluggish, fast food chains are not only competing with each other within the sector but also with low end restaurants. Restaurant diners have tightened their budgets. In response to a slow economy, low end restaurants have already lowered the prices to a level comparable to high-end fast food chains. To lure more business, fast food chains such as Café De Coral and Fairwood started to provide delivery services, reflecting the keen competition of the food business.

- In 2000, there were over 10,532 restaurants and about 88 hotels in Hong Kong catering to a large percentage of the 14 million tourists each year and for local consumers. Restaurant business receipts amounted to US$7.252 billion in 2001. Several of Hong Kong's leading restaurants and hotels serve exclusively U.S. beef, chicken, turkey, eggs, and a wide assortment of fruits and vegetables which has clearly benefitted the U.S. as a supplier. This is particularly significant with the continuing development of the hotel business and large tourist industry in Hong Kong over the past decade. In 2001 visitor arrivals reached 13.7 million, rising 5.1% from 2000. Visitors from China have now become the highest spenders among all markets. For 2002, the Hong Kong Tourism Board is forecasting a 7.9% growth in tourist business as tourists account for about 15% of Hong Kong's restaurant business receipts. With the Hong Kong government's focus on the tourist industry, and the opening of Disney Land in Hong Kong in 2005, th future looks bright. Exporters should note that while the number of Mainland China visitors to Hong Kong has risen sharply in recent years, there has been an accompanying dramatic decline in Western visitors. Since tastes in food can often differ between Chinese and Western consumers, exporters looking to grow business with the HRI trade should focus on U.S. ingredients for Chinese dishes rather than Western-style offerings.

Market Entry Approach:

- Because of small individual consumption, local hotels, restaurants and most fast food operators usually cannot afford to import directly. The distribution of food and beverages to these operators is generally through import agents. U.S. exporters should contact Hong Kong importers to explore potential business opportunities.

Trends in Promotional/Marketing Strategies and tactics

- *Menu promotions with major restaurant chains*: Menu promotion dollars will be maximized if spent on promotion events held with the major restaurant chains. With the restaurant chains' announced intention to have an image overhaul, this provides for an opportunity to introduce new U.S. foods.

- *Inviting restaurant owners/chefs to seminars and/or to the U.S. :* ATO Hong Kong/ cooperators organize seminars and trade missions to the U.S. with an intention to introduce U.S. products, meet U.S. exporters, and experience U.S. store formats.

- *Setting up of several fast food and takeaway websites*: There are several meal delivery sites to cater to the home delivery market by fax, telephone, or internet. These sites are in cooperation with a number of restaurants which will prepare the food which clients order.

Food Processing

- The food processing industry in Hong Kong is relatively small compared to food retail and HRI sectors. The total output of the local food processing industry was US$2.45 billion in 2000 and there were 647 food processing establishments as of 2000. Baking is the largest sector in Hong Kong's processed food and beverage industry. Major products of the industry include biscuits, pastries and cakes for both domestic consumption and export. Other significant sectors include instant noodles and other pasta production; canning, preserving and processing of seafood (such as fish, shrimp and prawns, and other crustaceans); manufacture of dairy products (fresh milk, yogurt and ice cream); seasonings; and spirits. Due to limited space and relatively expensive labor, the current trend for Hong Kong food processing companies is to establish plants in the Southern China region instead of Hong Kong because of lower operating costs in China. The growth prospects for the local food processing industry are very limited. Hence the food processing sector presents few opportunities for U.S. exporters.

Market Entry Approach:

- Food ingredients are sourced both through direct import by food processors and through middleman traders. Hong Kong traders and end-users tend to stay with suppliers with whom they know well and have done business with for some time. While exporters would do well exploring all channels, patience and understanding are required to establish a relationship of trust before trading can commence.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

15 consumer food/edible fishery products which offer outstanding US export opportunities

Year 2001	HK's Retained Imports from the US US$ thousand	Market share of US products %
poultry	78,037	27
oranges	67,979	66
beef	39,676	29
grapes	23,553	39
fruit & veg. juice	23,258	18
molluscs	18,279	4
table eggs	17,478	30
plums	14,638	47
ginseng	13,454	20
apples	13,347	34
potatoes, french fries	13,237	97
cherries	13,188	68
ice cream	11,713	57
pork	11,477	4
beer	9,827	13

Source : Hong Kong Census & Statistics Department

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Foreign Agricultural Service (FAS) Home Page: http://www.fas.usda.gov
Hong Kong Contacts
Agricultural Trade Office of the American Consulate General - Hong Kong 18 A, 33 Garden Road, Central, Hong Kong Tel: (852) 2841-2350 Fax: (852) 2845-0943 E-mail: ATOHongKong@fas.usda.gov Home Page: http://www.USfoods-hongkong.net *OR* http://www.usconsulate.gov

(Food safety control policy) Food & Environmental Hygiene Department Food and Public Health Branch 43rd floor, Queensway government offices 66 Queensway Hong Kong Tel: (852) 2867-5511 Fax: (852) 2893-3547 E-mail: enquiries@fehd.gov.hkv Home Page: http://www.fehd.gov.hk	(Importation of plants & live animals) Agriculture, Fisheries and Conservation Department 5th to 8th floors, Cheung Sha Wan Government Offices 303 Cheung Sha Wan Road Kowloon Hong Kong Tel: (852) 2708-8885 Fax: (852) 2311-3731 E-Mail: afcdenq@afcd.gcn.gov.hk Home Page: http://www.info.gov.hk/afcd
(Trade Statistics) Census and Statistics Department 16th -22nd and 25th floors, Wanchai Tower, 12 Harbor Road, Wan Chai, Hong Kong Tel: (852) 2582-4807 Fax: (852) 2802-4000 E-mail: genenq@censtatd.gcn.gov.hk Home Page: http://www.info.gov.hk/censtatd	(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) 2852-3027 Fax: (852) 2581-0218 E-mail: customeq@customs.gcn.gov.hk Home Page: http://www.info.gov.hk/customs
(Hong Kong companies registration) Companies Registry 12th-15th, 17th and 29th floors, Queensway Government Offices, 66 Queensway, Hong Kong Tel: (852) 2234-9933 Fax: (852) 2869-6817 E-mail: crenq@cr.gcn.gov.hk Home Page: http://www.info.gov.hk/cr	(Trade Promotion and Hong Kong Information) Hong Kong Trade Development Council 38th 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 Home Page: http://www.tdctrade.com
(Hong Kong Travel Information) Hong Kong Tourist Association 9th - 11th floors, Citicorp Center,18 Whitfield Road, North Point, Hong Kong Tel: (852) 2807-6543 Fax: (852) 2806-0303 E-mail: info@hkta.org Home Page: www.hkta.org	

APPENDIX I. STATISTICS

Table A. Key Trade & Demographic Information

Year 2001

Agricultural Imports From All Countries ($Mil) / U.S. Market Share (%)	$7,533 million/19%
Consumer Food Imports From All Countries ($Mil) / U.S. Market Share (%)	$5,127/23%
Edible Fishery Imports From All Countries ($Mil) / U.S. Market Share (%)	$1,766/2%
Total Population (Millions) / Annual Growth Rate (%)	6.724 million/0.9%
Urban Population (Millions) / Annual Growth Rate (%)	6.724 million/0.9 %
Number of Major Metropolitan Areas	One (Hong Kong as a whole)
Size of the Middle Class (Millions)[1/]	2 million
Per Capita Gross Domestic Product (U.S. Dollars)	$24,000
Unemployment Rate (%)	7.6%
Per Capita Food Expenditures (U.S. Dollars)	$2,063
Percent of Female Population Employed	51.1%
Exchange Rate (US$1 = HK currency)	HK$7.75

Footnotes
1/ The middle class, about 30% of all households, is based on the expenditure pattern of households which had an average monthly expenditure of $2387 - 4193. The average household size is 3.3 persons.

Table B. Consumer Foods & Edible Fishery Product Imports

Hong Kong Imports (In Millions of Dollars)	**Imports from the World** 1999	2000	2001	**Imports from the U.S.** 1999	2000	2001	**U.S Market Share** 1999	2000	2001
CONSUMER-ORIENTED AGRICULTURAL TOTAL	5,360	5,252	5,127	1,369	1,329	1,172	26	25	23
Snack Foods (Excl. Nuts)	253	248	233	21	19	15	8	8	6
Breakfast Cereals & Pancake Mix	19	19	22	8	7	8	41	36	37
Red Meats, Fresh/Chilled/Frozen	543	676	658	109	125	108	20	18	16
Red Meats, Prepared/Preserved	175	179	181	37	36	39	21	20	22
Poultry Meat	908	835	761	537	468	410	59	56	54
Dairy Products (Excl. Cheese)	315	321	352	25	28	20	8	9	6
Cheese	27	31	33	3	4	4	11	12	12
Eggs & Products	87	89	88	18	20	20	20	23	23
Fresh Fruit	802	747	758	203	232	226	25	31	30
Fresh Vegetables	188	185	174	40	33	25	21	18	15
Processed Fruit & Vegetables	335	307	260	104	90	77	31	29	30
Fruit & Vegetable Juices	23	21	22	10	8	9	43	36	39
Tree Nuts	124	140	133	42	67	50	34	48	37
Wine & Beer	171	159	153	21	15	15	12	9	10
Nursery Products & Cut Flowers	41	53	47	2	2	1	6	3	3
Pet Foods (Dog & Cat Food)	19	22	23	8	9	9	40	43	39
Other Consumer-Oriented Products	1,331	1,220	1,228	180	167	136	14	14	11
FISH & SEAFOOD PRODUCTS	1,589	1,945	1,766	49	53	42	3	3	2
Salmon	40	54	54	1	1	1	1	1	0
Surimi	4	5	6	1	1	1	0	1	1
Crustaceans	469	539	487	10	8	7	2	2	1
Groundfish & Flatfish	98	114	116	5	4	4	5	4	3
Molluscs	383	452	416	16	20	20	4	4	5
Other Fishery Products	595	781	687	18	20	11	3	3	2
AGRICULTURAL PRODUCTS TOTAL	7,580	7,641	7,533	1,577	1,571	1,434	21	21	19
AGRICULTURAL, FISH & FORESTRY TOTAL	10,651	11,020	10,503	1,711	1,726	1,581	16	16	15

So
urce : United Nations Statistics Division

Table C. Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Hong Kong Imports - top 15 Suppliers

CONSUMER-ORIENTED AGRICULTURAL TOTAL

	1999	2000	2001
	Value 1000$	Value 1000$	Value 1000$
China (Peoples R	1,307,894	1,302,593	1,344,706
United States	1,368,867	1,328,966	1,171,828
Thailand	232,689	252,960	268,774
Brazil	218,689	255,477	252,332
Australia	238,717	241,427	238,455
Netherlands	255,242	218,787	191,179
New Zealand	135,493	160,167	143,530
Japan	227,626	157,090	140,671
Canada	125,566	119,219	120,182
Korea, Republic	92,780	96,860	97,520
Germany	77,782	81,861	90,313
France	93,101	95,284	88,109
United Kingdom	119,345	99,286	86,155
Ireland	11,518	52,922	84,336
Philippines	65,282	72,834	77,049
Other	789,363	715,847	731,825
World	5,359,968	5,251,572	5,126,959

FISH & SEAFOOD PRODUCTS - 700

	1999	2000	2001
	Value 1000$	Value 1000$	Value 1000$
China (Peoples R	264,310	322,299	281,739
Australia	183,189	220,722	224,026
Japan	170,721	184,436	160,210
Indonesia	91,112	100,711	107,504
Thailand	112,104	130,023	106,109
New Zealand	75,358	78,097	76,608
Vietnam	53,073	58,875	69,099
Taiwan (Estimated	59,135	75,355	63,401
Canada	59,003	63,529	60,319
Norway	40,649	49,517	48,194
South Africa	0	50,970	41,759
United States	48,923	52,778	41,523
Malaysia	29,795	36,659	40,735
Philippines	32,102	47,455	39,114
India	32,080	38,561	36,906
Other	337,638	434,718	368,741
World	1,589,190	1,944,708	1,766,013

Source : United Nations Statistics Division