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Hong Kong's Rice Market

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Report Highlights:

The Hong Kong rice market has undergone significant change since its full liberalization in 2003 that saw the elimination of its 48-year-old rice import quota system. The most discernible changes are the increase in the number of rice importers, jumping from 52 in 2002 to 176 in 2014. While Thailand is still the largest supplier, its market share drastically contracted from 86 to 46 percent. Vietnam, due to price competitiveness, gradually established itself as the second largest supplier, now representing 41 percent market share in 2013 from almost nothing a decade ago. While growing over the last few years, U.S. exports of rice remain relatively low at 7 metric tons in 2013.

Background

The Hong Kong government used to impose a Rice Control Scheme to make sure that there was an adequate rice supply in Hong Kong. The scheme was first introduced in 1955 amidst the fear of a rice supply shortage resulting from the Cold War trade embargo. The scheme had two key features. First, quota was allotted to all importers in a way that Hong Kong would maintain a stock reserve not less than 45,000 MT, which was sufficient for 45 days' consumption. Secondly, there were strict financial requirements for registered importers unintentionally creating entry barriers for newcomers. The purpose of the Scheme was to ensure adequate rice supply in Hong Kong instead of protecting any local industry.

With the diminishing threat of a rice supply shortage, the rice market was fully liberalized in January 2003. Now, any interested party can easily be registered as a rice importer, though the import and export of rice must be covered by a license. Since 2003, stock is maintained at a level sufficient for 15 days' consumption for the local population, which is around 13,500 MT.

The liberalization of the rice market immediately resulted in the increased number of rice importers. As of 2014 there are a total of 176 registered importers compared to 52 in 2002. Among the new market players are chain fast-food caterers, retailers and importers of organic products. However, there are only about 100 active importers, and 10 of which average imports of more than 20,000 MT per year, while about 70 others import less than 250 MT per year.

Rising Imports coupled with Diminishing Per Capita Consumption

Rice is regarded as a staple food in Hong Kong particularly among the majority local Chinese population. Although rice imports have increased 4 percent from 325,000 MT in 2005 to 339,000 MT (table 1) in 2013, per capita consumption has decreased from 49 kg to 45 kg in the corresponding period as a result of gradual change of eating habit due to diverse food choices and international cuisine available in Hong Kong.

Rice Imports from Thailand and Vietnam

In 2013, Hong Kong had a rice market of \$320 million. Major suppliers include Thailand (\$182 million), Vietnam (\$93 million), China (\$23 million), United States (\$6 million), Australia (\$5 million), and Japan (\$3 million). Thailand and Vietnam supply long grain fragrant rice. China and Australia are other long grain suppliers, selling the See Mew variety to Hong Kong. However, over 85 percent of Chinese rice to Hong Kong is short grain along with other supplies from the U.S. and Japan.

Apart from many more new rice importers, the most significant change in the past decade has been the emergence of Vietnam as the second largest supplier of rice for Hong Kong. In terms of volume, the market share of Thailand rice decrease from 86 percent in 2003 to 46 percent in 2013. The shrinkage of Thailand rice has been ascribed to the Thai government policy of maintaining high rice prices. In stark

contrast, Vietnam rice did not have any significant presence in 2003 but has risen sharply to account for 41 percent in 2013.

The exorbitant grain prices in 2008 served as a catalyst of bringing in Vietnam rice. In 2008, Hong Kong's average price of rice imports increased by 36 percent (table 3) amidst rocketing grain prices in the international market. Hong Kong importers began to bring in Vietnam rice (figure 1).

The new market players might also have a role in bringing in new suppliers. They try to establish a foothold in the market by introducing price competitive products and they are free from any burden of maintaining product quality as their product brands are new to Hong Kong consumers. The rice supply from Vietnam exactly fulfills their needs. In 2013, the average import price of Thailand rice and Vietnam rice was \$1178/MT and \$671/MT respectively (table 2), with a price difference as high as 76 percent. Fast-food chains and low-end restaurants are all price driven in their purchasing decision. Thus, Vietnam rice gradually established a market share in Hong Kong.

Vietnam rice is very price advantaged, but of low quality. To improve the overall quality of the end product, it is very common that different qualities of rice are mixed together so as to strike a balance between quality and price considerations catering for different markets. Furthermore, Hong Kong's labeling regulation does not require the marking of country of origin on the label. Consumers are easily enticed by the label of fragrance rice and good prices to buy the Vietnam rice without being aware of its source. (Both Thailand and Vietnam supply fragrant rice which is popular with Hong Kong consumers.) However, a few older market players who have established goodwill of their brands try to uphold quality and maintain sourcing their supplies from Thailand without mixing rice of a lower quality.

Table 1 : Hong Kong's Rice Imports, 1000 MT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
World	329	324	325	317	343	340	333	331	340	310	339
Thailand	283	286	296	286	310	298	269	217	208	158	155
Vietnam	0	2	1	2	0	1	20	66	92	108	138
China	21	15	13	19	16	32	40	42	31	24	25
Australia	20	16	8	8	8	5	2	2	4	7	6
U.S.	4	4	6	1	1	1	1	1	1	6	7

Source : Hong Kong Census & Statistics Department

Table 2: Hong Kong's Average Import Price of Rice (US\$/MT)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
World	439	475	459	484	548	748	827	886	919	959	944
Thailand	438	469	452	481	546	747	856	976	1,015	1,127	1,178

China	392	446	480	458	490	668	656	724	806	857	911
U.S.	435	723	457	973	1,354	1,607	2,171	1,637	1,752	923	895
Australia	474	510	567	533	581	850	1,116	1,010	904	808	843
Vietnam	432	369	311	329	365	646	589	632	695	719	671

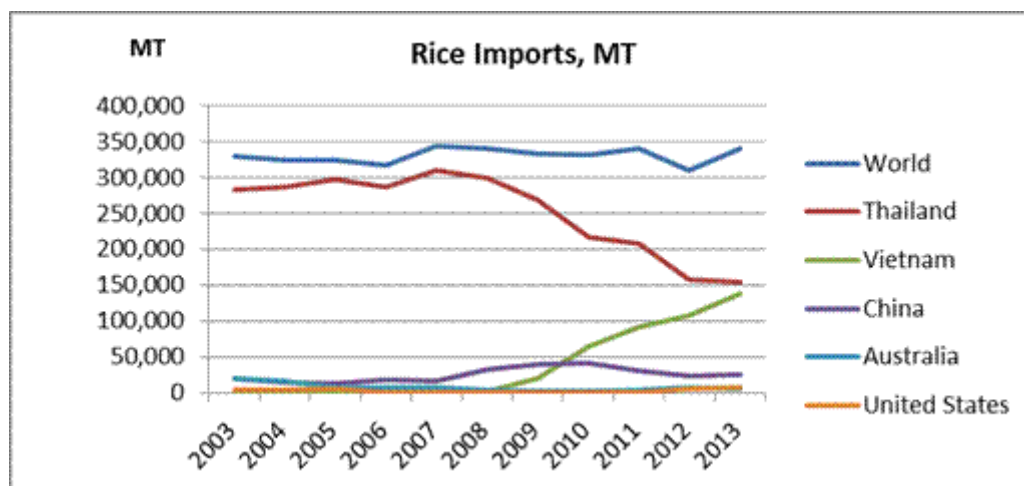
Source : Hong Kong Census & Statistics Department

Table 3: Percentage Change of Hong Kong's Average Price of Rice Imports

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
World	8%	-4%	6%	13%	36%	11%	7%	4%	4%	-2%
Thailand	7%	-4%	6%	14%	37%	15%	14%	4%	11%	5%
China	14%	8%	-5%	7%	36%	-2%	10%	11%	6%	6%
U.S.	66%	-37%	113%	39%	19%	35%	-25%	7%	-47%	-3%
Australia	7%	11%	-6%	9%	46%	31%	-9%	-11%	-11%	4%
Vietnam	-15%	-16%	6%	11%	77%	-9%	7%	10%	3%	-7%

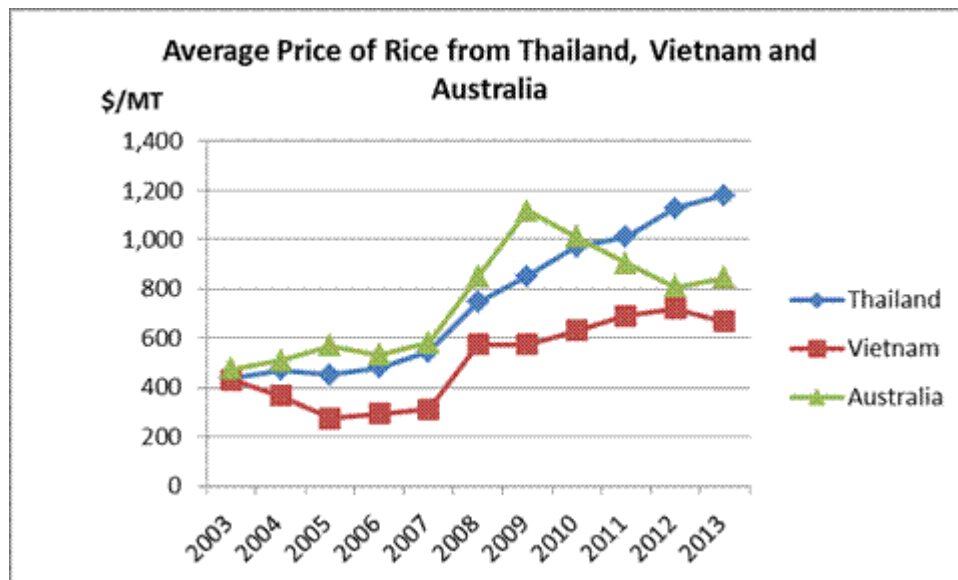
Source : Hong Kong Census & Statistics Department

Figure 1: Hong Kong's Rice Imports from Major Suppliers



Source : Hong Kong Census & Statistics Department

Figure 2: Unit Price of Rice Imports from Major Long Grain Suppliers



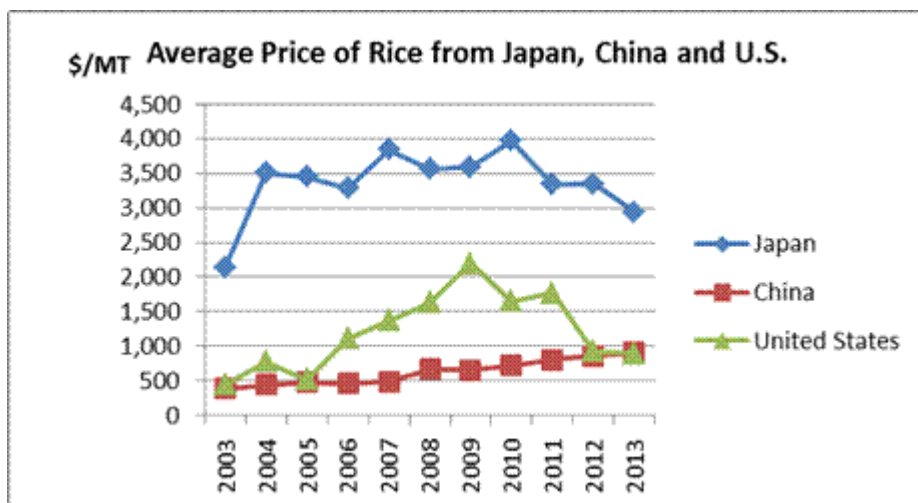
Source : Hong Kong Census & Statistics Department

Other Major Rice Suppliers

China is Hong Kong's third largest supplier of rice accounting for 7 percent in terms of volume in 2013.

Over 85 percent of the rice from China comes from the north and is of short grain varieties. They are largely sold to restaurants providing Japanese cuisine. China's short grain is comparatively more economical than Japanese and U.S. short grain, hence, it is the major supplier for rice made for sushi (figure 3).

Figure 3: Unit Price of Rice from Major Short Grain Suppliers



Source : Hong Kong Census & Statistics Department

The long grain See Mew mostly comes from the southern part of China and only accounts for a very small portion of overall supply. It is not widely consumed in Hong Kong for two reasons. First, it is more expensive than Vietnam rice. Secondly, China has set regulatory control on rice exports by imposing export licensing.

There are only a few Hong Kong rice importers who are able to obtain rice supplies from China. China has implemented export administration measures for rice among other grain products since 2008 in order to maintain supplies and prices in China. However, as a support to Hong Kong, China provides export quota for Hong Kong under the condition that the supplies are entirely for local consumption and cannot be exported.

Rice from Australia and the U.S. each accounted for 2 percent of the market. Their small market share is largely ascribed to their high prices. Importers commented that U.S. prices are so high that only a few Japanese restaurants use their short grain. Further, due to the relatively small demand, U.S. suppliers do not bother to respond to quotation requests, thus a vicious circle of limited market share. The drought in Australia has pushed up prices of Australian rice. Yet it still maintains its niche market share in Hong Kong.

Retail Prices

Over the past decade, import prices of rice from Thailand, Australia and China have risen over 100 percent. However, retail prices have not increased at the corresponding rate but at a lower rate in the region of 75 percent. This situation is rather abnormal given the fact that the Hong Kong government does not have any price support or subsidy program for rice. A possible explanation is that different origin/quality of rice has been mixed for sale. An 8kg-retail package of Thailand rice mixed with Vietnam rice, without the knowledge of consumers, is able to be available at a much lower retail price than one that is 100 percent Thai rice.

Table 4: Import Price vs Retail Price, HK\$/kg

	Thailand Rice		Chinese See Mew		Australian See Mew		Vietnam Rice	
	Import Price	Retail Price	Import Price	Retail Price	Import Price	Retail Price	Import Price	Retail Price
2002	2.84	7.24	4.19	6.83	3.58	7	nil	nil
2003	3.49	6.65	3.44	6.4	3.44	6.73	nil	nil
2004	3.92	6.81	3.9	6.49	3.72	7.08	nil	nil
2005	3.66	6.56	4.12	6.41	4.61	7.29	nil	nil
2006	3.8	6.57	4.33	6.35	4.16	6.6	nil	nil
2007	4.34	7.18	4.15	6.8	4.41	7.56	nil	nil
2008	6.08	9.74	4.33	9.32	8.18	10.98	nil	nil
2009	6.67	10.36	5.95	10.22	nil	10.8	nil	nil
2010	7.59	10.65	5.66	10.36	9.14	10.73	nil	nil
2011	8.02	11.14	7.09	11.44	8.07	11.21	5.55	9.3
2012	8.72	11.96	8.25	11.67	7.16	11.99	5.67	8.91
2013	9.13	12.26	8.23	11.95	7.24	12.08	5.26	8.68

Source : Hong Kong Trade Department

Note:

1. Retail prices are obtained from field surveys to supermarkets
2. The collection of Vietnam rice retail prices started in 2011 when retail supply turned active.