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## Hong Kong

## Livestock and Products

## Semi-Annual

## 2006

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**Report Highlights:**

The Hong Kong market is re-open to U.S. boneless beef effective December 29, 2005. Given that U.S. beef was absent from the Hong Kong market for 2 years and other competitors have already established a foothold here, re-launching U.S. beef back into the market is expected to be a steady and gradual process, particularly in the first months when the market is already well stocked with Canadian products. U.S. beef exports to Hong Kong in 2006 are forecast to reach \$25 million or 31 percent of the 2003 export value (excluding variety meats).

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Semi-Annual Report  
Hong Kong [HK1]  
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## Situation and Outlook

The Hong Kong market opened again for U.S. boneless beef effective December 29, 2005. U.S. beef exports to Hong Kong are expected to rise slowly in the beginning and estimated to reach \$25 million in 2006 or 31 percent of the 2003 export value (excluding variety meats). Hong Kong had suspended U.S. beef imports since December 24, 2003 after the detection of a case of BSE in the State of Washington on December 23, 2003.

In 2003, the U.S. exported \$80 million worth of beef products to Hong Kong, in addition to \$29 million worth of variety meats. The ban in the past two years caused approximately \$218 million loss in export value. In 2003, U.S. beef accounted for 44 percent of Hong Kong's import market share, being the leading supplying country.

Products now allowed include boneless beef from cattle less than 30 months of age slaughtered and processed in establishments which have been certified by AMS (Agricultural Marketing Service) that they have complied with USDA Export Verification (EV) Program for Hong Kong.

The lifting of the ban was widely reported in the Hong Kong media. All reports were fact-based and positive. Some even relayed comments from importers and caterers that they welcomed the Hong Kong government's decision and would resume buying U.S. beef immediately. Consumers do not appear to have food safety concerns for U.S. products.

Given that U.S. beef was absent from the Hong Kong market for 2 years and other competitors have already established a foothold here, re-launching U.S. beef back into the market is expected to be a steady and gradual process, particularly in the first months when the market is already well stocked with Canadian products. The U.S. recapturing market share for chilled primal cuts will probably be easier than frozen beef because U.S. primal cuts are highly regarded and sought after in the niche market while frozen beef are more price driven. Nonetheless, Hong Kong has high per capita GDP and certain consumers are willing to pay a premium for quality products.

Given that Hong Kong is a mature market, beef and pork imports in 2006 should not see significant changes. Beef and pork imports are expected to rise 2 percent and 3 percent respectively. The trend of consuming more chilled and frozen products versus freshly slaughtered meats will continue in 2006 and in the future due to consumer convenience and gradual change of dietary habits.

In the area of production, the government will launch the voluntary license surrender scheme in order to cut local production. Due to pollution problems, pig production is not encouraged locally. Currently, about 22 percent of freshly slaughtered pork is supplied locally while the rest supplied by China.

## Statistical Tables – Meat, Beef and Veal

## PS&amp;D Table

Commodity Meat, Beef and Veal (1000 MT CWE)(1000 HEAD)							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Slaughter (Reference)	0	0	0	0	0	0	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	14	14	14	14	0	14	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	81	81	81	83	0	85	(1000 MT CWE)
TOTAL Imports	81	81	81	83	0	85	(1000 MT CWE)
TOTAL SUPPLY	95	95	95	97	0	99	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Exports	0	0	0	0	0	0	(1000 MT CWE)
Human Dom. Consumption	95	95	95	97	0	99	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	95	95	95	97	0	99	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	95	95	95	97	0	99	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	1	1	3	0	0	6	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Note: PS&D production figures include local and imported live cattle for slaughter. Import and export numbers are in carcass-weight-equivalent using a 1.36 conversion factor for all fresh/chilled and frozen beef and 1.70 for processed beef. Imports are calculated as Imports minus Re-exports. Exports are calculated as Exports minus Re-exports.

**Table 1: Supply and Consumption of Live Cattle (head)**

	2001	2002	2003	2004	2005	% change 2005/2004
Local Supply	148	138	79	118	123	4%
Imports	50,651	47,912	45,333	47,539	47,730	0.4%
Total	50,799	48,050	45,352	47,657	47,853	0.4%

Source: Hong Kong Agriculture, Fisheries and Conservation Department

**Table 2: Average Retail Prices of Beef Relative to Pork and Poultry (Freshly Slaughtered)**

US\$/kg	2000	2001	2002	2003	2004	2005 Jan – Oct.
Chicken (top grade)	\$4.49	\$4.60	\$4.58	\$4.22	\$5.60	\$5.62
<b>Beef (best quality)</b>	<b>\$7.17</b>	<b>\$7.20</b>	<b>\$7.15</b>	<b>\$7.2</b>	<b>\$7.17</b>	<b>\$7.31</b>
<b>Beef (belly flesh)</b>	<b>\$5.34</b>	<b>\$5.36</b>	<b>\$5.35</b>	<b>\$5.45</b>	<b>\$5.47</b>	<b>\$5.54</b>
Pork (best cut)	\$4.87	\$4.54	\$4.26	\$4.10	\$4.03	\$4.27
Pork Chop	\$5.92	\$5.58	\$5.18	\$4.89	\$4.82	\$5.06

Source: Hong Kong Census & Statistics Department

Exchange Rate: US\$1 = HK\$7.75

**Table 3: Average Retail Prices of Beef Relative to Pork and Chicken (Frozen)**

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
Drumstick	U.S.A.	HK\$45.00/5 lbs
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\$27.00 each
Whole Chicken (800 gm)	Brazil	HK\$16.00 each
Beef		
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
Beef Finger	Canada	HK\$24/lb
Pork		
Loin	Brazil	HK\$17.60/lb
Sparerib	Brazil	HK\$17.60/lb
Butt	Brazil	HK\$19.60/lb
Boneless Pork Loin Steak	U.S. (available in a high end supermarket)	HK\$26/100 gm (\$118/lb)
Pork Chop	U.S. (available in a high end supermarket)	HK\$22/100 gm (\$100/lb)
Pork Tenderloin	U.S. (available in a high end supermarket)	HK\$28/100 gm (\$127/lb)
Baby Rib	Australia (available in a high end supermarket)	HK\$14/100 gm (\$64/lb)

Source: Retailers

**Table 4: Average Wholesale Prices of Live Cattle**

US\$/MT	2000	2001	2002	2003	2004	Jan – Oct 2005
Live Cattle	2,373	2,356	2,360	2,449	2,402	2,665

Source: Hong Kong Census &amp; Statistics Department

**Table 5: Hong Kong Chilled Beef Imports in Value, \$ million**

Country	2002	Market share	2003	Market share	2004	Market share	2005 estimates	Market share
-	20	100%	23	100%	26	100%	32	100%
--The World	20	100%	23	100%	26	100%	32	100%
Australia	8	40%	7	32%	17	67%	20	63%
New Zealand	4	19%	4	19%	6	22%	5	16%
Argentina	0	2%	0	1%	1	5%	1	3%
Canada	1	3%	0	1%	0	1%	5	16%
United States	6	31%	9	39%	0	1%	0	0%

**Table 6: Hong Kong Chilled Beef Imports in Volume, MT**

Country	2002	Market share	2003	Market share	2004	Market share	2005 estimates	Market share
-	3,234	100%	3,651	100%	2,931	100%	3,136	100%
The World	3,234	100%	3,651	100%	2,931	100%	3,136	100%
Australia	1,449	45%	1,151	32%	1,664	57%	1,573	50%
New Zealand	666	21%	675	18%	707	24%	695	22%
Argentina	134	4%	44	1%	254	9%	298	10%
Canada	48	1%	17	0%	22	1%	336	11%
United States	402	12%	546	15%	11	0%	4	0%

**Table 7: Average Import Prices of Chilled Beef, US\$/kg**

Country	2002	2003	2004	2005	05/03 % change
--The World--	6.19	6.39	8.87	10.25	60%
United States	15.47	16.77	17.72	22.13	32%
Canada	11.3	13.29	16.37	14.75	11%
Australia	5.51	6.42	10.44	12.19	90%
New Zealand	5.78	6.6	8.17	8.01	21%
Argentina	2.36	3.96	4.72	3.89	-2%

**Table 8: Hong Kong Frozen Beef Imports in Value, \$ million**

Country	2002	Market share	2003	Market share	2004	Market share	2005 estimates	Market share
The World	116	100%	139	100%	107	100%	115	100%
Brazil	24	20%	32	23%	49	46%	47	41%
Canada	2	1%	0	0%	7	6%	31	27%
China	12	10%	10	7%	17	16%	16	14%
Argentina	4	4%	8	6%	11	10%	8	7%
New Zealand	12	10%	12	9%	11	10%	7	6%
Australia	5	4%	4	3%	5	4%	4	3%
United States	52	45%	70	50%	4	4%	0	0%

**Table 9: Hong Kong Frozen Beef Imports in Volume, MT**

Country	2002	Market share	2003	Market share	2004	Market share	2005 estimates	Market share
-								
The World	50,259	100%	51,254	100%	47,739	100%	48,246	100%
Brazil	13,782	27%	18,357	36%	24,457	51%	22,818	47%
China	7,582	15%	6,783	13%	9,835	21%	8,969	19%
Canada	504	1%	94	0%	2,568	5%	8,936	19%
Argentina	2,616	5%	4,959	10%	5,905	12%	4,688	10%
New Zealand	3,574	7%	3,037	6%	2,092	4%	1,269	3%
Australia	1,906	4%	923	2%	806	2%	811	2%
United States	17,074	34%	15,465	30%	875	2%	42	0%

**Table 10: Average Import Prices of Frozen Beef, US\$/kg**

Country	2002	2003	2004	2005	% change 05/03
--The World--	2.31	2.72	2.24	2.38	-13%
Brazil	1.71	1.73	2.01	2.07	20%
China	1.55	1.54	1.76	1.74	13%
Argentina	1.67	1.59	1.86	1.75	10%
Canada	3.4	3.77	2.67	3.51	-7%
New Zealand	3.37	4.01	5.2	5.31	32%
United States	3.05	4.52	4.78	4.88	8%
Australia	2.67	4.11	5.92	4.53	10%

**Table 11: Hong Kong Beef Imports in Value, \$ million**

Country	2002	Market Share	2003	Market Share	2004	Market Share	2005 estimates	Market Share
-								
--The World	150	100%	181	100%	152	100%	173	100%
Brazil	24	16%	32	18%	51	33%	49	28%
China	22	15%	24	13%	28	18%	28	16%
Australia	13	9%	11	6%	23	15%	24	14%
New Zealand	16	11%	17	9%	17	11%	12	7%
Argentina -	5	3%	9	5%	13	8%	10	6%
Canada	3	2%	1	0%	11	7%	39	23%
United States	59	40%	80	44%	5	3%	4	2%



**Table 12: Hong Kong Beef Imports in Volume, MT**

Country	2002	Market Share	2003	Market Share	2004	Market Share	2005 estimates	Market Share
--The World	62,444	100%	65,924	100%	62,880	100%	67,556	100%
Brazil	13,946	22%	18,681	28%	25,720	41%	24,511	36%
China	13,358	21%	13,829	21%	15,642	25%	14,856	22%
Argentina	3,290	5%	5,773	9%	6,702	11%	5,458	8%
Canada	686	1%	139	0%	4,942	8%	11,376	17%
New Zealand	4,262	7%	3,730	6%	2,818	4%	1,985	3%
Australia	3,417	5%	2,116	3%	2,583	4%	2,630	4%
United States	17,795	28%	16,244	25%	990	2%	135	0%

**Table 13: Hong Kong Variety Beef Imports in Value, US\$ million**

Country	2002	2003	2004	2005 estimates	% change 05/04	% change 05/03
--The World--	106	141	127	143	11%	1%
Brazil	45	70	80	92	13%	31%
Argentina	14	21	27	27	-2%	26%
Uruguay	3	5	6	7	14%	53%
Australia	7	8	4	11	58%	26%
New Zealand	1	2	3	2	-50%	9%
United States	27	29	2	0	-8583%	-100%

**Table 14: Hong Kong Beef Re-exports, MT**

	2002	2003	2004	2005 estimates	% change
Beef	11,924	9,434	6,524	5,372	-18%
Chilled Beef	115	58	659	285	-57%
Frozen Beef	9,293	7,078	4,163	4,114	-1%
Processed Beef	2,517	2,298	1,702	972	-43%
Variety Beef	72,530	86,201	50,134	36,124	-28%

**Table 15: Hong Kong Retained Beef Imports, MT**

	2002	2003	2004	2005 estimates	% change	% of Imports
Beef	50,520	56,490	56,356	62,184	10%	92%
Chilled Beef	3,120	3,593	2,271	2,851	26%	91%
Frozen Beef	40,966	44,176	43,576	44,132	1%	91%
Processed Beef	6,434	8,722	10,508	15,202	45%	94%
Variety Beef	21,456	26,975	45,000	88,908	98%	71%

## Statistical Table – Meat, Swine

## PS &amp; D Table

Commodity Meat, Swine (1000 MT CWE)(1000 HEAD)							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Slaughter (Reference)	0	0	0	0	0	0	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	161	161	150	148	150	141	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	332	332	250	304	270	313	(1000 MT CWE)
TOTAL Imports	332	332	250	304	270	313	(1000 MT CWE)
TOTAL SUPPLY	493	493	400	452	420	454	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Exports	0	0	0	0	0	0	(1000 MT CWE)
Human Dom. Consumption	493	493	400	452	420	454	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	493	493	400	452	420	454	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	493	493	400	452	420	454	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	3	3	3	5	3	5	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Note: PS&D production figures include local and imported pigs slaughtered in Hong Kong. All numbers used in the PS&D table are in carcass-weight equivalent (CWE), using a conversion factor of 1.51. Imports are calculated as Imports minus Re-exports. Exports are calculated as Exports minus Re-exports.

**Table 16: Supply and Consumption of Live pigs (head)**

	2001	2002	2003	2004	2005
Local Supply	465,000	444,300	390,900	380,850	377,000
Imports	1,840,454	1,733,020	1,767,538	1,870,365	1,673,120
Total	2,305,454	2,177,320	2,158,438	2,251,215	2,050,120

Source: Hong Kong Agriculture, Fisheries and Conservation Department

**Table 17: Average Wholesale Prices of Live Pigs (head)**

US\$/MT	2001	2002	2003	2004	2005 (Jan – Oct)
Live Pigs	1,643	1,628	1,620	1,712	1,800

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

Source: Hong Kong Census & Statistics Department

**Table 18: Hong Kong Pork Imports in Value by Supplies, \$ million**

Country	estimates			% Share			05/04
	2003	2004	2005	2003	2004	2005	
--The World--	336	407	395	100%	100%	100%	-3%
China	165	193	191	49%	47%	48%	-1%
Brazil	64	79	85	19%	19%	21%	7%
Vietnam	14	30	25	4%	7%	6%	-16%
Netherlands	13	17	12	4%	4%	3%	-27%
Thailand	25	16	18	7%	4%	5%	15%
United States	11	15	14	3%	4%	4%	-8%

**Table 19: Hong Kong Pork Imports in Quantity by Supplies, MT**

	estimates			% change		Market Share	
	2003	2004	2005	05/04	2003	2004	2005
--The World--	258,911	284,202	241,775	-15%	100%	100%	100%
China	109,961	119,353	112,314	-6%	42%	42%	46%
Brazil	50,918	49,866	44,761	-10%	20%	18%	19%
Germany	22,017	23,798	12,355	-48%	9%	8%	5%
Netherlands	13,086	17,872	11,386	-36%	5%	6%	5%
Vietnam	9,109	16,841	12,620	-25%	4%	6%	5%
Thailand	9,940	5,834	6,456	11%	4%	2%	3%
United States	5,031	7,836	6,425	-18%	2%	3%	3%

**Table 20: Hong Kong Average Pork Prices, \$/kg**

Country	2003	2004	2005	% change 05/04
--The World--	1.3	1.43	1.63	14%
China	1.5	1.61	1.7	6%
Brazil	1.25	1.58	1.89	20%
Germany	0.59	0.64	0.7	9%
Netherlands	0.97	0.92	1.06	15%
Vietnam	1.53	1.79	2.01	12%
United States	2.14	1.97	2.22	13%
Thailand	2.53	2.71	2.81	4%

**Table 21: Hong Kong's Imports of Pork by Categories**

	MT		% change		\$ M		% change	
	2003	2004	Estimates 2005	05/04	2003	2004	Estimates 2005	05/04
Pork	258,911	284,202	241,775	-15%	336	407	395	-3%
frozen pork	192,077	207,316	162,758	-21%	222	283	260	-8%
processed pork	58,611	72,411	73,839	2%	93	111	120	8%
chilled pork	8,224	4,475	5,177	16%	21	12	14	17%

**Table 20: Hong Kong's Re-exports of Pork, MT**

Country	2003	2004	estimates 2005	% change
--The World--	58,691	64,589	40,196	-38%
China	54,397	59,655	6,073	-90%
Macau	3,966	4,713	4,575	-3%
Vietnam	0	118	89	-25%
Taiwan	0	0	28,553	-

**Table 21: Hong Kong Pork Offal Imports by Major Suppliers , US\$ million**

Country	2003	2004	estimates 2005	% change	Market share		
	2003	2004	2005	% change	2003	2004	2005
--The World--	157	158	146	-8%	100%	100%	100%
Denmark	32	34	24	-29%	21%	21%	16%
United States	39	30	15	-50%	25%	19%	10%
Netherlands	16	23	29	27%	10%	15%	20%
Germany	27	21	27	32%	17%	13%	18%
Canada	18	14	4	-72%	11%	9%	3%
Brazil	8	11	16	46%	5%	7%	11%

**Table 22: Hong Kong Retained Imports, MT**

	2003	2004	2005 (estimates)	% change
pork	200,220	219,614	201,579	-8%
variety meats, pork	36,861	-20,277	11,651	-157%

**Table 23: Hong Kong's Pork Imports from the U.S., US\$ million**

	2003	2004	Estimates 2005	% share 2003	2004	2005	% change 05/04
Pork	10.75	15.41	14.1	100%	100%	100%	-9%
chilled pork	0.12	0.28	0.2	1%	2%	1%	-29%
frozen pork	3.23	4.67	3.93	30%	30%	28%	-16%
processed pork	7.4	10.67	10	69%	69%	71%	-6%

Source: Hong Kong Census & Statistics Department

## Narrative on Supply and Demand, Policy & Marketing

### Production

Pig:

Currently there are 266 pig farms in Hong Kong. All the issued licenses allow a maximum pig population of 430,000 head. Because of the environmental problems associated with pig production, the Hong Kong government in the past few years has been airing its intention to curtail pig production in Hong Kong. On the other hand, local farmers are faced with increasingly stringent anti-pollution farming conditions. Farmers have stopped investing since they do not intend to raise production. Consequently, Hong Kong's local production of pigs has been consistently decreasing. It dropped from an output of 465,000 head in 2001 to 377,000 in 2005, representing a decline of 19 percent.

Sources revealed that the government will launch a voluntary license surrender scheme in March this year. By the scheme, farmers who return their farm license to the government will be compensated based on farm sizes. A 2000-square meter farm would cost about HK\$3 million or US\$387,000 from the government. On average, each pig will be paid for HK\$2000, or US\$258. A representative from a pig farming association indicated that this compensation rate is lower than what farmers have been asking for. (HK\$2,500/pig). He guessed about only half the number of operators will return their farm licenses.

In view of the impending license surrender scheme, local supplies of pigs will greatly decline in 2006. Supplies, to a certain extent, will be replaced by imports from China. However, in 2005, imports of live pigs from China declined by 9 percent.

Given that both local supplies and imports will be reduced, pig production in 2006 is forecast to decline at least 5 percent, reaching 141,000 MT. With limited supplies, whole sales prices will be expected to rise. Consumers will then shift consumption to chilled/frozen pork.

The 4 percent increase in pig production in 2004 was an exception amid the overall declining trend over the past years. This abnormality was due to the fact that Hong Kong people consumed more pork in 2004 when Hong Kong banned chicken supplies from China and the U.S. because of avian influenza cases. This effect subsided in 2005. Consequently, pork production in 2005 decreased by 8 percent when compared to 2004.

Cattle:

Hong Kong has negligible supplies of local cattle. All supplies depend on imports. Wholesale prices of cattle rose 11 percent in 2005. Traders complained that supply of live cattle could not meet demand but Hong Kong's sole agent for live pigs and cattle claimed that the rising feed cost in China has reduced supplies. China has been short of cattle supplies, hence, exports to Hong Kong have not been able to rise sufficiently. However, consumption in Hong Kong is very stable so live cattle production in 2006 is estimated to be stable as well.

### Consumption

On December 29, 2005, the Hong Kong government announced that it would start to resume processing import applications of U.S. boneless beef from cattle less than 30 months of age from establishments that have been certified by AMS (Agricultural Marketing Service) that they have complied with USDA Export Verification (EV) Program for Hong Kong. Hong Kong had suspended U.S. beef imports from December 24, 2003 after the detection of a case of BSE in the State of Washington on December 23, 2003.

The media widely reported the news of trade resumption of U.S. beef returning to Hong Kong. All reports were positive or neutral and relayed Hong Kong government's press release regarding their announcement to resume processing import applications for U.S. beef. Hong Kong importers and caterers well received the news of trade resumption. First U.S. beef shipments arrived in mid-January. High-end supermarkets and steak houses, five-stars hotels and clubs were among the first to place orders for image reasons, despite beef prices being very high.

Given below is the price comparison between U.S. and Canadian Prime Angus Beef at a high-end retail outlet.

Retail Prices of Beef, HK\$/100 gm

	U.S. (Prime)	Canada (prime Angus)	Canada (choice Angus)	Australia (corn-fed)	Australia (grass-fed)
Striploin		49	45	32	29
Ribeye	52	49	40	35	32
tenderloin	60	60	55	42	
Sirloin	52				

Consumers' initial response to U.S. beef relaunch over the first two weeks of retail sales was fair. Some consumers do not mind to pay more for U.S. beef. However, there are some challenges for U.S. beef in recapturing the market share. First, retail prices of U.S. beef are generally higher than beef from other countries. Second, U.S. beef was off-shelf for two years. Consumers experience some lack of product familiarity when products return to shelf again after being away for so long. It may take some time for consumers to get used to U.S. products again. Currently, retail prices are higher than Canadian beef. However, the wholesales prices are much higher. In other words, some high-end retail outlets are willing

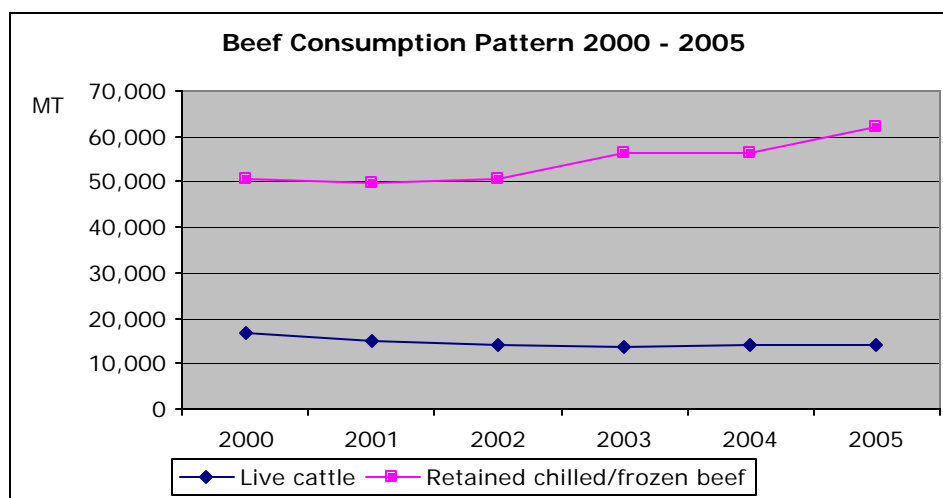
to offer some profit margin in order to keep U.S. beef on the shelf for image reasons. In the longer run they may raise retail prices of U.S. beef further because of higher wholesale prices and this would impact sales volume.

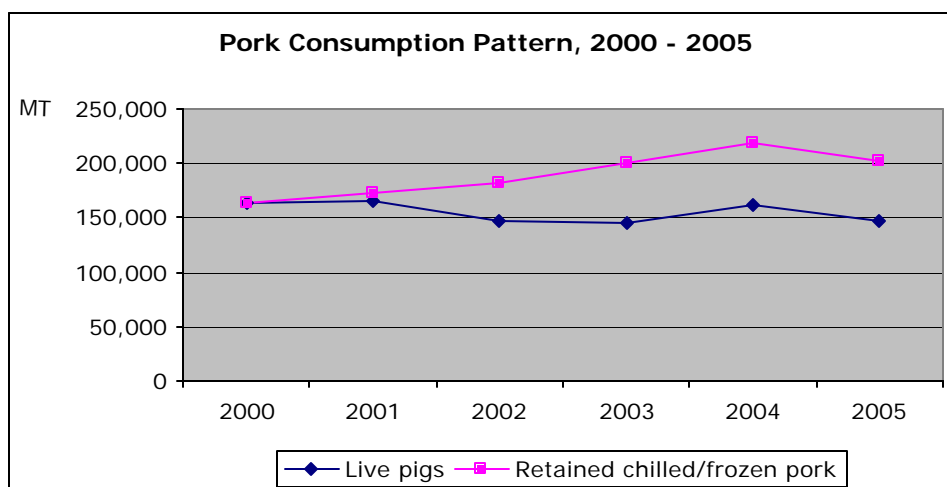
On the catering side, some high-end restaurants and five-stars hotels started to buy U.S. beef. However, the re-launch is expected to be slow because caterers need some time to change the menu and prices on the menu. A U.S. steak house using Australian substitutes in the past two years have indicated that they will change the menu to U.S. beef starting mid-February. Since the import prices of U.S. beef are about 30 to 40 percent higher than they bought in 2003, the steak house probably will raise menu prices. However, for other ordinary restaurants, they may want to keep the menu prices and stick to price competitive beef supplied from other countries.

In view of the factors given above, U.S. beef consumption is expected to rise steadily but slowly in 2006 particularly in the first few months when supplies are limited and Canadian stocks are high in the market. However, consumers appear to not have any food safety concern over U.S. beef even after a U.S. bone-in beef shipment was found in Japan.

Pork consumption in 2005 decreased 8 percent from 2004. 2004 pig consumption was higher than normal because chicken from China and U.S. was banned for several months in early 2004 due to avian influenza cases. Consumers substituted pork with chicken, resulting in the surge of pork consumption. The 2005 pork consumption level was back to normal. Hong Kong being a mature market, the overall pork consumption in 2006 is expected to be stable without experiencing any significant changes. However, the share of live pigs versus chilled/frozen pork in consumption has been decreasing over years, so is the case in cattle and chilled/frozen beef (refer to figures below). This trend is expected to continue in 2006 and future years.

Figures showing the growing trend of chilled/frozen beef and pork consumption





## Trade

The Hong Kong government lifted the import restriction effective December 29, 2005. Products allowed include boneless beef from cattle less than 30 months of age from establishments which have been certified by AMS (Agricultural Marketing Service) that they have complied with USDA Export Verification (EV) Program for Hong Kong.

In 2003, the U.S. exported \$80 million worth of beef products to Hong Kong, in addition to \$29 million worth of variety meats. The ban in the past two years caused approximately \$218 million loss in export value. Hong Kong was the 5<sup>th</sup> largest export market for U.S. beef products before the ban imposed in December 2003. On the other hand, U.S. was the leading supplier of beef in the Hong Kong market. In 2003, U.S. beef accounted for 44 percent of Hong Kong's import market share. U.S. beef is highly regarded in the local catering industry. It has been the top choice for five-stars hotels and high-end restaurants.

The restaurant receipts for the first nine months of 2005 amounted to \$5.4 billion, representing a rise of 5.3 percent over the same period in 2004. A revived economy with burgeoning tourism, and rising stock and property markets have attributed to the good performance of the catering industry for 2005 and is expected to continue to trigger growth in 2006. On the retails side, value index of retail sales of food during January – November 2005 rose 4.5 percent compared to the same period in 2004. The current economic conditions and consumption sentiment are favorable to the resumption of beef trade in Hong Kong.

However, U.S. beef will face some challenges in the coming year:

Supply -- is expected to be limited in the beginning as the number of U.S. certified plants for Hong Kong exports will increase gradually; not overnight.

Price -- would be higher than normal when supply is limited, in addition to the fact that U.S. beef prices have always been higher than competitors. The Hong Kong market in general is price driven. An importer indicated that he got an offer from a certified U.S. supplier for chilled tenderloin at \$16/lb while a comparable grade from Canada was offered at \$12/lb. He indicated that not many end users are willing to pay such a premium.



Competition -- U.S. beef is facing strong competition from Australian and Canadian beef. Hong Kong currently has high volume of Canadian beef stocks. Traders therefore will take a more prudent attitude in placing orders for relatively more expensive U.S. products.

Hong Kong is an extremely dynamic market and importers have far-reaching business connections all over the world. A key recent development is that Canada has successfully established a foothold in Hong Kong. In 2002, it merely exported \$3 million in beef products to Hong Kong and accounted for 2 percent of the market share. Its beef exports to Hong Kong dramatically surged to \$39 million in 2005, representing 23 percent of the market share. After the Hong Kong government lifted the ban on Canadian boneless beef on November 30, 2004, the Canada Beef Export Federation vigorously launched in-store and menu promotions, which are extremely popular among traders. Trade contacts unanimously said that the Federation is very generous in funding various promotions. With funding support, traders are willing to introduce products to caterers and retailers. Also, Canadian beef are very comparable to U.S. beef. In short, the funding support and beef quality are key reasons that Canadian beef can successfully enlarge its market share in one year. Canadian beef suppliers are expected to fight hard to maintain their gained market share.

In the past two years, many Hong Kong traders have established business relationships with new suppliers from other countries. They have been active in the market for two years. Though they are still interested in buying U.S. beef again, they would, however, compare prices of beef products from other countries and offer them as an option to their clients. This could be another challenge for U.S. beef exports to Hong Kong in the future.

Given such background, U.S. beef exports to Hong Kong are expected to pick up slowly and steadily in the future, particularly in 2006 when certified plants are limited and Hong Kong still has stocks of Canadian beef. To better analyze the market, it is attempted to look at the beef market by categories of chilled and frozen beef.

#### Chilled Beef

The change of market share in chilled beef in the past few years is depicted in the tables 5 & 6. One significant point is that the market share of both Australia and Canada has significantly increased. Canada is a completely new player and has taken full advantage of the void left over by U.S. beef. Canadian beef is considered to be very close to U.S. beef in quality. After Hong Kong government's lifting of the Canadian ban in November 2004, Hong Kong importers began to buy Canadian beef. Its market share jumped tremendously from 3 percent in 2002 to 16 percent in 2005.

As for Australian beef, because of the demand in recent years, grain fed beef production has increased in the past two years. There are various grades available ranging from 100 day to 300 day grain-fed. Its market share in Hong Kong has also risen from 32 percent in 2002 to 63 percent in 2005. However, one thing worth pointing out is that, the ban on U.S. beef did reduce Hong Kong chilled beef import quantity significantly. Compared to 2003, Hong Kong imported 20 percent less chilled beef in 2004 and 14 percent in 2005. Therefore it could be deduced that the reduced import quantity, to a certain extent, was caused by the absence of U.S. beef and that the U.S. niche market could not be replaced.

In this case, the recapturing of the market share of U.S. chilled beef in 2006 and in the future could be relatively easier than in sub-primal cuts. It is expected that more EV certified plants are interested in the Hong Kong market and will apply for the EV program for Hong Kong. Therefore, more and more plants would be eligible to export to Hong Kong. In 2006, it is expected that U.S. chilled beef exports will be able to regain a market share of 6 percent by volume.

## Frozen Beef

In the case of frozen beef, the decline in quantity in the past two years was far less significant when compared to chilled beef. (Table 8 & 9) Hong Kong's import of frozen beef declined 7 percent in 2004 and 6 percent in 2005, compared to the import volume in 2003. The void of U.S. sub-primal beef has been quickly taken up by supplies from Brazil and Canada. In the first year after the ban, Brazilian frozen products increased 33 percent, implying that Hong Kong is a sought after market for Brazil.

Then, it could be more a challenge for U.S. beef to recapture the market size in frozen beef. First, about 10 percent of the U.S. beef exports to Hong Kong used to be short rib, which is not yet allowed entry to Hong Kong. Secondly, rib fingers, one of the U.S. best sold items in Hong Kong, are now abundantly supplied by sources from Canada and Brazil. Thirdly, short plates, which an importer said constituted about half of the U.S. import volume, will face stringent competition from Canada. For some end users, Canadian short plates have an advantage over U.S. short plate for having less marbling, which is more appealing for some health conscious consumers. Fourthly, Hong Kong's frozen beef market is more price driven than in the case of primal cuts. An importer indicated that he was not aware of any order of a full container of frozen meat so far (in the first 3 weeks after the market was open). Buyers for frozen meat are not particular with the origin of meat, rather they are more price conscious.

Considering the factors above, U.S. frozen beef in 2006 is forecast to recover 10 percent of market share by volume. Imports of U.S. beef is expected to be slow particularly in the early 2006 when the market is still filled with stock of Canadian products. The recovering pace will be faster only when the current Canadian stocks are gone and when U.S. prices will be lower or comparable to Canadian supplies.

## Forecast

Given the maturity of the market, Hong Kong's beef imports for 2006 is expected to rise for 2 percent amounting to 68,000 MT (product weight with re-exports). The estimated U.S. beef import figures are given in the table below. It is assumed that 2006 U.S. beef offer prices are about 20 percent higher than in the past. Therefore, the 2006 estimated average price is obtained by multiplying the previous price with 1.2%. (The previous price is the average price between 2001 – 2003.)

U.S. exported about \$1 million of processed beef to Hong Kong before the ban. The resumption of beef entry to Hong Kong will have insignificant impact on the processed beef trade. In 2003, U.S. exported \$29 million worth of bovine variety meat products to Hong Kong. However, U.S. bovine variety meats are not allowed entry to Hong Kong yet.

## Estimated U.S. Beef Imports to Hong Kong, 2006

	2005 Total Imports from the World, MT	2006 Total Imports from the World, MT (assuming a 2% increase)	US market share in 2003, %	2006 Estimated US market share %	2006 Estimated US imports, MT (US\$ million) --- based on 1.2% of the average price of 2001-2003
Chilled Beef	3,136	3,200	15	6	192 MT (\$3 million)
Frozen Beef	48,246	49,210	30	10	4921 MT (\$22 million)
Processed Beef	16,174	16,500	2	Negligible	Negligible
Total	67,556	68,910	25%	7	<b>5,113 MT (\$25 million)</b>

Total U.S. beef exports to Hong Kong is expected to reach 5,113 MT or \$25 million in 2006. However, this is just an initial step. The U.S. Agricultural Trade Office and U.S. Meat and Export Federation will vigorously launch marketing activities. The Great American Barbecue, is already scheduled for March. Some Hong Kong importers have already indicated their support in U.S. beef promotion programs. Hong Kong has a high per capita GDP with 2005 forecast at \$24,900, one of the highest in Asia. Hong Kong consumers while being price conscious can afford and are willing to pay for quality food products. Hong Kong remains an attractive market for U.S. beef. As more and more U.S. plants are certified for the EV program, it's expected U.S. beef will once again assume the leading position in Hong Kong's beef market.

## Pork

As a result of the substitution effect arising from the ban on chicken products from China and the U.S. in 2004, pork imports in 2005 was higher than normal. When the substitution effect dissipated in 2005, pork imports dropped 8 percent. The forecast for 2006 is a modest rise of 3 percent given the sporadic avian influenza cases in China.

China is the largest supplier to Hong Kong followed by Brazil. Both countries are strong in a variety of cuts including pork loin, sparerib, etc. The products are supplied to retail outlets and caterers. Chilled pork from China has not yet been able to come to Hong Kong. The government has announced its intention to let chilled pork from China to come to Hong Kong at least 2 years ago, yet the plan has not yet materialized. It is expected that all the supplying plants must be approved by the Hong Kong government before each individual plant can export chilled pork products to Hong Kong. Once chilled pork from China is allowed to come to Hong Kong, the demand for freshly slaughtered pork will be negatively impacted. Nonetheless, the voluntary license surrender scheme will be launched soon. It is very possible that the government's timing of letting China's chilled pork in will hinge upon the response of the license surrender scheme in order to minimize the impact on the livelihood of local farmers.

Brazilian pork are very price competitive and product specifications are good for Hong Kong's retail. They are strong in a variety of cuts. European supplies are particularly strong in

brisket bones. Chinese restaurants consume high volume of Dutch low-valued added parts such as soft bone, arm bones and neck bones for soup preparations.

Of all U.S. pork products to Hong Kong (\$14 million in 2005), processed products constitute the largest category (\$10 million). For chilled pork supplies, Thailand, Australia and U.S. are the three largest suppliers. Thai chilled meats are primarily sold at retail outlets. Australia and U.S. chilled pork are largely supplied to high-end restaurants and retail outlets because of expensive prices. U.S. pork supplies to Hong Kong have experienced tremendous jump in recent years. Before the ban of U.S. beef in Hong Kong, traders in Hong Kong tended to place orders from major exporters for a container mixed with beef and pork. When the beef ban was in place, the container has to be filled up by pork only as mixed load with beef was impossible. With the increased supplies of pork, Hong Kong traders had to focus more on selling U.S. pork to their clients.

## Policy

USDA and the Hong Kong's Food and Environmental Hygiene Department have agreed on a protocol for U.S. beef exports to Hong Kong. U.S. slaughtering/processing plants have to comply with the requirements for Export Verification Program for Hong Kong and to be certified by AMS (Agricultural Marketing Service) before they can export boneless beef to Hong Kong. At the initial stage, only boneless beef from cattle less than 30 months of age, with high risk materials removed during slaughtering can be exported to Hong Kong.

As for Hong Kong import requirements are concerned, all Hong Kong importers have to buy from U.S. plants that are on the EV program list. For every beef consignment, Hong Kong importers have to apply for prior written permission by submitting information like the plant name, number and cuts to the Food and Environmental Hygiene Department. It will take less than 5 working days for the issuance of the permission. With the permission, importers with the health certificate can apply for the import license. Two working days are required. Effective March 20, 2006, Hong Kong government will only accept revised FSIS health certificates for beef imports. All revised FSIS health certificates will include information of slaughtering and processing plants.

Before the ban, the importation of U.S. chilled beef and ground beef to Hong Kong had to go through the same import procedure, that is, both prior written permission and license were required. Hong Kong's importation of frozen beef, however, was not required to have prior written permission before the ban but now is required.

The incident of bone-in shipment found in Japan did not affect Hong Kong government's policy with regard to U.S. beef imports.

## Reorganization Plan for the Food Safety Regulatory Framework

The Hong Kong government has decided to reorganize the food regulatory framework in Hong Kong by setting up two new departments called Department of Food Safety, Inspection and Quarantine (DFSIQ) and Department of Agriculture and Environmental Hygiene (DAEH). These two departments will be under the policy bureau --- Health Welfare and Food Bureau. (See proposed organization charts in Annex 1, 2 & 3.)

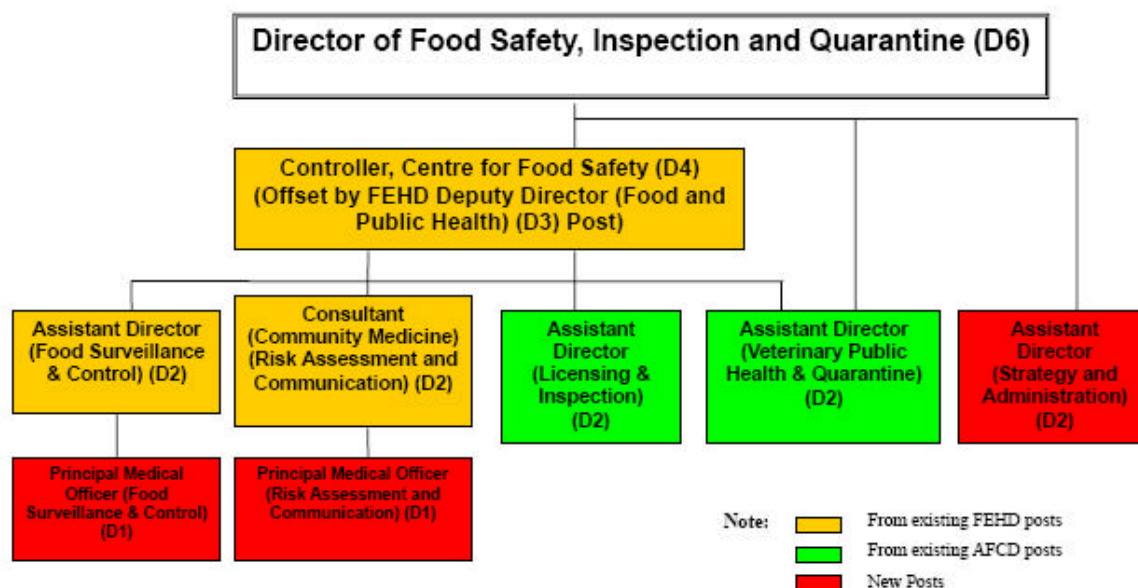
FEHD's (Food and Environmental Hygiene Department) existing regulatory functions over food, live food animal meats and slaughterhouse management and AFCD's (Agriculture, Fisheries and Conservation Department) existing functions over the inspection and quarantine of imported non-food live animals, birds and plants, licensing of livestock and mariculture farms, and regulation of pesticides to be transferred to the new DFSIQ. The new

DAEH will take up the operational responsibilities to promote and facilitate the development of agriculture and fisheries activities in Hong Kong and maintain environmental hygiene. Also, the government is planning to set up a Food Standard Committee consisting of experts and academics to enhance the formulation and review of food safety standards. The purpose of the re-organization is to set up a new department to regulate all matters related to food safety.

The government aims to have the new DFSIQ set up by April 2006. Sources revealed that the reorganization has encountered some resistance from staff and the project may not be completed before the target date. As an interim measure, the Hong Kong government intends to set up a Center for Food Safety under the existing FEHD. The Controller of the Center will be responsible for formulating and implementing all food safety measures, leading high level negotiations, and liaison with mainland China and overseas food authorities on food safety matters.

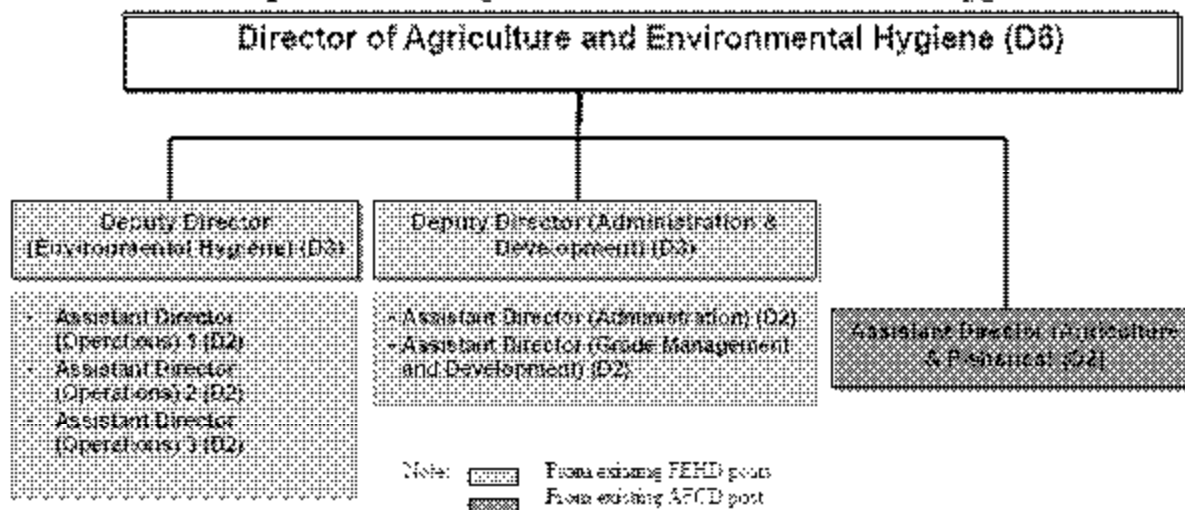
**Annex 1: Proposed Organization Structure of the Department of Food Safety, Inspection and Quarantine**

**Organization Structure of the Department of Food Safety, Inspection and Quarantine**



**Annex 2: Proposed Organization Structure of the Department of Agriculture and Environmental Hygiene**

**Organization Structure of the Department of Agriculture and Environmental Hygiene**



**Annex 3: Proposed Organization of Health, Welfare and Food Bureau after Reorganization**

