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## Hong Kong

### Poultry and Products

### Semi-Annual

### 2004

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**Report Highlights:**

U.S. chicken exports to Hong Kong in 2004 are expected to rise by 10 percent because the prevailing high chicken prices in Hong Kong are expected to rise further thus providing an attractive market for U.S. suppliers. The figure for 2004 retained imports of chicken products is forecast to rebound to 2002 levels. Hong Kong has gradually recovered from the devastating impact of SARS, and the economy is improving with positive indicators. Traders are now more willing to source the higher-priced U.S. products, but competition from Brazil will remain strong. The outbreak of avian influenza virtually all over Asia in January has so far missed Hong Kong, yet poultry markets are expected to be impacted, in any case. The Hong Kong government has stepped up a surveillance program on farms and wholesale and retail markets to prevent any outbreak. Consumption so far has not been adversely affected. (Post is not adjusting forecasts at this time to reflect any potential impact from the Asia bird flu problem.)

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
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## Situation and Outlook

The Hong Kong government has stepped up surveillance and monitoring of the local chicken industry amid the rampant outbreaks of avian influenza (a.i.) in Asia. Presently, Hong Kong has not detected any abnormal death in birds caused by H5N1, except for one wild falcon found dead and tested positive for H5N1. Consumption of freshly slaughtered chickens actually has been higher than usual because of the Chinese New Year. The January discovery of a.i. in China may impact supplies.

U.S. chicken exports to Hong Kong amounted to 142,306 MT in January – November 2003, representing a 39 percent decline compared to the same period in 2002. The major reason was the strong demand with resultant higher prices for chicken products in the United States and other markets, making U.S. suppliers reduce their supplies to Hong Kong. Nonetheless, Hong Kong traders enjoyed greater profit margins last year than previous years because of higher selling prices. Sales of U.S. chicken paws to the Hong Kong and China markets have continued to decline as most U.S. plants are no longer willing to pack paws for this market due to new documentation requirement enforced by China.

Hong Kong's demand for U.S. chicken products is expected to remain high in 2004 because of the wide variety of grades available and good quality. The biggest challenge is the expensive price of U.S. products and the reluctance of U.S. suppliers to sell to Hong Kong if prices are not too attractive. Also, the availability of price competitive Brazilian products poses a serious challenge for U.S. products. Nonetheless, the Hong Kong dollar is pegged to the U.S. dollar. A weakening U.S. currency implies that Hong Kong buyers pay higher prices for products from third countries. This would then be a favorable factor for U.S. products.

The outlook for Hong Kong's economy in 2004 is more promising than 2003 with more positive economic indicators and rising tourism. Consumption of chicken products is expected to rebound 8 percent in 2004 going back to the 2002 level after the devastating effect of SARS (Severe Atypical Respiratory Syndrome) in 2003. With consumption expected to rise 8 percent, total imports are forecast to rise 12 percent, reaching 168,000 MT in 2004. U.S. products are also expected to rise 10 percent.

Hong Kong's re-exports of chicken products have not experienced any major disruptions in 2003. However, traders are very concerned that Mainland Chinese officials have recently stepped up their surveillance checks in warehouses to make sure that imports have sufficient import documentation. Such measures have encouraged buyers to place orders for smaller volumes but more frequently in order to reduce losses in case products are confiscated.

## Statistical Tables – Poultry, Meat, Chicken

## PS&amp;D Table

PSD Table							
Country	Hong Kong						
Commodity	Poultry, Meat, Broiler (1000 MT)(MIL HEAD)						
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Inventory (Reference)	2	2	2	2	0	0	(MIL HEAD)
Slaughter (Reference)	41	41	40	40	39	39	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	61	61	60	60	58	59	(1000 MT)
Whole, Imports	36	0	0	0	0	0	(1000 MT)
Parts, Imports	128	195	170	150	175	168	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	164	195	170	150	175	168	(1000 MT)
TOTAL SUPPLY	225	256	230	210	233	227	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Consumption	225	256	230	210	233	227	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	225	256	230	210	233	227	(1000 MT)
TOTAL Use	225	256	230	210	233	227	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	225	256	230	210	233	227	(1000 MT)
Calendar Yr. Imp. from U.S.	68	68	70	42	73	46	(1000 MT)

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

Table 1: Production of Live Chicken

	2001	2002	2003	03/02 % change
Local Supply	8,322,000	8,604,000	10,107,000	17%
Import	41,032,126	32,884,727	30,373,450	-8%
Total	49,354,126	41,488,727	40,480,450	-2%

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

US\$/kg	1999	2000	2001	2002	2003 (Jan - Oct)
Chicken (top grade)	\$4.73	\$4.49	\$4.60	\$4.58	\$4.23
Duck (top grade)	\$3.18	\$2.89	\$2.80	\$2.71	\$2.59
Beef (best quality)	\$7.19	\$7.17	\$7.20	\$7.15	\$7.20
Beef (belly flesh)	\$5.42	\$5.34	\$5.36	\$5.35	\$5.44
Pork (best cut)	\$5.32	\$4.87	\$4.54	\$4.26	\$4.10
Pork Chop	\$6.42	\$5.92	\$5.58	\$5.18	\$4.90

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

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

Product Categories	Weight	HK\$ (US\$1 = HK\$7.75)
whole chicken wings (Brazil)	5 lbs	31
whole broiler legs (USA)	2 lbs	13
broiler drumsticks (USA)	2 lbs	13
boneless thigh meat (USA)	2 lbs	17
mid-joint wings (USA)	2 lbs	19
pork chop (Brazil)	2 lbs	24
boneless pork chop (Brazil)	1 lb	12
chuck (Brazil)	1 lb	17
knuckle (Brazil)	1 lb	16
fore shank (Brazil)	2 lb	23
short loin (Brazil)	1 lb	37
US Prime Ribeye	1 lb	78
short ribs (US)	2 lbs	52
rib fingers (US)	2.2 lbs	38

**Table 4: Hong Kong Chicken Imports in Value by Major Suppliers, Jan - Nov**

Country	Millions of US Dollars			% Share			% Change 03/02 -
	2001	2002	2003	2001	2002	2003	
--The World--	414	365	322	100	100	100	-11.81
United States	204	170	107	49.35	46.62	33.17	-37.25
Brazil	79	84	105	19.11	23.11	32.77	25.03
China	48	49	53	11.63	13.47	16.53	8.21
Thailand	20	16	18	4.89	4.3	5.58	14.3
France	4	5	9	1.03	1.31	2.86	92.4
United Kingdom	17	10	8	4.06	2.82	2.63	-17.85
Canada	10	8	4	2.53	2.06	1.39	-40.66

**Table 5: Hong Kong Chicken Imports in Quantity by Major Suppliers, Jan – Nov**

Country				Market Share			% Change 03/02 -
	- MT - 2001	- MT - 2002	- MT - 2003	2001	2002	2003	
--The World--	467,234	431,444	368,170	100%	100%	100%	-15%
United States	264,118	231,517	142,306	57%	54%	39%	-39%
Brazil	83,789	97,556	123,047	18%	23%	33%	26%
China	30,215	34,005	37,669	6%	8%	10%	11%
Thailand	12,843	8,475	13,415	3%	2%	4%	58%
United Kingdom	21,286	14,177	12,364	5%	3%	3%	-13%
France	4,507	5,232	11,282	1%	1%	3%	116%
Canada	14,167	10,770	6,626	3%	2%	2%	-38%

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

Country				% Change 03/02 -
	- / KG - 2001	- / KG - 2002	- / KG - 2003	
--The World--	0.89	0.85	0.87	2.35
United States	0.77	0.73	0.75	2.74
Brazil	0.94	0.86	0.86	0
China	1.59	1.45	1.41	-2.76
Thailand	1.58	1.85	1.34	-27.57
United Kingdom	0.79	0.73	0.68	-6.85
France	0.94	0.92	0.82	-10.87
Canada	0.74	0.7	0.67	-4.29

**Table 7: Chicken Re-exports by Major Destinations, Jan – Nov**

Country				% Change 03/02 -
	- MT - 2001	- MT - 2002	- MT - 2003	
--The World--	298,378	275,078	231,105	-16%
China	290,764	261,406	218,173	-17%
Taiwan	0	54	5,926	10913%
Macao	6,507	6,527	5,357	-18%
Vietnam	908	6,930	1,001	-86%

**Table 8: Hong Kong Chicken Imports by Categories, Jan – Nov**

Description	- MT - 2001	- MT - 2002	- MT - 2003	% change 2-Mar
<b>Total Chicken</b>	467,234	431,444	368,170	-15%
chicken, whole	23,424	23,513	29,886	27%
chicken wings	251,103	230,645	211,666	-8%
chicken frozen cuts	165,564	145,904	96,279	-34%
<b>chicken feet</b>	369,641	277,337	273,129	-2%
(value in US\$ million)	214	168	168	0%

**Table 9: Hong Kong Chicken Re-exports by Categories, Jan – Nov**

	- MT - 2001	- MT - 2002	- MT - 2003	% Change - 03/02 -
<b>Total Chicken</b>	298,378	275,078	231,105	-16%
chicken, whole	546	472	4,631	881%
chicken wings	169,013	166,588	151,273	-9%
chicken frozen cuts	112,049	88,483	51,949	-41%
<b>chicken feet</b>	320,751	243,720	239,140	-2%

**Table 10: Hong Kong Retained Chicken Products by Categories, Jan – Nov**

	- MT - 2001	- MT - 2002	- MT - 2003	% Change - 03/02 -
<b>Total Chicken</b>	168,855	156,366	137,065	-12%
chicken, whole	22,878	23,041	25,255	10%
chicken wings	82,090	64,056	60,392	-6%
chicken frozen cuts	53,515	57,421	44,330	-23%
<b>chicken feet</b>	48,890	33,618	33,989	1%

**Table 11: U.S. Chicken Exports to Hong Kong, Jan – Nov**

	- MT - 2001	- MT - 2002	- MT - 2003	% Change - 03/02 -
<b>Total Chicken</b>	264,118	231,517	142,306	-39%
chicken wings	114,189	102,061	65,712	-36%
chicken frozen cuts	134,127	111,430	62,285	-44%
<b>chicken feet</b>	286,591	184,929	170,298	-8%
(value in US\$ million)	169	119	113	-5%

**Table 12: U.S. Chicken Exports to Hong Kong being Re-exported, Jan – Nov**

				% Change
	- MT - 2001	- MT - 2002	- MT - 2003	- 03/02 -
<b>Total Chicken</b>	199,281	174,858	103,540	-41%
chicken wings	87,028	80,506	47,016	-42%
chicken frozen cuts	99,428	80,873	41,968	-48%
<b>chicken feet</b>	256,599	169,586	156,156	-8%

**Table 13: Hong Kong's Retained Imports of U.S. Chicken Products, Jan – Nov**

				% Change
	- MT - 2001	- MT - 2002	- MT - 2003	- 03/02 -
<b>Total Chicken</b>	64,837	56,660	38,766	-32%
chicken wings	27,161	21,555	18,696	-13%
chicken frozen cuts	34,699	30,557	20,317	-34%
<b>chicken feet</b>	29,992	15,343	14,142	-8%

Source : World Trade Atlas



## Narrative on Supply and Demand, Policy & Marketing

### Production

In the light of recent H5N1 avian influenza outbreaks in Asia, the Hong Kong government has stepped up its monitoring and surveillance efforts to prevent another outbreak here such as occurred in 1997. A senior Hong Kong government official said that the immediate risk of an outbreak of avian flu in Hong Kong is low because Hong Kong has had a territory-wide H5N1 vaccination and surveillance program in all local chicken farms since June 2003. These are supplementary measures to prevent the recurrence of an outbreak. The Hong Kong government has also reached an agreement with Mainland Chinese authorities on the vaccination of chickens for export to Hong Kong to ensure similar levels of protection to both imported Mainland chickens and locally produced chickens. Starting January 15 this year, imported chickens from China are vaccinated as well.

Since the first outbreak of a bird flu crisis in late 1997, the Hong Kong government has incessantly reviewed and enhanced its monitoring and surveillance efforts to minimize the risk of recurrence of avian influenza outbreaks. In addition to the vaccination program, markets are cleaned on a regular basis to maintain good hygiene standards. All transport cages and vehicles are required to be cleaned and disinfected before being used for transporting chickens. Also, the government has implemented two rest days per month since last March at retail outlets to help break the viral cycle. To minimize the risk of having influenza-like viruses crossing species barriers, there are guidelines on segregating pigs and chickens. In short, all chicken farms are required to meet strengthened bio-security requirements in order to have their license successfully renewed.

The Hong Kong government has put in place an avian influenza surveillance program covering local chicken farms, imported chickens, the wholesale market and retail outlets. The surveillance program also covers wild birds, waterfowl in recreational parks and pet birds in the market.

Hong Kong also has a surveillance system for human influenza. Presently, human influenza activity in Hong Kong remains within historical limits and no H5N1 has been detected.

The total supply of live chickens in Hong Kong in 2003 decline about 2 percent because chilled chickens from China started to be exported to Hong Kong after December 2002. Since chilled chickens are more economical than live chickens, there has been a shift of consumption from live slaughtered chickens to chilled chickens. This trend is expected to continue in the coming years.

It is worth noting that local production of live chickens increased 17 percent in 2003. This is because local farms increased production within their capacity to recover earlier investment costs to meet strengthened bio-security measures. About 75 percent of the supply of live chickens in Hong Kong comes from Mainland China, while the rest comes from local farms. Locally raised chickens are about 1.9 Kg while imported chickens are smaller with an average weight of 1.4 Kg.

### Consumption

Despite the outbreaks of avian influenza reported in January in Asia, the consumption of live-slaughtered chickens in Hong Kong has not been adversely affected. January, on which the Chinese New Year falls, is the peak season of the live chicken industry. The number of chickens sold at the wholesale market recorded 240,000 on January 19, 2004, while an average of 110,000 head of chickens is marketed in an ordinary day.

The Hong Kong government announced the temporary suspension of U.S. beef products effective December 24, 2003, as a result of the BSE case detected in the United States. There has not been any noticeable shift of consumption from beef to chicken products. Hong Kong consumers have not overreacted to the news. After all, Hong Kong Chinese consume more chicken and pork than beef. Nonetheless, in the longer run if the stock of U.S. beef runs out, and beef products from some other supplying countries become too expensive, caterers may change their menus to more chicken products.

In 2004, the consumption of chicken products is expected to be around 227 MT, which is about 8 percent higher than 2003 consumption, but comparable to the 2002 level. Consumption of chicken products in the catering industry was severely hit by SARS (Severe Atypical Respiratory Syndrome) last year. The consumption level in 2004 should be fully recovered and even better because of the burgeoning tourist industry. However, a very drastic jump in consumption is unlikely because Hong Kong is a mature market. Caterers' increased use of chicken products, as a result of expensive beef prices, and flourishing tourism are positive factors but are not strong enough to impact chicken consumption tremendously. The consumption of chicken products has been very constant over the past years except in years when Hong Kong suffered from severe bird flu crises.

Although the overall consumption is constant, there has been a consistent change in pattern; consumers' preference for imports of chilled whole chickens has been increasing (10 percent as shown in table 10), while that over live chickens has been declining (-2 percent in table 1). Price is the primary reason for this gradual shift in consumption preference. A chilled chicken imported from China is around HK\$26 per piece. It is actually slaughtered in the early morning in China and exported to Hong Kong for retail sale on the same day. In contrast, a live chicken in wet markets costs around HK\$50 per piece.

Chilled chickens from China started to enter the Hong Kong market in December 2002. Prices of live chickens have dropped since then in the face of strong competition from price competitive chilled chickens. The average retail price of freshly slaughtered chickens in 2002 was HK\$4.60 while that in 2003 was \$4.23, representing a drop of 8 percent (table 2).

## Trade

### Retained Imports

Hong Kong's retained imports in 2004 should be higher than 2003. Three factors will contribute to the increase. First, the influx of tourists from China has been giving a robust boost to Hong Kong's catering industry. As a result of a change in policy in Mainland China, more Mainland Chinese are allowed to come to Hong Kong for tourism. Hong Kong had 1.79 million visitor arrivals in December 2003, a growth of 7.4 percent over December 2002. Second, Hong Kong's economy is recovering with positive indicators in the property market, stock market and unemployment rate. The SARS impact dissipated. Third, Hong Kong has imposed a temporary ban on U.S. beef since December 24. Beef prices of supplies from other countries will probably rise. Although the market does not see an immediate switch of consumption from beef to chicken, there is such likelihood in the catering industry in the longer run when existing stocks runs out.

During the first 6 months of 2003, retained imports declined 26 percent comparing to January – June 2002. However, the decline rate dropped to 12 percent between January - November 2002 and 2003, reflecting that some of the positive factors mentioned above started to work in the latter half of 2003 and are expected to continue into 2004.

Chicken Supplies from the United States and Other Countries

In 2004, U.S. chicken exports to Hong Kong may increase 10 to 15 percent because the prevailing market prices in Hong Kong are high enough to attract more U.S. supplies. The supply of U.S. products to Hong Kong has not been sufficient to meet demand resulting in high prices. For example, the current chicken paw price is around US\$0.68/lb, which is considered a record high. With higher prices, the Hong Kong market is more appealing to U.S. suppliers.

Because of short supplies of U.S. products in Hong Kong, U.S. chicken exports to Hong Kong declined 39 percent between January – November 2002 and 2003, U.S. products are well received in Hong Kong because of good quality and packaging. However, there are challenges for U.S. products. People in the industry explain many Hong Kong traders and Mainland Chinese buyers cannot afford the high prices of U.S. products. They would rather switch to Brazilian products. On the other hand, U.S. suppliers do not want to sell to Hong Kong if they can sell their products at higher prices in the domestic or other overseas markets. For example, U.S. mid-joint wings cost US\$0.80/lb, and not many buyers are willing to pay for such high prices when Brazilian products are selling at US\$0.50/lb. Meanwhile, U.S. suppliers do not want to sell to Hong Kong when prices go lower than US\$0.60/lb.

Brazilian products are very price competitive in Hong Kong. The market share of Brazilian products jumped from 23 percent in 2002 to 33 percent in 2003 (table 5), due mainly to price. The average price of U.S. products increased 2.7 percent while that of Brazilian products remained unchanged between 2002 and 2003. In addition, Brazilian products have improved their quality and packaging over the past years. All these are favorable reasons contributing to Hong Kong's increased imports from Brazil.

Following the change of policy that allows chilled chicken products from China to be exported to Hong Kong starting in December 2002, China is the largest supplier of whole chickens to Hong Kong, occupying about 80 percent of the market sector. Their dominating share is expected to continue in 2004. Hong Kong's importation of whole chickens increased 27 percent between January – November 2002 and 2003. It is very likely that there will be a double digit increase in 2004, given the fact that Hong Kong consumers are getting more used to buying chilled/frozen whole chickens instead of freshly slaughtered chickens.

#### Re-export

Hong Kong's re-export of chicken products to China has been very smooth, with no major disruptions. Despite new requirements for FSIS health certificate wording for chicken feet products to China, plant number indicated on permits, and bilingual labeling since 2002, Hong Kong traders managed to have products shipped to China through transport companies. Also, more and more products are shipped directly to ports in the northern part of China because of savings in transport and transaction costs.

In December 2003 and January 2004, "transport fees" for shipments from Hong Kong to the southern part of China have been rather low because transport companies wanted to use up all the 2003 quota and "automatic registration forms". Some ports in China allow 2003 permits and "auto registration forms" to be utilized until the end of January 2004. Certain ports in 2004 no longer accept 2003 permits and turn away shipments with last year's permit. Some confusion occurred. Consequently, these shipments have to turn to other ports. Because of the urgency to use up all the remaining permits for last year, the transport fee for chicken products in January was as low as RMB1,600/MT, when the average price is around RMB2,000/MT. (US\$1.00 = 8.2 RMB)

In 2004, the demand for Hong Kong's chicken product re-exports in China is expected to be strong. However, when Brazilian products are available, buyers prefer to buy Brazilian products rather than U.S. products because of price considerations.

An industry source revealed a possible trend in 2004 that buyers do not tend to keep stocks. It is because Chinese officials have recently stepped up measures to check warehouses confiscating products coming into China without proper documents. To minimize loss, traders intend to order more frequent but smaller volume shipments.

The Mainland Chinese government is aware that many Brazilian products have gained access to the China market labeled as U.S. origin and is having discussions with the Hong Kong authorities on this subject. It is understood that Brazilian products are repackaged in Hong Kong as U.S. products and then re-exported to China. (Currently Brazilian products are allowed into the China market if they will undergo further processing.) At this moment, it is unclear what action the Hong Kong government can take to stop such practices in Hong Kong.

### **Policy Update**

As a result of the January H5 avian influenza outbreaks in South Korea, Vietnam, Japan, Taiwan and Thailand, the Hong Kong government temporarily suspended the importation of live birds and poultry meat from these places on January 26.

Hong Kong does not import any live poultry from these countries except a very small number of pet birds. These countries exported a total of 15,939 MT of chicken meat to Hong Kong in the first eleven months of 2003, representing only 4.3 percent of Hong Kong's total imports. Therefore, the ban does not have any impact on Hong Kong's chicken meat market.