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Hong Kong

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Report Highlights:

U.S. pork exports show good prospects for growth in Hong Kong's domestic market, benefiting from the Hong Kong dollar's peg to the U.S. dollar which has caused products from other major competitors to become relatively more expensive as a result of their currency appreciating against the U.S. dollar. However, despite the favorable domestic market, Hong Kong's imports of U.S. pork and offals are expected to drop to \$190 million, a 32 percent decline from \$278 million in 2010. The forecasted decline is due to the expectation of a continued decrease in U.S. pork exports transshipping through Hong Kong.

Executive Summary:

(Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psdonlineonline>)

U.S. pork exports show good prospects for growth in Hong Kong's domestic market, greatly benefiting from the Hong Kong dollar's peg to the U.S. dollar (US\$1= HK\$7.80). Products from other major competitors have become more expensive as a result of their currency appreciating against the U.S., and thus, Hong Kong dollar. U.S. pork products continue to sell favorably in high-end markets. The use of Chinese cuts has helped increase sales for U.S. pork products used in Chinese restaurants. Nevertheless, competition remains tough in an open market like Hong Kong. Chilled pork products face increasing competition from premium pork products supplied by Spain and Japan.

Despite the favorable domestic market, Hong Kong's 2011 imports of U.S. pork and offals are expected to drop to \$190 million, a 32 percent decline from \$278 million in 2010. The decline is due to the continued expected decrease in U.S. pork exports transshipping through Hong Kong.

Hong Kong's trade is very volatile due to the re-export trade. In the first half of 2011, Hong Kong imported \$27 million in U.S. pork products and \$67 million in offals. During the same time period, Hong Kong's pork and offal re-exports amounted to 28 percent and 75 percent of total imports, respectively. The high export percentage, particularly for offals, highlights the fact that Hong Kong remains a key re-export center for the Chinese market.

China and Brazil are the two leading pork suppliers to Hong Kong. Currently, Hong Kong importers are very reluctant to source Chinese pork because it is considered too expensive. Brazilian products are relatively more popular in terms of prices and supply. Recently, importers said they were given very competitive offers when Russia imposed a ban on pork imports from certain Brazilian plants.

Hong Kong is experiencing inflationary pressure. From July 2010 to July of this year, the average retail price for pork rose nearly 26 percent. In a bid to combat inflation, price conscience consumers are replacing freshly slaughtered pork with Chinese chilled or even frozen pork.

Commodities:

Meat, Swine

Select

Production:

Pig production is expected to reach 1.63 million head (114,000 MT) in 2011 and 1.67 million head (116,000 MT) in 2012, five percent and three percent lower than the 1.72 million head (120,000 MT) in 2010. This decline is due to ongoing high pig prices in China, which make exports to Hong Kong less attractive. Presently, China supplies over 94 percent of the pigs for slaughter in Hong Kong, while local farms supply the remaining 6 percent. Thus, a reduced supply from China would have a significant impact on local production.

The July consumer price index report for China revealed a 14.8 percent year-on-year rise on overall prices, with pork having risen 56.7 percent. To some extent these figures are telling of the stringent supply of live pigs in China. Since over 94 percent of Hong Kong's live pig supply comes from China, the local live pig market inevitably suffers spillover effects from the rising prices and stringent supply of the pig industry in China. In June of this year, Hong Kong's average import price for live pigs rose by 38 percent compared to June 2010, a rate less than that of China's pork prices (56 percent) as Hong Kong agents buying live pigs from China have been unwilling to offer higher prices. On the other hand, Chinese pig traders experiencing a bullish domestic market have little incentive to sell their pigs to Hong Kong. As such, the supply of pigs to Hong Kong has been declining and may continue to decline as the situation in China is expected to continue in 2011 and 2012.

Local pig farming began to drop significantly in 2007 following a government buy-out plan of operation licenses in an effort to reduce local pig farming. Hong Kong's self-sufficiency ratio declined from 23 percent in 2006 to 6 percent presently. Since the buy-out scheme has ended, further significant decreases in local pig production are not expected, as farmers who declined the government's reimbursement offer are likely to remain in the industry for the immediate future. These farmers may be further encouraged by the developing niche market for locally raised pigs. Some retail outlets are encouraging this niche market by specifying where their pork comes from. In Hong Kong there is the general perception that local pigs are less likely to be subject to unnecessary hormone treatments.

On average live pigs from China are smaller, weighing about 68 kg, whereas those raised locally weigh 86 kg on average. Given the appreciation of the Renminbi, rising import prices, and Hong Kong's inflation, the wholesale prices of live pigs between January and May 2011 reached \$2,919/MT, representing a rise of 29 percent compared to 2010.

Table 1. Hong Kong: Supply and Consumption of Live Pigs, in Number of Head

	2007	2008	2009	2010	2009-2010 % change	2011 estimates
Local Supply	269,810	87,240	84,655	88,639	4.7%	88,000
Imports	1,503,212	1,494,568	1,597,373	1,630,452	2.1%	1,545,000
Total	1,773,022	1,581,808	1,682,028	1,719,091	2.2%	1,633,000

Source: Hong Kong Agricultural, Fisheries and Conservation Department

Table 2. Hong Kong: Average Wholesale Prices of Live Pigs, in US\$/Metric ton

	2008	2009	2010	2011 Jan- May	% change
Live Pigs	2,717	2,065	2,260	2,919	29%

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

Source: Hong Kong Census & Statistics Department

Consumption:

Hong Kong's pork consumption pattern has been affected by escalating inflationary pressure. Once consumers get accustomed to a new consumption pattern, it is very likely that this behavior will continue even when inflation subsides. This July, the year-on-year inflation rate was recorded at 7.9 percent, the highest after August 2008. Aside from housing rentals, food was the largest driving cause for inflation with a 7.4 percent year-on-year increase. Pork was among the food items that experienced the most noticeable price increase. The average retail price of pork in July 2011 was 26 percent higher than that in June 2010. In response to increasing prices, industry sources confirmed that both consumers and catering services have modified their pork consumption.

The most noticeable change is in the sharp shift from freshly slaughtered pork to chilled pork from China. Chinese chilled pork was introduced to Hong Kong as an alternative to freshly slaughtered pork and its sales have been expanding gradually over the years. The rising cost of food has served as a catalyst in accelerating this shifting process. In Hong Kong there is about a 10 percent price difference between freshly slaughtered pork and chilled pork from China. Although the overall pork prices in China are on an upward trend, chilled pork prices are not as volatile as live pig prices. The price volatility for live pigs is due to the supply of live pigs being largely confined to the Guangdong province (adjacent to Hong Kong), whereas the chilled pork supply has less of a geographical restriction.

In a bid for lower prices, a similar shifting in consumer preference is taking place between Chinese chilled meats and frozen meats. Hong Kong retail outlets have seen a sharp increase in the consumption of Brazilian frozen pork. Ribs and pork chops are popular Brazilian cuts.

Given the strong exchange rate of Renminbi and the rising pork prices in China, Brazilian products have become more competitive and attractive at the expense of Chinese chilled and frozen pork.

Hong Kong's inflationary pressure will remain notable. To avoid the upward price pressure, the shift in consumer preferences is very likely to continue in the coming year.

Table 3. Hong Kong: Average Retail Prices of Pork Relative to Beef and Poultry, (Freshly Slaughtered), in US\$/kg

	2008	2009	2010	2011 Jan - May	% change
Chicken (whole chicken)	8.19	9.82	9.78	10.82	11%
Beef (best quality)	11.72	12.50	12.61	13.10	4%
Beef (belly flesh)	9.09	9.82	9.91	10.58	7%
Pork (best cut)	8.11	7.23	7.04	7.76	10%
Pork Chop	8.05	7.19	7.08	7.83	11%

Source : Hong Kong Census & Statistics Department

One distinct advantage for U.S. chilled pork is the stable exchange rate. Additionally, U.S. pork products enjoy an established premium market image associated with its taste and safety. U.S. chilled pork, primarily consumed by the well-to-do consumers and upscale catering services, continue to sell well despite high prices. However, the coming years will be challenging for U.S. chilled pork products because many traders are gradually introducing premium chilled pork from other countries. The most noticeable is Spanish Iberico pork and Japanese Berkshire pork. Both pork types are being well received in the market. Australian and Canadian pork are also making inroads to upscale markets. Currently, Australian and Canadian pork exports are disadvantaged by the high exchange rate, but they are likely to build on the Hong Kong consumers' receptiveness to new food products.

There has not been any significant consumer shift towards different types of meats as a result of rising pork prices, because other meat products are facing similar upward trends in price. More importantly, pork and chicken are staple meats consumed by the Hong Kong Chinese.

Table 4. Hong Kong: Pork, Chicken, and Beef Consumption 2010, By Type, in Metric Tons

	Freshly slaughtered	Chilled/Frozen
Pork	120,000	266,602
Chicken	13,000	301,261
Beef	8,000	109,800

Source: Hong Kong Agriculture, Fisheries and Conservative Department
Hong Kong Census and Statistics Department

Trade:

U.S. Supplies

U.S. pork and offal exports to Hong Kong in 2011 are forecast at \$190 million, representing a significant drop of 32 percent. This forecast is based on increasing direct U.S. exports of pork and offals products to China. In efforts to cut transaction costs, many U.S. pork exporters have decreased their transshipments through Hong Kong. In the first half year of 2011, U.S. pork and offal exports to China increased tremendously by 2,234 percent reaching \$147 million, while its exports to Hong Kong declined by 55 percent shrinking to \$67 million. As a large portion of Hong Kong's imports are re-exported, (28 percent and 75 percent for pork and offals, respectively) any decline in re-exports will inevitably affect total imports significantly.

Table 5. United States: Pork and Offals Exports, US\$ million

Partner Country				Year To Date		
	2008	2009	2010	06/2010	06/2011	% change
World	4,572	4,030	4,514	2,229	2,684	20.45
Hong Kong	350	305	221	147	67	-54.77
China	259	41	131	6	147	2,234

Source : GTI - Department of Commerce, U.S. Census Bureau, foreign Trade Statistics

Table 6. Hong Kong: Percentage of Imports being Re-exported, Jan – Jun, in Metric Ton

	Pork	Offal
Imports	209,182	234,196
Re-exports	58,073	176,783
% Re-exported	28%	75%

Source : Hong Kong Census & Statistics Department

As of 2010, the U.S. was the third largest pork supplier to Hong Kong. As a result of the increasing direct exports to China, the U.S. is now the fifth largest supplier to Hong Kong after China, Brazil, Spain and Germany. In the first half year of 2011, Hong Kong imported a total of \$27 million in pork products but the import value of offal was as high as \$67 million. Both chilled pork and processed pork, primarily consumed in Hong Kong, showed a remarkable increase. On the other hand, Hong Kong's imports of U.S. frozen pork and variety meats declined as they are most affected by the changes in re-export trade.

Table 7. Hong Kong: Pork Imports in Value by Suppliers, in US\$ Million

Partner Country				Year To Date			
	2008	2009	2010	06/2010	06/2011	Market share	%Change
World	957	881	892	450	500	100%	11.23
China	248	287	323	151	169	34%	12.09
Brazil	193	173	153	75	94	19%	26.12
U.S.	122	86	73	47	27	5%	-42.63
Spain	69	62	61	34	35	7%	3.15
Germany	75	65	51	31	37	7%	18.44
Netherlands	41	30	36	14	25	5%	75.54
Vietnam	39	29	28	11	10	2%	-8.93
Poland	17	18	26	14	19	4%	36.56
Italy	21	19	24	13	18	4%	31.89
Canada	33	20	20	11	9	2%	-25.52

Source : Hong Kong Census & Statistics Department

Table 8. Hong Kong: Offal Imports by Major Suppliers, in US\$ Million

Partner Country				Year To Date			
	2008	2009	2010	06/2010	06/2011	Market share	%Change
World	870	830	831	460	373	100%	-18.98
U.S.	246	229	205	132	67	18%	-49.13
Germany	167	165	169	87	84	23%	-3.55
Netherlands	92	90	92	47	47	13%	-0.54
Brazil	72	81	83	43	43	11%	-0.57
Canada	86	80	75	47	16	4%	-66.61
Denmark	45	39	40	23	20	5%	-14.48
Belgium	33	36	35	17	19	5%	11.17
Spain	32	25	34	16	19	5%	17.43
U.K.	28	26	29	15	19	5%	25.42
France	21	19	15	10	5	1%	-42.42

Source : Hong Kong Census & Statistics Department

Table 9 Hong Kong: Pork Imports from the U.S. by Categories, in US\$ million

				Year To Date		
	2008	2009	2010	06/2010	06/2011	%Change
Pork	122	86	73	47	27	-42.63
chilled pork	1	1	2	1	2	112.99
frozen pork	101	61	50	36	13	-63.5
processed pork	20	24	21	10	12	19.6
Variety meat	246	229	205	132	67	-49.13

Source : Hong Kong Census & Statistics Department

Removing the re-export trade, U.S. pork products have performed very well in the domestic market. U.S. exports have benefited tremendously by the pegged exchange rate, particularly when the Hong Kong currency has depreciated against the currency of other major suppliers such as China and Brazil.

From January through -June 2011, Hong Kong's imports of U.S. chilled pork rose to \$2 million or 113 percent compared to the same period in 2010. The strength of U.S. pork is rooted in its established market image of high quality and food safety, in addition to the benefited the stable exchange rate with the Hong Kong currency. U.S. chilled pork sell primarily to high-end retail outlets and five-star hotels.

As mentioned in the previous section, U.S. pork is facing competition from high quality pork supplied from Spain, Australia, and Canada. Industry sources indicated that Canadian pork is also doing very well as a beginner in the market. Despite their slow acceptance in the market, industry sources believe Canadian pork has great potential. It is also worth noting that chilled pork from Thailand has enjoyed significant growth. Given the more economical pricing and comparable quality, importers view it as a good value for their money.

Table 10. Hong Kong: Chilled Pork Imports in Value, US\$ thousand

Partner Country				Year To Date		
	2008	2009	2010	06/2010	06/2011	%Change
World	39,761	48,905	46,596	25,066	23,936	-4.51
China	30,788	44,438	41,688	22,901	20,509	-10.45
United States	1,276	1,340	1,930	835	1,778	112.99
Australia	1,532	1,455	1,468	797	805	0.95
Canada	202	173	385	149	256	71.35
Thailand	5,576	1,029	413	133	228	71.39
France	60	74	275	73	215	194.74
Japan	170	332	423	175	133	-24.1
Spain	80	0	0	0	9	n/a

Source : Hong Kong Census & Statistics Department

U.S. frozen pork products, including premium frozen pork parts and commodity cuts, are expected to perform well for the remainder of 2011 and 2012. In addition to the high value U.S. loin cuts which have been traditionally well accepted by the high-end catering industry, other cuts like butts are being gradually introduced to Chinese restaurants. For example, pork butts are being used to prepare traditional Chinese pork roast. Wider acceptance of U.S. pork by Chinese restaurants offers good opportunities for U.S. pork exports. After all, Hong Kong's catering industry is dominated by restaurants highlighting Chinese cuisine.

Other Suppliers

China is the largest supplier of pork to Hong Kong. It accounts for over 86 percent of all chilled pork supplies to Hong Kong. Chinese chilled pork is primarily used as an alternative for freshly

slaughtered pork and is not a direct competitor of U.S. chilled pork. Despite the increasing substitution of freshly slaughtered pork for chilled pork, Chinese chilled pork is expected to decline in 2011. This decline is partly due to some consumers and catering services replacing chilled pork with frozen pork as a result of escalating pork prices from China.

Presently, there is not a significant amount of Chinese pork coming into Hong Kong because it is considered too expensive. This trend will continue for the remainder of 2011 and is likely to continue in 2012 because Chinese pork prices are not expected to drop significantly in the near future. Chinese frozen butts used to be very popular for making Chinese pork roast, but many end-users are now opting to use Brazilian products. A similar shift is happening with many other cuts. On the whole, prices are a determining factor in all purchasing decisions particularly for commodity cuts.

Brazil is the second largest supplier of pork to Hong Kong. Just in the first half of 2011 Brazil had a 26 percent increase and sales are expected to continue to rise in the near future. There are several underlining reasons for the success of Brazilian pork. According to industry sources, as a result of the Russian ban on Brazilian pork they saw an influx of Brazilian pork products enter Hong Kong at very competitive prices. This surge in Brazilian supplies has made up for the limited supplies of Chinese pork. Furthermore, Hong Kong buyers are very familiar and comfortable with Brazilian cuts. Brazilian pork is considered to be lean and well-trimmed.

Re-exports

Hong Kong continues to serve as a center for re-exporting products to China. Over 28 and 75 percent of pork and offals imports to Hong Kong were re-exported and China is the key market.

Hong Kong's re-export trade to China is dominated by offals. The U.S. is a key supplier of pork offals to Hong Kong. A distinct advantage of U.S. products is their abundant supplies. When buying from a U.S. supplier an importer can place a large order from one U.S. plant, whereas the importer would have to deal with several European buyers in order to source the same quantity. Therefore, importers prefer to go to U.S. suppliers. This advantage has also allowed U.S. offals to sell well in Hong Kong.

Nonetheless, in the near future, European pork offals exports to Hong Kong are expected to increase because the Chinese government is increasingly approving more European pork products and registering more plants. While importers noted that this trend does not necessarily reduce the demand for U.S. offals because of the large scale of the Chinese market, Hong Kong's imports of U.S. products are highly affected by direct exports to China.

Table 11. Hong Kong: Pork Exports in Value, US\$ million

Partner Country				Year To Date		
	2008	2009	2010	06/2010	06/2011	% Change
World	304	213	215	103	89	-14.03
China	232	92	146	66	62	-7.28
Taiwan	44	74	23	23	0	-99.7
Vietnam	6	23	23	2	13	411.3
Macau	22	22	23	11	14	26.27

Source : Hong Kong Census & Statistics Department

Table 12. Hong Kong: Offal Exports in Value, US\$ million

Partner Country				Year To Date		
	2008	2009	2010	06/2010	06/2011	% Change
World	619	552	653	306	218	-28.91
China	473	260	545	213	187	-12.29
Taiwan	123	205	64	62	5	-92.55
Vietnam	19	84	41	30	25	-16.42
Macau	3	3	2	1	1	-7.81

Hong Kong Census & Statistics Department

Policy:

Ractopamine is not an issue in Hong Kong. Hong Kong food laws do not prohibit or restrict the presence of ractopamine in meat products. As such, pork trade has not been affected by this issue.

Table 13. Hong Kong: Swine Meat, Production, Supply and Demand Data Statistics

Meat, Swine Hong Kong	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	0		0			
Beginning Stocks	0	0	0	0		0
Production	119	120	121	114		116
Intra-EU Imports	0	0	0	0		0
Other Imports	347	347	360	370		390
Total Imports	347	347	360	370		390
Total Supply	466	467	481	484		506
Intra EU Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	466	467	481	484		506
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	466	467	481	484		506
Ending Stocks	0	0	0	0		0
Total Distribution	466	467	481	484		506

1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG

Not Official USDA Data

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, using a conversion factor of 1.30. Imports are calculated as Imports minus Re-exports. Exports are calculated as Exports minus Re-exports.

Table 14. Hong Kong: Pork Imports in Volume by Suppliers, in Metric Ton

Partner Country	Year To Date						
	2008	2009	2010	06/2010	06/2011	Market share	% Change
World	483,068	436,567	420,852	220,741	209,182	100%	-5.24
China	91,794	104,982	119,467	55,629	56,119	27%	0.88
Brazil	72,555	76,794	59,083	29,557	31,295	15%	5.88
Spain	46,550	42,335	37,876	21,256	18,444	9%	-13.23
Germany	54,695	43,846	35,895	21,713	22,717	11%	4.62
United States	69,516	48,305	33,851	24,277	8,891	4%	-63.38
Netherlands	28,110	18,451	20,463	8,550	13,004	6%	52.08
Poland	16,301	12,228	17,727	8,802	12,708	6%	44.37
Italy	14,363	13,285	16,443	9,531	9,046	4%	-5.09
Canada	21,495	13,854	12,029	7,416	3,731	2%	-49.7
Vietnam	8,328	9,319	9,959	4,287	2,435	1%	-43.19

Source: Hong Kong Census & Statistics Department

Table 15. Hong Kong: Pork Exports by Destination, Jan – June, in Metric Tons

Partner Country				Year To Date			Market Share
	2008	2009	2010	06/2010	06/2011	%Change	
World	217,196	152,694	154,250	77,851	58,073	-25.41	100%
China	172,380	72,757	118,879	58,625	43,511	-25.78	75%
Taiwan	33,827	53,741	13,863	13,449	76	-99.43	17%
Vietnam	3,500	17,623	13,543	1,884	9,731	416.65	2%
Macau	7,363	8,276	7,904	3,873	4,703	21.42	5%

Hong Kong Census & Statistics Department

Table 16. Hong Kong: Average C.I.F. Prices of Pork by Major Suppliers, in US\$/Metric Ton

Partner Country				Year To Date		
	2008	2009	2010	06/2010	06/2011	% Change
World	1,980	2,019	2,119	2,038	2,392	17.38
China	2,699	2,733	2,702	2,714	3,016	11.11
Brazil	2,653	2,257	2,597	2,523	3,005	19.11
U.S.	1,756	1,782	2,170	1,952	3,058	56.64
Germany	1,366	1,490	1,426	1,439	1,629	13.2
Netherlands	1,442	1,630	1,746	1,651	1,905	15.42
Poland	1,050	1,442	1,448	1,586	1,500	-5.41
Italy	1,478	1,435	1,485	1,416	1,968	38.97
Canada	1,528	1,408	1,678	1,541	2,282	48.07
Vietnam	4,659	3,070	2,817	2,635	4,225	60.32

Source: Hong Kong Census & Statistics Department

Table 17. Hong Kong: Pork Imports from the World by Categories, in US\$ million

				Year To Date		
	2008	2009	2010	06/2010	06/2011	% Change
Pork	957	881	892	450	500	11.23
chilled pork	40	49	47	25	24	-4.51
frozen pork	600	489	495	247	266	7.49
processed pork	317	343	350	177	211	18.68
Variety meat	870	830	831	460	373	-18.98

Source: Hong Kong Census & Statistics Department