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Hong Kong Expected to Allow Entry of Chilled Beef from China

Report Categories:

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Report Highlights:

According to published reports, the Hong Kong and Mainland Chinese governments are finalizing a market access protocol for Chinese chilled beef exports to Hong Kong with the possibility of an agreement before the Chinese New Year in February 2011. While acknowledging that the discussions on a market access protocol with the Chinese government is making good progress, the Hong Kong government (HKG) refused to provide details on the time frame and number of plants to be approved. Chilled beef from China is unlikely to be in direct competition with U.S. chilled beef because they compete for different market segments.

Executive Summary

According to published reports, the Hong Kong and Mainland Chinese governments are finalizing a market access protocol for Chinese chilled beef exports to Hong Kong with the possibility of an agreement before the Chinese New Year in February 2011. While acknowledging that the discussions on a market access protocol with the Chinese government is making good progress, the Hong Kong government (HKG) refused to provide details on the time frame and number of plants to be approved. However, sources indicated that the HKG will require export documents to provide the name/establishment, number of plants and farms. The production date will also be required so as to facilitate traceability and the transportation environment will have to be maintained within a range of 0 to 4 degrees Celsius.

Among the trade there are differing views on the possible impact of Chinese chilled beef on Hong Kong's beef market. Some see the possibility that chilled beef from China will be in competition with freshly slaughtered beef for household consumption and chilled beef from Brazil and Argentina in catering services. Others hold the view that chilled beef from China would hardly impact the local market because the import volume would be insignificant given that cattle and feed prices in China would not make its chilled products economical in the Hong Kong market. In addition, they point out that any appreciation of the Chinese currency would also impact sales. Nonetheless, there is consensus that chilled beef from China is unlikely to be in direct competition with U.S. chilled beef because they compete for different market segments. Chinese chilled beef also will not be competing with frozen beef, regardless of country of origin, because it will be substantially more expensive.

Supply of Chinese Chilled Beef to Hong Kong

It was reported that the Hong Kong government is about to approve one Chinese beef processing plant (Yaoyue Group) which could possibly start supplying chilled beef to Hong Kong in December 2010 or January of 2011 before the Chinese New Year, pending the satisfactory inspection of registered farms which supply cattle to the plant. However, while confirming that negotiations are making good progress, the HKG refused to provide any time frame and to reveal the number of plants which will be eligible to export beef products to Hong Kong saying that the protocol details are yet to be finalized. China is the only supplier of live cattle to Hong Kong for immediate slaughter and the 3rd largest supplier for frozen beef, but to date there have not been any imports of chilled beef to Hong Kong. Following the opening of the market to chilled chicken in 2002 and pork in 2006, Hong Kong is now up to the final stage of allowing chilled beef from China.

Yaoyue Group runs a large meat processing plant in China's Jilin province. The plant has a slaughtering capacity of 700,000 cattle and 300,000 sheep annually. Its annual beef production capacity reaches over 200,000 MT. About 50% of Chinese beef exports are sourced from Yaoyue and its products are exported to 23 countries and regions.

Potential Competition

Chilled beef from China will not be in direct competition with U.S. chilled beef because they serve different market niches. U.S. chilled beef captures the high-end market selling at premium prices. However, chilled beef from China could become an alternative for freshly slaughtered beef because the

average price of Chinese chilled beef is expected by some industry members to be about 30 percent lower than that of comparable fresh beef. Live cattle in Hong Kong are entirely supplied from the northern provinces of China. Thus, the high transportation costs associated with the importation of live cattle may provide an area in which cost savings are achieved by importing chilled beef. Further, fresh beef is largely consumed by households. Any price discrepancy offers incentive for general consumers to switch to Chinese chilled beef. Hong Kong consumers in recent years are getting more used to consuming chilled products from China, particularly chicken and pork.

Chilled beef products from China may also have a chance to compete with products from Argentina and Brazil, with price, quality and supply being the determining factors. Certain industry representatives forecast that product cuts suitable for hot pot such as short plate and boneless chuck will be very likely to be brought in by traders first to test the market. Hot pot is a favorite dish in Chinese restaurants during the winter months. Most restaurants use frozen meats but restaurants which boast quality food ingredients and households may opt for chilled beef from China which is at a middle price range between more expensive chilled beef from Australia and the U.S. and less expensive frozen beef.

However, according to some industry representatives, Chinese chilled beef may hardly have an impact on the Hong Kong market because commercial considerations would not favor any significant import volume. China already has high internal demand for beef products and rising prices of cattle and feed along with the appreciation of the Chinese currency could severely affect the competitiveness of Chinese chilled products in the Hong Kong market.

Moreover, it is unlikely that Chinese chilled beef will compete with frozen beef as the latter is largely used in catering institutions which are very keen to control food costs. The average price of frozen meat is just one-third of the price of fresh meat. Most low and medium-end restaurants will still find it uneconomical to replace frozen beef with Chinese chilled beef. The price of Chinese chilled beef is expected to double that of frozen beef.

Background

In recent years, the supply of live cattle to Hong Kong through its sole importing agent has declined from 41,181 head in 2007 to 28,657 in 2009, corresponding with a 49% increase in price. There were reports suggesting that the decreased supply of live cattle to Hong Kong was due to the fact that the sole agent has been offering non-competitive prices for cattle to be exported to Hong Kong as the domestic demand for beef in China has reduced the incentive among the Mainland farms to export cattle to Hong Kong. In addition, the weather conditions in China particularly during the winter also have affected cattle supply to Hong Kong.

Table 1. Hong Kong: Live Cattle Supply and Average Retail Prices of Freshly Slaughtered Beef

	2007	2008	2009
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Live cattle supply (# of head)	41,181	28,489	28,657
Average Retail Prices of freshly slaughtered beef, US\$/kg			
Best quality	8.59	11.72	12.5
Belly flesh	6.6	9.09	9.82

Source : Hong Kong Agricultural, Fisheries and Conservation Department
Hong Kong Census and Statistics Department

Table 2. Hong Kong: Consumption of Beef in MT

Year	Freshly slaughtered beef	Chilled beef	Frozen beef
2009	8,000	4,736	91,828

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

Table 3. Hong Kong: Imports of Chilled Beef by US\$ and MT

Hong Kong Import Statistics						
Year To Date: January - December						
Partner Country	2007		2008		2009	
	USD	Quantity	USD	Quantity	USD	Quantity
World	47,731,996	4,478	49,996,870	4,006	55,443,742	4,849
Australia	22,983,619	1,809	21,989,661	1,849	25,631,789	2,299
United States	9,707,571	483	11,924,140	575	12,554,727	850
Japan	1,853,358	43	5,312,350	108	7,319,205	128
New Zealand	5,736,569	609	5,867,227	516	4,685,551	510
Canada	2,688,264	142	1,490,253	88	2,249,293	162
Brazil	3,308,037	1,134	2,252,011	546	1,464,493	461
Argentina	493,655	212	395,087	258	750,393	378

Source : Hong Kong Census & Statistics Department

Table 4. Hong Kong: Imports of Frozen Beef by US\$ and MT

Hong Kong Import Statistics						
Year To Date: January - December						
Partner Country	2007		2008		2009	
	USD	Quantity	USD	Quantity	USD	Quantity
World	178,312,815	63,604	307,927,563	86,555	419,483,544	130,437
Brazil	79,219,528	31,606	159,932,040	45,096	210,744,397	66,119
United States	24,821,864	6,407	38,074,284	9,313	69,459,476	20,412
China	25,831,004	12,449	34,504,840	10,889	30,082,132	8,239
Canada	24,305,711	6,984	28,535,413	7,430	28,306,733	7,934
Argentina	5,218,756	2,618	13,023,611	4,843	24,606,411	9,414
New Zealand	11,668,701	1,922	17,014,761	3,812	20,780,222	6,164
Uruguay	366,026	135	8,637,593	3,046	17,890,555	6,323
Australia	4,828,520	1,042	5,453,208	1,478	14,063,785	4,307

Source : Hong Kong Census & Statistics Department