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Exporter Guide

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Approved by:

Lloyd Harbert
U.S. Consulate General, Hong Kong

Prepared by:

David Wolf & Caroline Yuen

Report Highlights:

Hong Kong's economy has gradually walked out of the doldrums since mid-2003. A revived property market, improved employment and robust inbound tourism have stimulated the economy as a whole. As such, Hong Kong, being the 5th largest export market for U.S. consumer-oriented products, provides good prospects for U.S. exporters. During the first half year of 2004, both food retail sales and HRI businesses have improved compared to the same period last year (retail and HRI sales increased 2% and 12% respectively). In 2003, Hong Kong's food retail market was sized at \$5.8 billion and HRI at 6.2 billion.

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Section I. Market Overview

Food Imports

- Hong Kong is an important market for consumer-oriented American foods and ranks number five as a U.S. export destination for these products. Hong Kong imported over U.S.\$1 billion of consumer-oriented products from the United States in 2003 accounting for 21 percent of the market share. Of all U.S. consumer-oriented exports to Hong Kong, poultry meat, fresh fruit, red meats, processed fruit & vegetables and tree nuts are the leading items. For fish and seafood products, the United States exported U.S.\$52 million worth of products to Hong Kong, increasing 24% in two years.
- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 2003, local production contributed only 5 percent of fresh vegetables, 31 percent of live poultry, and 23 percent of live pigs. However, Hong Kong's total imports of consumer-oriented products and fish & seafood products amounted to U.S.\$4.9 billion and U.S.\$1.7 billion respectively.

Economy

- Being one of the most affluent economies in Asia, Hong Kong's 2004 forecast per capita GDP is U.S.\$23,700.
- The Hong Kong economy has demonstrated a solid upturn since mid 2003. In the first half of 2004, real GDP rose by 9.5% from a year earlier resulting from the picking up of the property market and an upsurge of consumer spending. With stronger positive consumer sentiment and improving employment prospects, retail sales grew by 13% in value in the first seven months of 2004. The unemployment rate also fell from a historic high of 8.7% in the three months ended June 2003 to 6.9% this June. The economy forecast for 2004 is encouraging. The official forecast of GDP growth was lately revised to 7.5% for the whole of 2004, 1.5 percentage points higher than the earlier forecast.
- The second phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA II) was concluded in August 2004, providing further liberalisation measures on trade in goods and services entering the mainland and promising great benefits for Hong Kong's economy. It's expected to provide a new source of growth for the city's economy.
- Consumer prices fell by 2.6% in 2003 and 1% in the first seven months of 2004. However, consumer prices reverted to an increase in July, signifying the end of a 68-month deflation period. Hong Kong consumers are psychologically prepared to experience rising prices across the board.
- Tourist arrivals surged by 68.3% in the first half 2004. The flourishing inbound tourism has been largely due to a policy change that allows mainland residents in selected cities to visit Hong Kong on an individual basis, rather than exclusively as part of tour groups. In 2003, tourists spent \$873 million in restaurants other than meals taken in hotels, accounting for approximately 14% of Hong Kong's HRI business. As such, a robust tourism not only has the merit of stimulating a series of peripheral businesses but also has a positive direct impact on HRI revenue. The Hong Kong Tourism Board targets 20.5 million tourist arrivals in 2004, assuming a growth of 31.8% from the 2003 total of 15.5 million.

Demographic Factors

- Two demographic trends contribute to the good potential for “convenience” and processed foods. 1. An increasing number of women in the work force. In 2003, 51.3 % of women in Hong Kong were in the labor force. 2. A youthful work force: 57.4 % of the labor force is in the age group of 25 - 44. In addition, this younger population is very receptive to new food varieties.

Advantages	Challenges
World's freest economy (Economic Freedom of the World, 2004 Annual Report, published by the Cato Institute of the United States in conjunction with the Fraser Institute of Canada and some 50 other research institutes around the world). Consistent free trade and free enterprise policies. No import duty except on wine, liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls.	Severe competition between different supplying countries.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates. (Can be a disadvantage when U.S. dollar is strong. Then products from other supplying countries become more price competitive compared to U.S. products.)	A very price sensitive market; importers' buying decisions depend largely on price.
Foreign and local businesses operate on a level playing field.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food.	A virtual duopoly in food retailing allows retailers to charge high slotting (shelf space) fees. See section on Supermarkets.
Sophisticated, reliable banking system.	
Consistent import regulations and rule of law.	

Section II. Exporter Business Tips**Importer Lists**

ATO provides Hong Kong importer lists to U.S. exporters and assists to arrange meeting appointments provided adequate lead time is given.

Language: The official written languages in Hong Kong are Chinese and English. The official spoken languages are Cantonese (the prominent Chinese dialect in Hong Kong and South China) and English. In general, all correspondence can be in English.

Travel Visa

Even though Hong Kong is now part of China, there is still a border boundary between Hong Kong and China. If you are traveling with a U.S. passport, you do not need a travel visa for Hong Kong. However, if you are planning to go to Mainland China, you need to apply for a travel visa into China.

Legal System

Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Hong Kong's legal system is separate from Mainland China. Also, Hong Kong is a separate customs territory from China.

Payment

Hong Kong importers are willing to pay by letter of credit in the beginning. When a trading relationship has been established, many of them prefer to pay by open accounts so as to cut transaction costs.

General Consumer Tastes and Preferences

- There has been growing popularity of frozen foodstuffs because many working women cannot afford the time to do grocery shopping daily. Besides, more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish.
- Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. On the other hand, supermarket chains are able to offer products at more competitive pricing because they have a strong bargaining power at getting supplies and are able to reap the merits of economies of scale.
- According to a recent survey by AC Nielsen, Hong Kong people are among the most impulsive buyers in Asia. The most popular retail outlets for impulsive purchase include convenience stores (22%), bakeries (21 %) and supermarkets (17%). Impulse buyers of food items include drinks (50%), bread (29%) and snacks (14%). Popular drinks include lemon tea, green tea, soft drinks and water. Ice cream, chocolate and chewing gum are most popular snack items.
- Since ice-cream is the most popular snack, Hong Kong has witnessed the opening of more and more ice-cream specialty shops such as New Zealand Natural, Kida Garden, Papagallo, along with the long established Ben & Jerry's, Double Rainbow and Hagen Daz.
- Hong Kong consumers' buying decision is largely based on for value money. Generally, consumers are not brand loyal when they are faced with discount privileges of another brand or with "out-of-stock" situation.

- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk pack food products do not sell well in Hong Kong, and small package food products are preferred.
- There is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods.
- Hong Kong consumers have become increasingly more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package are certainly a good marketing strategy for health foods. (The Hong Kong government is planning to regulate nutrition labeling and health claims. Details please refer to reports HK3040 and HK4017 respectively.)
- The health-supplement market continues to enjoy healthy growth in recent years. According to Euromonitor's latest study, there has been a steady growth in the past six years in Hong Kong from \$106 million in 1997 to \$121 million in 2002. US-based Nu Skin Enterprises, one of the largest direct selling companies in the world, opened a shopping plaza in Hong Kong in July 2003. The company made a \$1 million plus investment in Hong Kong's retail sector because it sees significant potential in the health products markets and regards Hong Kong as a stepping-stone to China. The company representative revealed that the company has experienced double-digit growth in Hong Kong since 2000.
- According to a survey result released in late 2003, Hong Kong women consume more health food and health supplements than men and they are willing to spend a lot more money. Strengthening the immune system and for slimming topped the list of reasons why Hongkongers ate health food and 36% of women and 40% of men saying they would look for information on strengthening their systems when reading labels.
- The sales of organic products have been increasing steadily. A representative of the Great Supermarket revealed that there were only 200 organic items for sale three years ago, the variety has greatly expanded to over 2000 items this year. The price discrepancy between conventional and organic foods has also narrowed over the years. Currently, organic products are priced generally 10% higher. The most popular organic products are baby foods.
- According to a survey result released in July 2003 by one supermarket chain in Hong Kong, the top ten most popular product brands were: Amoy dim sum, Coca-Cola, Doll dim sum, Dreyer's ice cream, Lee Kum Kee oyster sauce, Mr Juicy orange juice, Nestle Dairy Farm fresh milk, Nissin instant noodle, Vitasoy soya milk and Yakult lactic drink. The survey reflected Hong Kong consumers' preferences to a certain extent.
- To better understand Hong Kong consumers' preferences for western foods, the ATO commissioned a pilot study from a Hong Kong market research firm on consumer preferences among Hong Kong Chinese consumers for four different categories of food products: hot dogs, salty snacks, fruit juice beverages and celery. The purpose of the study is to identify consumer attitudes and buying habits so as to help U.S.

exporters gain an insight as to how to introduce western foods in the most effective way to Hong Kong consumers. For details, please refer to Gain Report # HK0056.

General Import and Inspection Procedure

- Food products can be imported to Hong Kong duty free. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government encourages food importers to produce health certificates for the importation of seafood products to expedite custom clearance. It accepts import applications from Hong Kong importers; U.S. exporters are not required to apply for import permits. However, U.S. exporters may need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.
- Currently Hong Kong does not have any nutrition labeling requirements or guidelines. The government intends to implement a mandatory nutrition labeling system, which will start to run on a voluntary basis for a period of five to ten years. According to the proposal, all prepackaged foods will eventually be subject to nutrition labeling. Details refer to Gain Report HK#3040. Drafting of the regulation by the Hong Kong government has not yet started.
- For more information on food import regulations, please also refer to the "Hong Kong Food and Agricultural Import Regulations and Standards, Importation of Food & Agricultural Products to Hong Kong 2003". Gain Report #HK4018.

Labeling of Biotech Foods

The Hong Kong government is considering to adopt voluntary labeling and pre-market safety assessment for biotech foods but has set no timetable for implementation.

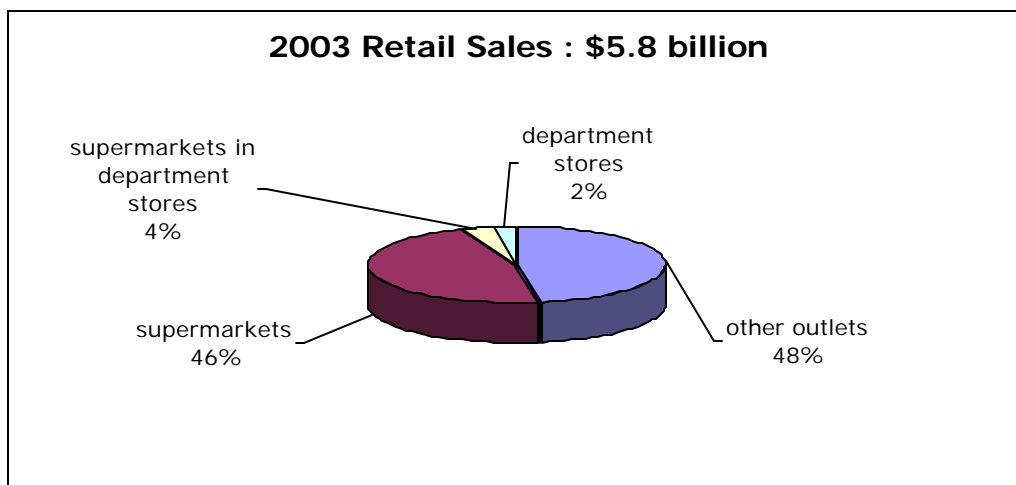
Section III. Market Sector Structure and Trends

Among the three major market sectors of Hong Kong: the retail and HRI (Hotel, Restaurant and Institutional) sectors present the best opportunity for U.S. exporters. The Food Processing sector in Hong Kong is very small and presents less opportunity for market development.

Food Retail

- Total retail sales of food and drinks in Hong Kong for 2003 reached U.S.\$5.8 billion. For January - July 2004, retail sales of food, alcoholic drinks, and tobacco for traditional markets and supermarkets, increased 2.3% and 1% respectively, compared with the same period last year. The sentiment for spending is improving.
- Retail establishments in 2002 amounted to approximately 16,202, which included (1) 85 supermarkets and convenience store establishments (including retail outlet branches, estimated at about 800) and (2) 16,117 wet market stalls and "mom and pop" shop operators. Retail shops in Hong Kong generally are very small in size, about 98 percent of which hire less than 10 employees.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Most shopping is still done in traditional markets including wet markets and mom-and-pop shops. However, sales in supermarkets are increasing. The

supermarket's share in terms of retail sales has risen from 44% of total sales in 1995 to 50% in 2003. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets. In 2000, only \$524 million worth fresh/chilled meat, fish, fruit and vegetables and frozen food were sold in supermarkets. The sales values of the same category in supermarkets greatly expanded to \$581 million in 2003, increasing 11% over 2000.



- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have turned air-conditioned and provide free shuttle to nearby residential areas. In the next few years, the Hong Kong Government has earmarked over \$77 million to improve the environment of wet markets. Meanwhile, more and more supermarkets have been renovated to make sales of fresh meats possible and to enhance the overall experience of the convenience shopping at a supermarket.

Supermarkets

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (245 outlets) and ParknShop (over 200 outlets). ParknShop and Wellcome account for about 80 percent of the supermarket turnover. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.
- In recent years, a "shopping mall" concept has emerged in the operation of some new superstores, i.e., a variety of services are provided. For example, a Wellcome superstore, with a floor area of 54,000 square feet, provides massage service. A doctor specializing in Chinese medicine has an office within the store providing consultation to patients. The largest ParknShop store in Hong Kong has a floor area of 72,000 square feet and sells over 20,000 product categories ranging from snacks to electrical household appliances. New features include a drug store operating inside the superstore with a full-time pharmacist. Also, this new superstore provides free internet service to customers once they have made a minimum purchase. This ParknShop megastore contains a zone in which all goods are priced at HK\$8, in a move that could set off a war with existing HK\$10 bargain stores. The HK\$8 zone

features 1,000 Japanese-style items ranging from cooking utensils to skin-care products.

- In 2001, a new upscale supermarket opened called Great Food Hall, with two outlets at the moment. It is associated with ParknShop but products on the shelf are more upscale. Located in commercial areas, it targets at a better-off clientele. Both Great Food Hall and City Super are competing in the same market segment. The opening of the Great Food Hall provides another excellent retail outlet for quality U.S. products. When new products are proved popular in this new outlet, then they can find their way easily to ParknShop's chain stores.
- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. For example, Wellcome and ParknShop, which have many branch stores, have expensive listing fees. A product with five SKU categories is expected to pay U.S.\$26,000 to U.S.\$39,000. On the other hand, Jusco, a supermarket in a Japanese department store, charges U.S.\$150 for all its stores. The agent will not bear this cost, which is transferred to the principal. In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only Japanese department store food retailer that requires a listing fee.)
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover has to be rebated to the major supermarkets and 8 percent to small ones.
- Different products have different mark-ups. A dried fruit importer revealed that an importer usually operates on a mark up of 5% to retailers who would then mark up another 30% to 35% to consumers.
- There is excellent potential growth in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to the Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

Report by the Consumer Council

- According to a report released by the Consumer Council in August 2003, there are some findings with regard to supermarkets. First, prices at the big two supermarkets and CRC over the first half of 2003 had gone up by an average of 1.5% compared with a year earlier. When discounts and promotions were taken into account, average

prices had dropped by 0.8%. However, government figures show that deflation for June 2003 was running at 3.1 percent, year on year.

- Secondly, in the six years from 1996 to 2001, there has been a substantial decline of small supermarket operators by approximately 41%.
- Thirdly, from 1993 to 2003, the two major supermarket chains have grown 29% by number of retail outlets (31% for Wellcome and 28% for ParknShop respectively).
- The Consumer Council warned that consumers would be deprived of choice if the market was monopolized - especially as smaller supermarkets and wet markets were phased out. When there is a lack of fair competition, supermarket giants may control the variety of products available. Therefore, it called for a wide-ranging law on fair competition, and a high-powered authority to oversee it.
- The Hong Kong government responded that there was no sign the two dominant supermarket chains engaged in anti-competitive acts or abused their market power. The government said it did not see the need for a competition law.
- Instead, the Hong Kong government introduced “Guidelines to maintain a competitive environment and define and tackle anti-competitive practices: Private Sector Participation” and encouraged various trade and industry associations, including the Hong Kong Retail Management Association to develop a set of guidelines pertinent to their business.

Market Entry Approach

- Through setting up a representative office in Hong Kong: While this is the most effective approach, it is very costly.
- Through U.S. Consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. However, the product quantities requested per shipment are usually small, especially when new products are purchased to test the market.
- Through Hong Kong agents: This is the most popular approach. The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets.
- Direct to Supermarkets: For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.
- Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if they deal directly with retailers.

Convenience Stores

- There are around 800 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (600 outlets) and Circle K (197 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are “convenience” in nature, i.e. goods are normally bought in small quantities for immediate consumption. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- Dairy Farm, which owned both Wellcome and 7-Eleven, acquired Daily Shop convenience stores in September 2004. The 87 Daily Shop convenience stores will be converted to 7-Eleven making the total number of 7-Eleven stores to 600. These stores are strategically located in MTR (subway) and KCR (train) stations, popular shopping malls and housing developments throughout Hong Kong. After acquiring Daily Shop, 7-Eleven accounted for 73% of all the convenience stores at MTR (subway) stations, compared to the 30% market share before the taking over.
- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 800 stores presently, there is still a room for expansion. The primary strategy of convenience stores is to increase services providing “convenience” to consumers and to increase the number of stores so as to reach economies of scale. 7-Eleven, operated on a franchise basis, is able to expand the number of stores quickly. Meanwhile, Circle K is continuing to expand. It is reported to have set a target to increase its current 150- plus outlets to 210 by 2004. Circle K is owned by a listed company and does not work on franchise basis.
- A new development in 2003 is that ParknShop expanded into 24-hour convenience store operations. The supermarket giant has opened six stores under the name ParknShop Express on a trial scheme and may expand the network across Hong Kong if the experiment succeeds. ParknShop has intrinsic competitive advantages over its rivals because it can use the leverage of the group’s existing infrastructure to offer products at low prices. The stores carry the products as other convenience stores such as cooked food, drinks, newspapers and magazines. In a bid to lure customers, the 1,000 products offered by ParknShop Express are priced at the same level as those being sold at ParknShop. This is in contrast to other convenience store operators charging at a premium of up to 15 per cent from those selling at supermarkets.

Market Entry Approach

- Convenience stores largely buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

Traditional Markets

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion’s share of food retail. For example, they occupied around 54 percent of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely

to persist and enlarge in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets still occupy about 80 percent of the retail sales of fresh foods, according to an estimate by the Agriculture, Fisheries and Conservation Department. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.

- Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods. One feature of traditional markets is that stalls are small, but the service they offer is personal.
- A traditional mom-and-pop shop which started business in 1990 has expanded to 55 stores spreading all over Hong Kong in recent years. The stores are called Yu Kee, with floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies come from China and South East Asia. They also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.
- Another chain store worth mentioning is called Magic House. With 100 retail stores, they operate like "convenience stores" except that their business hours are only around 10 hours instead of 24 hours. They primarily sell snack foods, drinks and ice cream.

Market Entry Approach

- U.S. exporters must go through local importers/agents that have a good distribution networks.

Trends in Promotional/Marketing Strategies and Tactics

- Supermarkets expanding store size: The supermarket industry is undergoing a face-lift to introduce larger size stores with an objective to provide one-stop shopping and convenience for customers. In addition to traditional grocery and household products, supermarkets are moving towards larger, more modern stores with more fresh food.
- Increasing demand for promotion package and discounts: Hong Kong consumers are very price sensitive. Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- In face of strong competition, major supermarket stores very often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- According to a survey by AC Nielsen, Hong Kong consumers are by far the most impulsive shoppers in the region with 67% who make unplanned purchases. In contrast, other countries with a relatively high proportion of non-planners are

Thailand (14%) and Singapore (14%). As such, in-store promotions seem to be effective to introduce new products and to stimulate impulsive purchases.

- Consumers becoming increasingly health-conscious, and organic products picking up in popularity: There has been a gradual change in what consumers want in Hong Kong. The importance of meat, especially red meat, has declined among some consumers, while other food groups, such as fruits and vegetables, are gaining in popularity. Consumers increasingly look for freshness, healthiness, new varieties and shorter meal-preparation time for food. Consumers want foods of higher nutritional value, but also increasingly pay attention to food safety and hygiene. In short, the marketing trend is to position food products as a healthy, natural, nutritional, etc.
- Organics: The market for organic food, especially fresh vegetables, has picked up considerably in the past few years. ParknShop, the biggest supermarket chain in Hong Kong, set up a separate organic food section in many of their stores. A trader of mainland grown organic vegetables has seen his orders steadily increasing. A local producer of organic vegetables said his produce has been experiencing strong demand, and his farm broke even two years after it started operating in 1988.
- Internet direct sales of food: Currently ParknShop, Wellcome, and City Super are the three supermarkets offering grocery shopping over their website. The service is however not attracting a lot of interest, due to the convenience of shopping in Hong Kong, security concerns and the cost of delivery.
- However, the at-work population in Hong Kong is becoming a coveted audience among marketers to leverage the Internet as a medium of advertising. The at-work online audience is large and growing - out of the total Hong Kong workforce of 3.52 million, about 20 % regularly go online at work. These regular Hong Kong internet users are a demographically attractive group of individuals who have higher than average incomes, educations and tendencies to shop and buy online.
- Growing awareness of U.S. products fit supermarkets' needs to diversify product range: With awareness of the high quality and variety of U.S. food products increasing among supermarkets, there are many opportunities to introduce new U.S. products to the local market. ATO Hong Kong selectively invites key supermarket buyers to the United States on U.S. buying missions, which are followed by in-store promotions highlighting U.S. products. Buyers from Hong Kong supermarkets realize the quick-changing consumption temperament of local consumers, and many have expressed the need to source new products to capture changing tastes. With strong support from exporters and state regional trading groups, the ATO continues its efforts to promote U.S. products and help supermarkets expand the range of U.S. products they carry.
- To promote U.S. food products, the ATO sponsors the HOFEX trade show which will be held May 10-13, 2005.
- For further information on the Hong Kong food retail sector, please refer to "Retail Food Sector Report 2003" (Gain Report #HK2039).

Hotel, Restaurant and Institutional (HRI)

- Total sales of all the eating establishments in 2003 were over \$6.2 billion while purchases amounted to \$2 billion. Local households spend approximately 50 to 60 percent of their food budget on dining out. Since Hong Kong people usually have

small homes, they prefer to entertain at restaurants instead of in the home. In 2002, there were over 11,342 restaurants, about 5,566 of which were Chinese restaurants.

Types of Restaurants	% of sales receipts	% of total outlets
Chinese Restaurants	50%	49%
Non-Chinese Restaurants	27%	32%
Fast-food Shops	18%	10%
Bars	4%	4%

Source : Hong Kong Census and Statistics Department

- Hong Kong's economy has gradually picked up since the latter half of 2003. During the first six months of 2004, total receipts for the restaurants sector amounted to \$3,319 million, increasing 12% from the corresponding period of last year. The increase has been underpinned by the pick-up in both inbound tourism and local consumer spending in recent months.
- The local Chinese population, especially the under 30 age group, is opting for more western lifestyles and eating habits, and are moving toward higher consumption of convenience foods. McDonald's, Dominos, Pizza Hut, Kentucky Fried Chicken, Hardee's, Oliver, Pret A Manger, Starbucks and others have all grown rapidly in numbers over the past years and now have become fixtures in the Hong Kong market. 2003 also witnessed the opening of California Pizza Kitchen (CPK) in Hong Kong.
- Consumers are now more value conscious, and demand better "bang for the buck". This change in sentiment has forced the major fast food operators, Café De Coral, Maxim's and Fairwood, to innovate their menus by introducing numerous new ingredients, such as breaded chicken patties, premium juice drinks, etc. Café de Coral and Fairwood are also renovating their older restaurants and adding "cyber corners" to give them a more upscale look, in order to create more value in patrons' minds. The average spending in fast food outlets is HK\$33.90 for dinner, HK\$25.50 for lunch, HK\$18.20 for breakfast and HK\$16.60 for afternoon tea. (U.S.\$1.00 = HK\$7.78)
- In recent years when the economy has been sluggish, fast food chains are not only competing with each other within the sector but also with low-end restaurants. Restaurant diners have tightened their budgets. Low-end restaurants have already lowered the prices to a level comparable to high-end fast food chains. To lure more business, fast food chains such as Café De Coral and Fairwood started to provide delivery services, reflecting the keen competition of the food business.
- According to a AC Nielsen survey, western chains of fast food shops have surpassed Chinese chains in terms of penetration (88% vs.80%) and are enjoying equal share of trade in value terms (29% vs. 30%).
- Another key feature of Hong Kong's HRI sector is the increasingly competitive coffee shop market in Hong Kong with new outlets opening around the city. While westerners will stand up and drink a coffee, Chinese people in the Hong Kong market want to sit down and take their time over their sandwich or cup of coffee. Starbucks and Pacific Coffee are Hong Kong's two largest coffee shop chains. McDonald is also rapidly expanding its coffee shops by the name of McCafe. People in the industry viewed that specialty coffee shops enjoy a bigger profit margin than fast foods shops, therefore, it is not surprising that more food chains will open specialty coffee shops in the future.

- Hong Kong's burgeoning tourism serves as stimulus to the HRI sector. In 2003, Hong Kong recorded a total of 15.5 million tourists, who accounted for approximately 14% of the HRI businesses. Hong Kong's inbound tourism has been further spurred by the travel relaxation policy of Mainland China effective in summer 2003. Since then there has been a surge of Mainland China visitors to Hong Kong. The Hong Kong Tourism Board is expecting a total of 20.5 million tourists in 2004, which assumed a growth of 31.8% on the 2003 level. These visitors are spending lavishly on restaurant meals. With the Hong Kong government's focus on the tourist industry, and the opening of Disney Land in Hong Kong in 2005, the future looks bright.
- Exporters should note that tastes in food can often differ between Chinese and Western consumers, exporters looking to grow business with the HRI trade should focus on U.S. ingredients for Chinese dishes offerings since it is Chinese tourists that spear the growth of Hong Kong's inbound tourism.

Market Entry Approach

- Because of small individual consumption, local hotels, restaurants and most fast food operators usually cannot afford to import directly. The distribution of food and beverages to these operators is generally through import agents. U.S. exporters should contact Hong Kong importers to explore potential business opportunities.

Trends in Promotional/Marketing Strategies and Tactics

- Participation in trade shows: ATO will participate in the Restaurant and Bar Show which will be held October 5-7, 2004. The show provides a showcase for U.S. food ingredients, wine and beverages to Hong Kong's hotel and restaurant trade. In cooperation with cooperators and regional groups, the show will demonstrate the versatility and safety of U.S. food products.
- Menu promotions with major restaurant chains: Menu promotion dollars will be maximized if spent on promotion events held with the major restaurant chains. With the restaurant chains' announced intention to have an image overhaul, this provides for an opportunity to introduce new U.S. foods.
- Inviting restaurant owners/chefs to seminars and/or to the United States: ATO Hong Kong/ cooperators organize seminars and trade missions to the United States with an intention to introduce U.S. products, meet U.S. exporters, and experience U.S. store formats.
- Setting up of several fast food and takeaway websites: There are several meal delivery sites to cater to the home delivery market by fax, telephone, or internet. These sites are in cooperation with a number of restaurants which will prepare the food which clients order.
- For more information on Hong Kong's HRI sector, please refer to Gain report#4007.

Food Processing

- Based on the Chinese mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) which was concluded in June 2003, China has applied zero import tariff on 374 product codes for products made in Hong Kong. Ice cream and

other edible ice is the only food item being included in zero tariff product list covered by CEPAI. However, under stage two of the agreement, which was signed in August 2004, another 713 made-in-Hong Kong product categories are allowed entry to China tariffs free. Zero tariff will be introduced to 529 product categories on January 1, 2005, the remaining 184 on January 1, 2006. Under CEPAll, a range of food and agricultural products, if qualified to have Hong Kong origin, can be exported to China tariff free.

- The CEPAll zero tariff product list includes aqua – marine products (certain live, fresh, chilled or frozen fish, shrimps and prawns, crabs), food and beverages, (certain dairy products such as yogurt and cheese, certain prepared meats, certain sugar confectioneries and cocoa preparations; certain preserved meats and seafood, bread, biscuits and cakes; preserved vegetables and fruits, fruit juices; sauces, water, etc.) and leather and fur products. The 2005 China bound tariff rates under WTO accession of those products range from 5% to 51%.
- China's zero import tariff applications for products made in Hong Kong certainly encourage food production in Hong Kong. Hong Kong brand products have a competitive edge in the Mainland China market. The expansion of the local food processing industry will then trigger off a demand for raw materials. Such demand provides export opportunities for U.S. food ingredients suppliers.
- A full zero-tariff product list is available at <http://www.tid.gov.hk/english/cepa/cepa2.html>
- The food processing industry in Hong Kong is relatively small compared to food retail and HRI sectors. The total output of the local food processing industry was \$2.4 billion in 2001 and there were 765 food processing establishments as of 2003. Baking is the largest sector in Hong Kong's processed food and beverage industry. Major products of the industry include biscuits, pastries and cakes for both domestic consumption and export. Other significant sectors include instant noodles and other pasta production; canning, preserving and processing of seafood (such as fish, shrimp and prawns, and other crustaceans); manufacture of dairy products (fresh milk, yogurt and ice cream); seasonings; and spirits.

Market Entry Approach

Food ingredients are sourced both through direct import by food processors and through middleman traders. Hong Kong traders and end-users tend to stay with suppliers with whom they know well and have done business with for some time. While exporters would do well exploring all channels, patience and understanding are required to establish a relationship of trust before trading can commence.

Section IV. Best High-Value Product Prospects

Note :

- 1 Hong Kong food supplies largely rely on imports. Domestic production is very minimal so the market size in the following table is equal to retained imports without taking into account local production.
- 2 Import tariff rate for all products in the table is zero.

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Oranges	211,018 MT	153,721 MT	4.4%	Strong competition from Brazil and other fruits	Consumers' recognition of U.S. origin and quality
Grapes	88,575 MT	26,226 MT	-15 %	Strong competition from Chile & Australia	U.S. being the largest supplier; competitors supplying in different seasons
Apples	134,085 MT	88,155 MT	-3.7%	Apples from China are very price competitive and their quality has improved.	U.S. remaining as the largest supplier and apples being one of the most popular fruits in Hong Kong
French Fries	23,892 MT	18,642 MT	18%	HRI being hampered by economy downturn in the past few years. Business is expected to pick up in the coming years.	U.S. accounting for 93 percent of the market share; products well-received by trade

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Eggs	1,549 million	1,548 million	2.3%	Growing competition from China and Thailand.	HRI has a high demand for U.S. white eggs. China has suspended its export of eggs to China due to Avian Influenza, thus boosting demand for U.S. eggs.
Sauces	86,797 MT	65,695 MT	8.2%	China and Thailand are two major competitors. The oriental flavor of sauces from these countries is a distinct advantage.	Hong Kong people are receptive to new tastes. The availability of much international cuisine offers a demand for U.S. sauces.
Soup	16,990 MT	15,594 MT	0.6%	HRI being hampered by economy downturn in the past few years. Business is expected to pick up in the coming years.	The U.S. occupied about 73 percent of the import market share. U.S. products are highly regarded.
Fresh Vegetables	584,528 MT	577,258 MT	32%	Abundant supplies of fresh vegetables from mainland China. Prices are very competitive. U.S. products are competing with those from Australia and New Zealand.	A burgeoning tourist industry and availability of many high-end restaurants lead to a constant demand for quality U.S. fresh vegetables supplies.

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Wine	11,231,964 liter	10,199,099 liter	23%	Strong competition from French wine. Hong Kong consumers' established association of wine with France. Duty for wine is 80%.	Hong Kong's wine market is far from mature. There is plenty of room for development and education.
Beer	120,921,868 liter	116,001,880 liter	4.6%	Consumers of beer tend to have brand loyalty and Hong Kong consumers are not very familiar with U.S. brands. Duty for beer is 40%.	Hong Kong people like beer and there are many bars and restaurants in Hong Kong.
Processed Sweet Corn	18,218 MT	16,748 MT	8%	HRI being hampered by economy downturn in the past few years. Business is expected to pick up in the coming years.	U.S. accounting for 88 percent of the market share; products well-received by trade.
Ice Cream	6,305 MT	6,017 MT	-0.5%	Expensive to launch marketing programs for new brands.	Great demand for ice cream products; consumers willing to pay for premium products.

Product Category	2003 Total Imports	2003 Retained Imports	1999 – 2003 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Molluscs	56,061 MT	40,996 MT	5.6%	Competition severe from Hong Kong's neighboring countries; Molluscs including a variety of products such as scallop, oyster, abalone, etc. Japan being the largest supplier for dried scallop and Australia for abalone.	Strong demand for seafood in Hong Kong; U.S. oysters highly regarded; however, the overall U.S. market share in molluscs market being small; room for market expansion present.

Section V. Key Contacts and Further Information

Foreign Agricultural Service (FAS)
Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office
American Consulate General
18th Floor, St. John's Building
33 Garden Road, Hong Kong
Tel: (852) 2841-2350
Fax: (852) 2845-0943
E-Mail: ATOHongKong@usda.gov
Internet Homepage : <http://www.usconsulate.org.hk>
<http://www.usfoods-hongkong.net>

Department to implement food safety control policy

Food & Environmental Hygiene Department
43/F., Queensway Govt Offices
66 Queensway
Hong Kong
Tel: 852-2868-0000
Fax: 852-2834-8467
Web site: <http://www.fehd.gov.hk>
E-mail: enquiries@fehd.gov.hk

Department to control the importation of plants & live animals

Agriculture, Fisheries & Conservation Department
5-8/F., Cheung Sha Wan Govt Offices
303, Cheung Sha Wan Rd
Kowloon, Hong Kong
Tel: 852-2708-8885
Fax: 852-2311-3731
Web site: <http://www.info.gov.hk/afcd>
E-mail: mailbox@afcd.gov.hk

Department to issue licence for imported reserved commodities

Trade & Industry Department
18/F., Trade Department Tower
700 Nathan Road
Kowloon, Hong Kong
Tel: 852-2392-2922
Fax : 852-2789-2491
Web site: <http://www.info.gov.hk/tid>
Email : enquiry@tid.gov.hk

Department to register health foods containing medicine ingredients

Department of Health
Pharmaceuticals Registration
Import & Export Control Section
18th Floor, Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong
Tel : 852-2961-8754
Fax : 852-2834-5117
Web site : <http://www.info.gov.hk/dh/index.htm>

Department to issue licence for imported dutiable commodities

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6-9th floors, Harbor Building
38 Pier Road
Central
Hong Kong
Tel: 852-2815-7711
Fax: 852-2581-0218
Web site: <http://www.info.gov.hk/customs>
Email : customsenquiry@cutsoms.gov.hk

Department for Trade Mark Registration

Intellectual Property Department
Trade Marks Registry
24th and 25th Floors, Wu Chung House

213 Queen's Road East
Wan Chai
Hong Kong
Tel : 852-2803-5860
Fax : 852-2838-6082
Web site : <http://www.info.gov.hk/ipd/eng/index.htm>

Semi-government Organization Providing Travel Information

Hong Kong Tourist Association
9th - 11th floors, Citicorp Center,
18 Whitfield Road, North Point, Hong Kong
Tel: (852) 2807-6543
Fax: (852) 2806-0303
E-mail: info@hkta.org
Home Page: www.hkta.org

Semi-government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council
38th Floor, Office Tower, Convention Plaza
1 Harbor Road, Wan Chai, Hong Kong
Tel: (852) 2584-4188
Fax: (852) 2824-0249
E-mail: hktdc@tdc.org.hk
Home Page: <http://www.tdctrade.com>

Appendix I. Statistics

Table A: Key Trade & Demographic Information

Year 2003

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$7,321 million/ 18%
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$4,904 million/ 21%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$1,659 million/ 3%
Total Population (Millions) / Annual Growth Rate (%)	6.8 million /0.2%
Urban Population (Millions) / Annual Growth Rate (%)	6.8 million/0.2%
Number of Major Metropolitan Areas	One (Hong Kong as a whole)
Size of the Middle Class (Millions) ^{1/}	2 million
Annual Per Capita Gross Domestic Product (U.S. Dollars)	\$23,700
Unemployment Rate (%)	6.9% (April – June 2004)
Annual Per Capita Food Expenditures (U.S. Dollars)	\$1,765
Percent of Female Population Employed	51.3%
Exchange Rate (U.S.\$1 = HK currency)	HK\$7.75

Note : The middle class, about 30 percent of all households, is based on the expenditure pattern of households which have an average monthly expenditure of \$2,387 – 4193. The average household size is 3.3 persons.

Table B: Consumer Food & Edible Fishery Product Imports

Hong Kong Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S. Market Share		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
CONSUMER-ORIENTED AG TOTAL	5,127	5,048	4,904	1,172	1,077	1,021	23	21	21
Snack Foods (Excl. Nuts)	233	231	218	15	13	14	6	5	6
Breakfast Cereals & Pancake Mix	22	23	27	8	8	10	37	32	35
Red Meats, Fresh/Chilled/Frozen	658	634	731	108	117	151	16	18	21
Red Meats, Prepared/Preserved	181	176	194	39	35	30	22	20	15
Poultry Meat	761	647	639	410	319	264	54	49	41
Dairy Products (Excl. Cheese)	352	299	241	20	17	9	6	6	4
Cheese	33	34	32	4	3	3	12	10	10
Eggs & Products	88	83	74	20	15	12	23	18	16
Fresh Fruit	758	796	734	226	231	237	30	29	32
Fresh Vegetables	174	161	156	25	17	12	15	10	7
Processed Fruit & Vegetables	260	260	225	77	75	56	30	29	25
Fruit & Vegetable Juices	22	21	23	9	7	6	39	33	26
Tree Nuts	133	191	250	50	64	62	37	34	25
Wine & Beer	153	141	132	15	15	14	10	11	11
Nursery Products & Cut Flowers	47	56	50	1	1	1	3	2	1
Pet Foods (Dog & Cat Food)	23	24	34	9	11	13	39	45	38
Other Consumer-Oriented Products	1,228	1,268	1,146	136	128	128	11	10	11
FISH & SEAFOOD PRODUCTS	1,766	1,763	1,659	42	51	52	2	3	3
Salmon	54	51	50	1	1	1	0	0	0
Surimi	6	6	5	1	1	0	1	1	0
Crustaceans	487	443	329	7	13	8	1	3	2
Groundfish & Flatfish	116	111	122	4	3	4	3	3	3
Molluscs	416	472	474	20	20	25	5	4	5
Other Fishery Products	687	679	678	11	15	15	2	2	2
AGRICULTURAL PRODUCTS TOTAL	7,533	7,366	7,321	1,434	1,343	1,354	19	18	18
AGRICULTURAL, FISH & SEAFOOD PRODUCTS	10,503	10,252	9,953	1,581	1,521	1,534	15	15	15

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Hong Kong Imports - Top 15 Ranking

CONSUMER-ORIENTED AG TOTAL - 400

	2001 1000\$	2002 1000\$	2003 1000\$
China (Peoples Republic of)	1,344,706	1,390,025	1,363,346
United States	1,171,828	1,076,912	1,020,603
Brazil	252,332	260,782	326,744
Thailand	268,774	280,977	253,420
Australia	238,455	245,152	221,828
Netherlands	191,179	173,314	154,984
Iran	36,843	82,496	143,203
Japan	140,671	146,663	133,370
Canada	120,182	110,217	113,674
Germany	90,313	97,495	94,199
New Zealand	143,530	105,202	92,976
France	88,109	84,464	88,190
Taiwan (Estimated)	75,034	82,957	81,404
Singapore	74,966	105,359	78,560
Philippines	77,049	75,718	71,630
Other	812,993	729,988	666,282
World	5,126,959	5,047,733	4,904,424

FISH & SEAFOOD PRODUCTS - 700

	2001 1000\$	2002 1000\$	2003 1000\$
China (Peoples Republic of)	281,739	288,215	271,133
Japan	160,210	189,890	207,519
Australia	224,026	206,088	183,413
Indonesia	107,504	101,481	86,909
Thailand	106,109	85,473	78,548
Canada	60,319	74,918	71,309
United States	41,523	50,827	51,861
Taiwan (Estimated)	63,401	64,098	51,771
Vietnam	69,099	62,143	51,096
New Zealand	76,608	70,393	48,045
Norway	48,194	45,494	47,924
Spain	36,521	36,301	45,427
Philippines	39,114	38,039	40,225
South Africa	41,759	54,611	38,859
Malaysia	40,735	36,063	34,260
Other	369,126	359,376	350,629
World	1,766,013	1,763,405	1,658,921

Source: United Nations Statistics Division