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Fresh Fruit & Vegetables Market Profile

Executive Summary

Demand

In 1994 total consumption stood at 912,400 tonnes and total expenditure at retail prices is estimated to have been HK\$5.7 billion.

Between 1993 and 1994 there was a decrease of 3.5% in the consumption volume, and retail sales prices (rsp) rose by an average of 3.8%.

Approximately 90% of fresh fruit and vegetables in Hong Kong are bought directly by consumers. Fresh fruit and vegetables are numbers one and two in the average household grocery budget.

Overall sales volume is forecast to fall below 900,000 tonnes by 1997.

In 1994 non-citrus fruit and vegetables accounted for 76% of the overall market for fresh fruit and vegetables. While the market share of both citrus and non-citrus fruit has increased since 1992, that of vegetables has fallen.

Over the upcoming three years, the strongest segment in terms of sales growth is expected to be non-citrus fruit, with a 3% annual average growth rate.

Supply

Currently the majority of Hong Kong's fresh fruit is imported, however local production has been increasing strongly over the past two years.

Imports of fresh fruit increased an average of 9.9% per year in volume and 9.5% in value from 1992 to 1994.

Local farming of vegetables has decreased by an average of 3.2% in the past two years, but domestic production still accounts for around 25% of consumption.

Between 1992 and 1994, imports of fresh vegetables increased an average of 7.5% per year in volume and 9.2% in value.

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The US supplies the vast majority of Hong Kong's apples, oranges and grapes. Import records indicate significant increases in consumption over the last two years (eg. oranges up 22% since 1992).

Distribution

There are around 50 importers of fresh fruit and vegetables in Hong Kong.

Most product is distributed through independent wholesalers operating at government run wholesale markets.

Foreign suppliers of fresh produce sell either to importers or wholesalers, or directly to larger retailers.

Most domestic producers sell through wholesalers serving both modern and traditional retailers; some use marketing organisations or go directly to wet markets and supermarkets.

Some estimates claim that modern retailers now hold 25% of the market for fresh produce. In reality this is on the high side, the actual share is probably closer to 15%.

Competition

China supplied 61% of the total in 1992, increasing its share consistently through 1993 to reach 64% in 1994.

The United States is the number two vegetable supplier to Hong Kong. It also increased its share of the market in recent years, from 14% in 1992 to 17% in 1994.

Large globally known produce companies have done well in Hong Kong, particularly Sunkist, Del Monte and

Dole.

Opportunities

United States import data suggest that there is continued growth in citrus fruit. The US share of imports rose from 75% to 80% from 1992 to 1994.

The US is also the number one supplier of lemons, limes, apples, grapes, apricots, cherries, plums and

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sloes, and demand for these products continues to rise.

The reputation of US produce as high quality justifies its higher price to the Hong Kong consumer.

Hong Kong's new relationship with China in 1997 is likely to result in increased re-exports of produce into China, indirectly driving up demand for tariff-free imports to Hong Kong.

Grandmart, an American style warehouse store which has expanded into fresh fruit and vegetables, is sympathetic to US suppliers, offering cheap and easy access to the market.

1. Market Demand

1.1 Market Environment

Fresh fruit and vegetables are accepted as an integral part of a healthy diet, they are therefore regularly consumed by members of all demographic groups. Purchases of these grocery items are made by the member of the household responsible for food shopping.

Supermarket surveys in Hong Kong have shown that the majority of shoppers are women who are accompanied either by children or a spouse. We can see a general pattern: older Chinese consumers shop at wet markets for fruit and vegetables; younger Chinese and Westerners are more inclined to purchase these items from supermarkets.

Approximately 90% of fresh fruit and vegetables in Hong Kong are bought directly by consumers. Fresh fruit and vegetables are numbers one and two respectively in value in the average household grocery budget.

1.2 Total Market Demand

Consumption of fresh fruit and vegetables increased in volume by 9.5% between 1992 and 1993 with a corresponding 10% value increase. Between 1993 and 1994 there was a decrease of 3.5% in the consumption volume, and retail sales prices (rsp) rose by an average of 3.8%. In 1994 total

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consumption stood at 912,400 tonnes and total expenditure at retail prices is estimated to have been HK\$5.7 billion.

Per capita consumption in 1992 stood at 149Kg, rising to 160Kg in 1993, then falling slightly to 151Kg in 1994. Per capita spending on fruit and vegetables in 1992 was HK\$856, which had increased to HK\$938 by 1994.

Volume consumption of fresh fruit has continued to rise over the last two years; the value of fruit consumed has also increased. Conversely, the quantity of fresh vegetables consumed has fallen, with value rising slightly as prices have risen.

After taking inflation into account, the real value of vegetables sold has in fact fallen. According to importers, people are buying less fresh fruit and vegetables. This is mainly attributable to an overall decrease in spending as the economic growth rate slows.

1.1 Hong Kong: Demand for Fresh Fruit and Vegetables 1992-94

	1992	1993	1994
'000 tonnes	863.3	945.3	912.4
% change	-	9.5	-3.5
HK\$ million(rsp)	4,979	5,475	5,683
% change		10.0	3.8

Note: Calculated on the basis of apparent consumption

Source: AMI estimates from AFD, CSD and VMO

1.3 Projected Market Demand

Trade sources suggest that consumption of fresh fruit and vegetables is likely to decline over the next few years. Overall sales volume is forecast to fall below 900,000 tonnes by 1997, the corresponding value at 1994 prices will remain at roughly HK\$5.6 billion.

The main reasons for the shrinkage in the market are its maturity, continued depressed economic growth, and uncertainties about the future as the

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1997 hand-over to China approaches.

1.2 Hong Kong: Projected Demand for Fresh Fruit and Vegetables 1995-97

	1995	1996	1997
'000 tonnes	905.7	901.7	899.8

% change	-0.7	-0.4	-0.2
HK\$ million(1994 rsp)	5,615	5,591	5,579
% change	-0.7	-0.4	-0.2

Source: AMI projections

2. Market Segmentation

2.1 Market Segments

For the purpose of our analysis, the market can most clearly be divided into four major segments: Fruit falls into citrus and non-citrus varieties and vegetables are divided into potatoes and all other vegetables.

In 1994 the two largest segments, non-citrus fruit and vegetables, accounted for 76% of the overall market for fresh fruit and vegetables. While the market share of both citrus and non-citrus fruit has increased since 1992, that of vegetables has fallen from over 36% to 34% over the same period. Apparent consumption of potatoes has declined most significantly, dwindling to half of its already small market share since 1992.

2.1 Hong Kong: Demand for Fresh Fruit and Vegetables by Product Segment 1992/94

tonnes '000	1992	1994	AAG(%)
Non-citrus fruit	346.6	384.0	5.2
Vegetables	311.8	310.4	-0.2
Citrus fruit	186.8	210.0	6.0
Potatoes	18.1	8.1	-33.2
TOTAL	863.3	912.4	2.8
% analysis			
Non-citrus fruit	40.2	42.0	
Vegetables	36.1	34.0	

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Citrus fruit	21.6	23.0
Potatoes	2.1	1.0
TOTAL	100.0	100.0

Note: Calculated on the basis of apparent consumption
Source: AMI estimates from AFD, CSD and VMO

2.2 Projected Segmentation

Over the upcoming three years, the strongest segment in terms of sales growth is expected to be non-citrus fruit, with a 3% annual average growth rate. Citrus fruit has long been popular in Hong Kong, in fact per capita orange consumption is among the highest in the world, therefore we anticipate this segment will remain strong and gain market share. Consumption of vegetables is expected to see further decline as more people move away from a traditional diet and

turn to convenience foods.

2.2 Hong Kong: Projected Demand for Fresh Fruit and Vegetables by Product Segment 1995/97

tonnes '000	1995	1996	1997	AAG(%)
Non-citrus fruit	397.1	410.6	424.6	3.4
Vegetables	293.8	278.2	263.5	-5.3
Citrus fruit	209.9	210.0	210.0	0.0
Potatoes	7.3	6.5	5.9	-10.0
TOTAL	908.1	905.3	904.0	-0.2
% analysis				
Non-citrus fruit	43.7	45.4	47.0	
Vegetables	32.4	30.7	29.1	
Citrus fruit	23.1	23.2	23.2	
Potatoes	0.8	0.7	0.7	
TOTAL	100.0	100.0	100.0	

Source: AMI projections from trade interviews and industry sources.

2.3 Products in the Market

While the majority of fruit sold in Hong Kong is distributed via an extensive network of street hawkers and small stores, a portion is sold through supermarket chains. Products available in some of the larger outlets are listed below.

2.3 Hong Kong: Sample Fresh Fruit Available at

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----- Retail 1995

	Origin	Unit	Price(HK\$)
Citrus fruit			
Oranges	US	4 pack	15.90
Large oranges	US	single	3.20
Lemons	US	single	2.10
Limes	Thailand	single	2.60
Grapefruit	US	single	2.80
Stone fruit and soft fruit			
Kiwi fruit	US	single	2.20
Red grapes	n/a	per lb	17.90
Green grapes	n/a	per lb	13.50
Avocado	n/a	single	8.90
Solo papayas	n/a	single	8.50
Nectarines	n/a	per lb	18.50
Bananas	n/a	per lb	3.30
Peaches	n/a	per lb	16.90
Black plums	n/a	per lb	19.90
Red plums	n/a	per lb	15.90
Strawberries	US	250g pack	19.90
Mangoes	n/a	single	5.20
Melons			
Water melon	Australia	per lb	3.80
Honeydew melon	Australia	per lb	4.90
Cantaloupe melon	Australia	per lb	10.90

Apples, pears and pineapples

Red apples	US	single	2.30
Large pears	China	single	3.50
Granny Smith apples	Australia	single	2.80
Pineapples	n/a	single	11.90

Note: These data do not reflect wet market prices; the majority of fruit for which origin is n/a is imported from China
Source: AMI supermarket store checks

Almost all vegetables imported from the West are sold through modern retail outlets, mainly supermarkets. Wet markets are dominated by local and Chinese produce. Wet market prices are somewhat lower than those in the supermarkets, ranging anywhere from 15% to 50% of supermarket prices.

2.4 Hong Kong: Sample Fresh Vegetables Available at Retail 1995

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	Unit	Price(HK\$)
Onions and root vegetables		
White onions	per lb	16.90
Brown onions	per lb	5.50
Red onions	per lb	16.90
Russe Burbank potatoes	per lb	14.90
Swedes	per lb	11.90
Garlic	per lb	16.90
US Yams	per lb	12.90
Local carrots	per lb	4.70
Baby carrots	340g pack	14.90
Imported carrots	1kg pack	10.90
Beans and leaf vegetables		
Long green beans	1lb pack	13.80
Long white beans	1lb pack	13.80
Round cabbages	per lb	9.90
Red cabbages	per lb	12.90
Long cabbages	per lb	12.90
Runner beans	per lb	29.90
Chinese vegetables		
Choy Sum	1lb pack	18.80
Spinach	1lb pack	8.10
Other vegetables		
Baby corn	150g pack	8.90
Red chilli	150g pack	7.90
Green chilli	150g pack	7.90
Dutch eggplant	per lb	25.90
Cauliflower	per lb	15.90
Broccoli	per lb	18.90
Local eggplant	per lb	6.90
Artichoke	per lb	28.90
Button mushrooms	200g pack	18.90
Telegraph cucumber	per lb	26.90
Local cucumber	per lb	8.90
Golden mushrooms	200g pack	10.90
Salad Vegetables		
Cherry tomatoes	250g box	24.50
Tomatoes	1lb pack	11.90

Australian tomatoes	per lb	19.90
Lettuces	single	14.90
Coleslaw	227g pack	13.50
Celery	bunch	14.90
Red peppers	per lb	29.50
Green peppers	per lb	29.50
Variety peppers	per lb	35.50

Note: These data do not reflect wet market prices

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Source: AMI supermarket store checks

3. Supply Structure

3.1 Domestic Production

Agriculture in Hong Kong is a comparatively small sector of the economy, with only 4% of the total land area under cultivation. Currently the majority of Hong Kong's fresh fruit is imported, however local production has been increasing strongly over the past two years.

It is likely that land previously used to grow vegetables is now being replanted to accommodate the expanding domestic fruit crop. Local farming of vegetables has decreased by an average of 3.2% in the past two years, but domestic production still accounts for around 25% of the fresh vegetables consumed in the Territory.

3.1 Hong Kong: Production of Fruit and Vegetables 1992-94

tonnes	1992	1993	1994	AAG(%)
Vegetables	95,000	91,000	89,000	-3.2
Fruit	2,730	4,150	5,340	39.9
TOTAL	97,730	95,150	94,340	-1.7

Source: CSD statistics

3.2 Imports by Country

Between 1992 and 1994, imports of fresh vegetables increased an average of 7.5% per year in volume and 9.2% in value. The majority of fresh vegetable imports come from China, which supplied 61% of total in 1992, increasing its share consistently through 1993 to reach 64% in 1994. The United States is the number two vegetable supplier to Hong Kong. The US also increased its share of the market in recent years, from 14% in 1992 to 17% in 1994.

The level of imports from Taiwan fell considerably both in actual tonnage, which decreased by 44% over the two year period, and as a percentage of total imports, as Taiwan's share of the market dropped from 12% in 1992 to just 6%

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in 1994. Other notable suppliers are the Netherlands and New Zealand, both of which supply the Territory with a significant amount of potatoes and onions.

3.2 Hong Kong: Imports of Fresh Vegetables by Country of Origin 1992-94

	Tonnes '000			HK\$ million(cif)		
	1992	1993	1994	1992	1993	1994
China	171.3	184.4	206.3	464	494	576
United States	40.4	44.2	56.3	288	318	378
Australia	18.8	20.5	21.8	162	185	186
Taiwan	34.8	24.2	19.6	95	87	75
Others	15.3	21.4	20.0	176	188	197
TOTAL	280.6	294.8	324.0	1,185	1,272	1,412

Note: Sum may not total due to rounding
Source: CSD

Imports of fresh fruit increased an average of 9.9% per year in volume and 9.5% in value from 1992 to 1994. However, such increases are not reflected in domestic consumption levels for the same period. The reason for this disparity is re-exports, particularly to China. The Territory's role as an entry point into the Chinese market is becoming increasingly important.

3.2 Hong Kong: Imports of Fresh Fruit by Country of Origin 1992-94

	Tonnes '000			HK\$ million(cif)		
	1992	1993	1994	1992	1993	1994
United States	224.1	252.4	283.6	1,834	2,083	2,226
China	140.8	111.4	136.1	572	458	548
Philippines	53.8	64.7	62.9	229	281	272
Thailand	32.7	50.4	56.2	424	562	637
Others	136.2	192.2	170.7	1,174	1,335	1,388
TOTAL	587.5	671.1	709.6	4,233	4,719	5,071

Note: Sum may not total due to rounding
Source: CSD

3.3 United States' Competitive Position

In 1992 imports from the United States accounted for 14% of Hong Kong's total fresh vegetable

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imports, constituting 24% of the total value. This share increased to 17% of volume and 27% of value in 1994, indicating a strengthening in US competitiveness, but also a slight fall in average trading prices.

In the fresh fruit imports, the US was the leading supplier in 1992 with 38% of total volume and 43% of value. In 1994 the US remained the

number one supplier of fruits, extending its share slightly to 40% by volume and 44% by value.

The US supplies the vast majority of Hong Kong's apples, oranges and grapes. Import records of these varieties of fruit indicate significant increases in consumption over the last two years. Orange imports in particular, have increased in volume by 22% since 1992.

The strong US position has been bolstered in recent years by large amounts of fresh fruit which are smuggled over the border into China, oranges and grapes in particular. Because this trade is illegal and unregulated, it is difficult to gain an accurate idea of how much imported fruit is actually consumed in Hong Kong. Whether the trade is official or not, many importers believe that Hong Kong's future demand for fresh fruit and vegetable imports depends largely on the development of the China market.

3.4 Exports and Re-Exports

Due to Hong Kong's relatively low of fruit and vegetable production, exports of domestically grown goods are negligible and do not affect the assessment of the trade. Re-exports of fruits and vegetables however, are substantial.

Total re-exports of fresh vegetables have more than doubled in volume and have increased by 65% in value since 1992. In 1994 the largest market for fresh vegetable re-exports was Singapore, accounting for 43% of the total, followed by Japan with 19%.

3.3 Hong Kong: Re-exports of Fresh Vegetables by Destination 1992-1994

Tonnes '000			HK\$ million(fob)		
1992	1993	1994	1992	1993	1994

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Singapore	27.1	24.3	36.9	96	73	107
Japan	5.5	8.0	16.5	44	62	81
China	1.5	3.3	4.4	14	27	33
Others	10.5	9.7	28.6	61	56	133
TOTAL	44.6	45.4	86.4	215	218	354

Note: Sum may not total due to rounding
 Source: CSD

Total re-exports of fresh fruit have increased an average of 87% in volume and 22% in value in each of the last two years. This sharp increase is due mainly to very strong demand from China, which increased purchases of re-exports by as much as 280% in 1993.

In 1994 nearly 80% of fresh fruit re-exports went to four main countries: China (26%), Singapore (25%), the Philippines (14%) and Malaysia (14%).

3.4 Hong Kong: Re-exports of Fresh Fruit by Destination

1992-1994

	Tonnes '000			HK\$ million (fob)		
	1992	1993	1994	1992	1993	1994
China	8.8	20.6	30.8	93	260	288
Singapore	23.3	25.5	29.1	134	133	133
Philippines	18.2	14.9	16.6	117	83	127
Malaysia	8.5	11.2	16.1	45	53	75
Others	14.3	10.5	24.2	119	76	134
TOTAL	73.2	82.6	116.8	508	605	757

Note: Sum may not total due to rounding

Source: CSD

3.5 Competitive Situation

Large globally known produce companies have done well in the Hong Kong marketplace, particularly Sunkist, who's citrus products can be found in many types of retail and foodservice outlets. Del Monte bananas and Dole pineapples are popular and can be purchased in major supermarkets. Other brands include Mountain Duck oranges, Sunworld lemons, Sumich carrots (Australia), Bunny Love carrots, Byrd Celery (US), and River Ranch lettuce (US). The majority of produce is does not have a brand name visibly indicated. Most of the unbranded fruits and vegetables are domestically produced or from China.

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4. Product Distribution

4.1 Overview of the Trade

There are around 50 importers of fresh fruit and vegetables in Hong Kong. Some of these companies wholesale their own products, but most products are distributed through independent wholesalers operating at government run wholesale markets.

These markets fall under the jurisdiction of the Agriculture and Fisheries Department, and the Vegetable Marketing Organisation. The AFD currently operates two temporary wholesale markets and two permanent wholesale market complexes for fresh foodstuffs. It provides facilities for traders and transporters which are available on a rental basis. Rental fees are calculated on full-cost recovery. The VMO is responsible for transporting locally produced vegetables from the New Territories to its wholesale market in Kowloon. In addition the VMO provides marketing facilities and supervises sales and financial transactions in the industry. It operates as a non-profit concern; surplus profits are re-invested in the development of marketing services and the farming industry.

Foreign suppliers of fresh produce sell products either to importers or wholesalers, or directly to larger retailers. Imported vegetables are sold for distribution in wet markets and small stores through two main AFD markets: a vegetable market

is located at the Cheung Sha Wan Wholesale Food Market Phase 1; the second market is the Kennedy Town Wholesale Market. In addition to these main markets there are also hundreds of small wholesale suppliers.

Domestic producers use three different routes to market their produce, they either sell produce through marketing organisations, directly to wet markets and supermarkets, or more traditionally through wholesalers serving the two.

4.2 Sales by Outlet Type

The majority of fresh fruit and vegetables sold in Hong Kong are purchased by end users at traditional wet markets. Traditional shopping habits however, are changing and the amount of

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fresh produce sold through supermarkets is steadily increasing, as is the supermarket's share of total sales.

Over the past few years supermarkets have made efforts to expand their market share of fresh fruit and vegetables. By widening the selection available and advertising to try and entice the Chinese shopper away from the wet market, supermarkets appear to be succeeding. Some estimates claim that modern retailers now hold 25% of the market for fresh produce. In reality this is on the high side, we estimate that the actual share is probably closer to 15% of volume.

There are several factors contributing to these changing shopping patterns. Women are most often in charge of household shopping and an increasing number of women are working, this allows them less time for shopping and creates a greater demand for pre-packaged convenience foods. The supermarket shopper needs to shop only once or twice a week, whereas traditional wet market shopping must be done almost daily.

Also, there has been increasing concern among the public about hygiene conditions in the wet markets. Recent outbreaks of food poisoning from pesticide tainted vegetables arriving from China have caused consumers to turn to supermarkets, where the produce is displayed in a clean, refrigerated environment. The trend towards supermarket shopping will undoubtedly continue to grow in the future.

4.3 The Retail Trade

There are about 3,000 licensed fresh food stores in Hong Kong, and around 110 wet markets containing some 16,000 stalls. Of these, approximately 2,000 stalls are fruit and vegetable vendors (mainly vegetable). Fruit is more often sold by mobile street hawkers, of which there are currently an estimated 3,000.

4.1 Hong Kong: Fresh Fruit and Vegetable Outlets
by Type 1992-94

	1992	1993	1994	AAG(%)
Fresh food stores	2,992	3,004	2,958	-0.6

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supermarkets	455	480	515	6.4
others	2,537	2,524	2,443	-1.9
Wet market stalls	6,118	6,770	6,505	3.1
Mobile street hawkers	n/a	n/a	3,000	n/a

Note: Number of fresh food stores (1994) and
supermarkets estimatedSource: Urban Services Department; Regional
Services Department; AMI estimates

The modern grocery business in Hong Kong is dominated by two operations: Dairy Farm's Wellcome, and Hutchison Whampoa's Park'n Shop. Both chains have seen rapid growth in the early 1990s, we expect the current level of growth of 5-10% a year will begin to level off. Park'n Shop in particular is concentrating its efforts on expansion in mainland China, where it sees huge potential.

Other supermarket operators include Dah Chong Hong with 65 stores, China Resources Purchasing with 38, and KK Supermarkets with 20 outlets. In addition, most Japanese department stores have integrated supermarkets, adding 20 or so outlets to the total. Additionally, there are a number of small local players such as Lucullus and HYFCO Trading Services.

4.4 Food Service

Tourism has escalated over the last few years, with an estimated nine million tourists visiting Hong Kong in 1994, the number of first class hotels has increased accordingly. Many hotels which cater to foreigners make a point of using US produce, particularly at the higher end of the market. This is because US produce has a well established reputation for consistently high quality and reliable supply.

Western style restaurants and particularly fast food shops are becoming increasingly popular, as the eating habits of the Chinese consumer steadily become more Westernised. Hong Kong's market for fast food style restaurants has expanded to capacity.

Cafe de Coral is the largest fast food chain in Hong Kong with 109 outlets and a 25% market share. McDonald's is a close second with 74

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outlets and a 20% share. Changing local tastes will undoubtedly boost sales of Western style fast food chains. Young people increasingly prefer American style hamburgers and french fries to the mixed Western and Chinese menu typical of local chains, though the latter will no doubt remain popular.

Recently, fast food sales growth is slowing markedly, to a year-on-year level of 13% in 1993 from more than 30% in 1992 and signs indicate that the decrease in growth is set to continue. Two fast food chains, Fairwood and Tin Tin, have both been forced to make large cutbacks recently, closing several branches and laying-off hundreds of workers.

5. Marketing and Promotions

5.1 US Government Sponsored Marketing

The US government assists Sunkist Growers, a co-operative of over 6,000 California and Arizona citrus growers, through the Market Promotions Program. This program matches funds put up for marketing activities that are approved by the Foreign Agricultural Service. For every dollar that Sunkist spends on approved advertising and promotion activities in Hong Kong the US government will match one dollar.

With the assistance of MPP funds, Sunkist has been able to build a claimed market share of over 75% in the Hong Kong citrus market with nearly 100% brand awareness among consumers. Sunkist has accomplished this through extensive media advertising campaigns, targeting television and outdoor billboard advertisements.

The United States Agricultural Trade Office in Hong Kong disseminates product information to food and beverage marketers. It also provides facilities at no charge for seminars, press conferences, sampling and meetings. The ATO co-ordinates with the representative offices of co-operators and MPP participants in Hong Kong. There are also US government bodies in Hong Kong representing US potatoes, forest produce, cherries, citrus, apples, peaches, raisins, avocados and pears (see Appendix).

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5.2 Corporate Marketing and Promotions

There is some television advertising by Sunkist, promoting oranges and lemons. Television advertising is considered to be the most effective means of reaching the a large audience in Hong Kong. Sunkist also uses outdoor advertising, as well as newspaper print advertising in conjunction with major retailers such as Wellcome and Park'n Shop. These two major supermarket chains, advertise their own products mainly through the press, but also run TV

campaigns.

6. Legislation and Regulations

6.1 Import Regulations

Hong Kong is a free trade area, which means that there are no controls or duties on the importation of fresh fruit and vegetables. Phytosanitary certificates are optional but the appropriate form is as follows:

Countries exporting food products, agricultural produce or otherwise, to Hong Kong are expected to grow harvest and process food according to the Code of Hygienic Practice recommended by the Codex Alimentarius Commission of the Food and Agriculture Organisation of the United Nations, World Health Organisation, and practice other good manufacturing or agricultural of recognised standards as appropriate.

To ensure the quality and wholesomeness of food, competent authorities of each country of origin are requested to issue health certificates for products to be exported to Hong Kong. Suggested guidelines are as follows:

- The fruits/vegetables are of _____(name of the country/place of production) origin.
- The fruits/vegetables are free from insect infestation.
- The fruits/vegetables do not contain any substance or substances including pesticides, trace metals, etc. in such an amount as to be poisonous, harmful or injurious to health.

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- The fruits/vegetables are fit for human consumption and are permitted to be sold as food for human consumption in _____(name of the country of origin)

6.2 Other Regulations

As of 1995, there are no further regulations affecting distribution of fruit and vegetables. Although fresh fruit and vegetables are currently unrestricted imports into Hong Kong and do not need to be accompanied by phytosanitary certificates, this may change after 1997. The Chinese government may impose the much stricter phytosanitary requirements targeting the fruit fly which apply on the mainland.

7. Opportunities and Threats

7.1 Opportunities for US Products

The largest category of fresh fruit imports into Hong Kong is that of fresh oranges. In 1994 the

United States supplied 80% of volume of total imports of oranges and 82% of the value. These figures indicate that there is growth compared to 1992 when the US's share of orange imports was 75% of volume and 78% of value.

The high level of demand for oranges in Hong Kong is attributable to two main factors. The Chinese believe oranges to be the healthiest fruit. Also, demand for oranges is well met by a constant year-round supply. However, Sunkist is very dominant in the market and its promotional activities would be impossible for a small or medium grower to match.

The United States also dominates the market for lemons and limes, providing Hong Kong with 73% of total imports in 1994. The US was also the number one supplier of apples, grapes and the 'apricots, cherries, plums and sloes' category in the same year.

Each of these categories has increased in demand over the last two years making it apparent the reputation of US produce as high quality justifies its higher price to the Hong Kong consumer.

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Much of US produce imported into Hong Kong, particularly fruit, makes its way into China. It seems probable that future demand for US imports into Hong Kong will depend largely on the development of the Chinese market. Hong Kong's new relationship with China in 1997 is likely to result in increased re-exports of produce into China.

A significant development in the retailing of foodstuffs is the addition of Grandmart, an American style warehouse store which has successfully expanded into the fresh fruit and vegetable market. Grandmart's first store opened in January 1993 and by October 1994 it had eight stores around Hong Kong, with plans to build several more and intentions of moving into the China market.

Grandmart sources 85% of its produce from the United States and, unlike the other two major supermarket chains in Hong Kong, charges no slotting fees. This gives US suppliers an advantage by allowing them easy entry into this highly competitive market. With the success of Grandmart, other chains have set up similar operations, the warehouse store trend is opening up market entry routes for suppliers as a whole.

7.2 Threats for US Products

Australia, New Zealand and South Africa have recently been actively promoting their agricultural products in Hong Kong, Macau and southern China. A major advantage is that ships from the West coast of Australia take only

seven days to reach Hong Kong, compared with over two weeks from the west coast of the United States.

The Australian Trade Commissioner has reported that "the gap is closing" between Australia and the US as major produce importers to Hong Kong. Australia is becoming a particularly competitive supplier of grapes, and New Zealand of apples.

While US products enjoy good brand recognition in Hong Kong and are generally well received, US produce is less competitively priced. The price issue is an important factor which influences overall sales. With the economic growth rate

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declining, consumers are expected to become increasingly price sensitive.

In order to reach a large section of Hong Kong's population, it is advantageous to achieve a listing in one or more of the major supermarket chains. A new supplier may encounter some difficulty overcoming the current network of supermarkets. Park'n Shop and Wellcome control the supermarket business and they are difficult to penetrate. Furthermore, these chains charge a number of fees including slotting fees, promotional fees, and other incentives.

Another concern is that fruit and vegetables which may have sold well in North America for many years may need some instructional and/or promotional support in the Hong Kong market. Introductions of Western origin produce may be necessary, a vegetable such as an artichoke may have potential in the marketplace, however this would require promotions and tastings to explain how the vegetable is prepared, eaten, and what it tastes like.

Finally, the political situation is sure to be tense after the Chinese take control of the Territory in 1997 and uncertainty regarding the impending hand-over is already inhibiting consumer spending. In addition, it is impossible to predict just what types of tariffs and/or restrictions may be imposed after 1997.

8. Market Entry

8.1 Possible entry routes

Direct to a supermarket chain - about 10% of imports are currently imported this way. Logistically this is the easiest option, the main disadvantage is slotting fees required to place a new product on the shelves of Hong Kong supermarkets.

Through a wholesaler who imports produce then sells it to retailers and/or through AFD markets. Most fresh fruit and some fresh vegetables are

distributed this way. Through an importer who in turn sells to a wholesaler. Wholesalers in turn distribute to AFD markets and to retail buyers.

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Most fresh vegetables are distributed this way.

8.2 Potential Barriers to Market Entry

The following factors may potentially inhibit market entry by US suppliers:

- There is potential for a decline in demand, particularly for fresh vegetables for which sales have declined in recent years.
- Hong Kong consumers have become less concerned with quality and more price sensitive, due to a drop in disposable income.
- Some importers claim that the market is saturated, demand is falling and an excess of suppliers exists.
- Uncertainty concerning the Chinese take-over in 1997.
- Possible changes in legislation, tariffs, import regulations and phytosanitary requirements post 1997.

8.3 Recommended Method of Entry

A recommended method of entry is to use a distributor or an importer who also acts as a distributor. When approaching distributors it is beneficial to both parties if the product you wish to introduce complements other products offered by the distributor. If the distribution company handles other types of produce or is interested in increasing its supply of a certain fruit or vegetable it may be able to more successfully promote your product through established channels.

Distributors which are established suppliers to major grocery chains may be very helpful. Park'n Shop, Wellcome, Dah Chong Hong, 7-Eleven, and Circle-K, serve a large percentage of the consumer population. Supermarket chains also buy direct from overseas suppliers.

A recommended market entry route for small to medium size US exporters is to import produce directly to a warehouse style food store such as Grandmart, bypassing local agents. The advantage

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of this method of entry is that Grandmart charges no slotting fees. There is also the added bonus that Grandmart already has a reputation in Hong

Kong for selling high quality US origin products at competitive prices.

Approaching the food service sector is best done through a distributor. There are many foodservice outlets, and purchasing agents speak a variety of languages. Some restaurants source produce from wholesalers at AFD markets. To approach these businesses it is best for a product to be promoted by either a local distributor or by establishing a subsidiary or branch office in the area.

Fast food and chain restaurants have centralised purchasing offices which are better accessed directly.

9. Operational Directory

9.1 Official organisations

Agriculture and Fisheries Department
Tel: +852 2733 2235

Census and Statistics Department
Wan Chai Tower One
12 Harbour Road
Wan Chai
Tel: +852 2582 4736/7

Customs and Excise Department
Tel: +852 2852 3324

Department of Health
Tel: +852 2961 8807

Federation of Hong Kong Industries
4/F Hankow Centre
5-15 Hankow Road
Tsim Sha Tsui
Kowloon
Tel: +852 2732 3188
Fax: +852 2721 3494

Government Publications Centre
Queensway Government Offices
Low Block, Ground Floor

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66 Queensway
Tel: +852 2537 1910
Fax: +852 2537 1914

Health Department
Hygiene Division
Wu Chung House
Queen's Road East
Wanchai, Hong Kong
Tel: +852 2961 8807

Hong Kong Trade Development Council
38th Floor Office Tower
Convention Plaza
1 Harbour Road

Wan Chai
Tel: +852
Fax: +852

Hong Kong Vegetable Marketing Organisation
Cheung Sha Wan Wholesale Vegetable Market
Lai Chi Kok Road
Cheung Sha Wan
Kowloon
Wholesale / Retail Statistics Section of the CSD
Tel: +852 2802 1367

9.2 Semi-Official Organisations

Hong Kong and Kowloon Provision and Grocery
Commercial Chamber
3/F, Flat B, Lee Shing Building
43 Jordan Road
Kowloon
Tel: +852 2385 1685

Hong Kong Food Trades Association
Tel: (852) 2542 8600

Hong Kong Food Trades Association
Tel: +852 2520 2683 or 2542 8600

Hong Kong Foods Council
1/F CMA Building
64-66 Connaught Road
Central
Tel: +852 2542 8600
Fax: +852 2541 4541

Hong Kong General Chamber of Commerce
Tel: +852 2529 9229

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Fax: +852 2866 2035

Hong Kong Productivity Council
Tel: (852) 2788 5678

The Hong Kong Foods Council
Tel: (852) 2542 8600

9.3 Major Retailers

Asia Provisions Co Ltd (6 stores)
King Wah Road
North Point
Hong Kong
Tel: +852 2570 2321
Fax: +852 2887 8014

China Resources Purchasing Co Ltd (38 stores)
China Resources Building
Harbour Road
Hong Kong
Tel: +852 2827 8333
Fax: +852 2827 9975

Circle-K Convenience Stores (HK) Ltd (78 stores)
UG/F, Block 1, Ho Fai Commercial Centre
Sai Lau Kok Road

Tsuen Wan
New Territories
Tel: +852 2959 0863
Fax: +852 2415 5722

Dah Chong Hong Ltd (71 stores)
8/F Kai Cheung Road
Kowloon Bay
Kowloon
Tel: +852 2768 3388
Fax: +852 2796 8838

FSSTL 97
Area 4B
Sheung Shui
New Territories
Hong Kong
Tel: +852 2679 2323
Fax: +852 2670 0194

Hong Kong Convenience Stores Ltd (7-Eleven, 300
stores)
Block A, Seaview Estate
Watson Road

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North Point
Hong Kong
Tel: +852 2802 6868
Fax: +852 2806 2731

Hong Kong Daimaru Department Store Co Ltd
Peterson Street
Causeway Bay
Hong Kong
Tel: +852 2576 7321
Fax: +852 2895 5406

Hong Kong Seibu Enterprise Co Ltd (1 store)
Room 1901 Two Pacific Place
Queensway
Hong Kong
Tel: +852 2877 3627
Fax: +852 2845 6533

HYFCO Trading Services Co Ltd (17 stores)
Wing Unit A and B, 12/F Block 1
HYFCO Industrial Building
Fuk Lee Street
Tai Kok Tsui
Kowloon
Tel: +852 2394 4294
Fax: +852 2393 0273

Jusco Stores (HK) Ltd
Stanhope House
King's Road
Quarry Bay
Hong Kong
Tel: +852 2565 3600
Fax: +852 2563 8654

KK Supermarket (21 stores)
Unit B, 3/F Keep Mount Centre
11 Shing Wan Road

Tai Wai
New Territories
Tel: +852 2694 7171
Fax: +852 2691 8119

Park'n Shop Ltd (168 stores)
Box 250 Shatin Post Office
New Territories
Hong Kong
Tel: +852 2606 8833
Fax: +852 2695 3664

Seiyu (Shatin) Co. Ltd

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New Town Plaza, Phase 3
Shatin Centre Street
Shatin
New Territories
Tel: +852 2694 1111
Fax: +852 2696 3566

Uny (HK) Co Ltd (1 store)
Taikoo Shing Road
City Plaza 2
Quarry Bay
Hong Kong
Tel: +852 2885 0331
Fax: +852 2885 8081

Wellcome Company Ltd (207 stores)
ATL Centre
Berth 3, Container Terminal
Kwai Chung
New Territories
Tel: +852 2489 5888
Fax: +852 2489 9627

Yaohan Department Store (HK) Ltd (7 stores)
Ever Gain Centre
Muk Street
Shatin
New Territories
Tel: +852 2636 5338
Fax: +852 2636 5770

9.4 Foodservice

Oliver's (17 sandwich bars)
Tai Sang Commercial Building
Hennessy Road
Hong Kong
Tel: +852 2866 3628
Fax: +852 2528 9903

Fairwood Holding Ltd (103 stores)
TRP Commercial Centre
Tanner Road
North Point
Hong Kong
Tel: +852 2856 7111
Fax: +852 2856 1966

9.5 Warehouse Clubs

Grandmart Warehouse Club (8 stores)

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Unit E , 7/F, Agincourt Ind. Bldg
Cha Kwo Ling Road
Yau Tong
Kowloon
Tel: +852 2772 4499
Fax: +852 2717 1999

Value Club (3 stores)
Wal-Mart/ER Chor HK Ltd
Room 1801-6, 8 Commercial Tower
Sun Yip Street,
Chai Wan
Hong Kong
Tel: +852 2595 2188
Fax: +852 2515 2908

9.6 Major Importers

Dole Hong Kong Ltd
Room 804 Wing On Centre
Connaught Road
Hong Kong
Tel: +852 2541 6133
Fax: +852 2850 5725

Etak International Ltd
Hutchison House
Harcourt Road
Hong Kong
Tel: +852 2526 2371
Fax: +852 2868 0055

Hing Lee & Company
Room 3308 Hong Kong Plaza
Connaught Road West
Hong Kong
Tel: +852 25488333
Fax: +852 2559 0666

Scholfields Trading Ltd
Room 705 Silvercord , Tower 2
Canton Road
Tsim Sha Tsui
Kowloon
Tel: +852 2375 6255
Fax: +852 2375 2408

Universal Products HK Ltd
Room 911-3 Wing On Plaza
Mody Road
Tsim Sha Tsui East

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Kowloon
Tel: +852 2301 1772
Fax: +852 2316 7020

A. Appendix

A1. Abbreviations

AFD Agriculture & Fisheries Department
cif at cost, insurance and freight prices
CSD Hong Kong Census and Statistics Department
fob at free on board prices
MPP Market Promotions Program
rsp at retail sales prices
VMO Vegetable Marketing Organisation

END OF REPORT

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