Exporter Guide

FOOD AND BEVERAGE IN HONG KONG

Market Profile
December 2010

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1 MARKET STRUCTURE

1.1 Market size

Retail

The population of Hong Kong is seven million comprising 95 percent of Chinese descent, 4 percent 'other Asian' and 1 percent European.

Despite a highly centralised supermarket retail network, with two supermarket chains accounting for about 80 percent of the supermarket turnover, the total number of retail establishments stands at approximately 16,557. These retail establishments include:

- 57 supermarkets and convenience store establishments (the number of supermarkets and convenience stores is about 1,940 if branch outlets are included), and
- 9,010 wet market stalls and superettes.

Total retails sales for the food and beverage (F&B) sector across all retail formats is forecast to reach US$10.2 billion in 2010.[i]

A typical Hong Kong household spends around US$2,500 each month to meet its living needs, 27 percent of which is spent on food and beverage.[ii]

Hotel, Restaurant and Institutional (HRI)

As the Hong Kong economy experiences continued growth, it is expected that restaurant purchases and receipts will grow by 4.3 percent and 5.0 percent, reaching US$3.7 billion and US$10.75 billion respectively in 2010.

Hong Kong has around 760 hotels with a total of 65,386 rooms. Room occupancy stands at around 77 percent. According to Hong Kong Tourism Board statistics, tourists spent more than US$1.37 billion on food and beverages in 2009.

Institutions such as schools, hospitals and airlines are serviced by a small number of large catering groups who are generally affiliated with the restaurant sector. The annual cost of Hong Kong's school lunch programme is estimated at US$250 million. Within the 40 hospitals that operate in Hong Kong, there are approximately 27,117 beds. There are also three aircraft catering franchisees at the Hong Kong International Airport, each with a 15-year term: Cathay Pacific, Lufthansa, and Gate Gourmet.[ii]

Local / Domestic Production

Due to limited land resources, Hong Kong relies on imports for over 95 percent of its food supply. In 2009, the local agricultural industry produced US$72 million worth of products.

It is comprised of US$30 million in crop production (mainly vegetables), US$19 million in livestock production, and US$23 million in poultry production. Local production accounted for 2.4 percent of fresh vegetables, 53.7 percent of live poultry and 6.2 percent of live pigs consumed in the territory.[ii]

Due to its central location, free port status and position as a regional purchasing and distribution centre, a significant amount of Hong Kong imports are re-exported.[ii]

1.2 Growth rate

The global financial crisis did not have a significant impact on Hong Kong's F&B imports and spending on food. Datamonitor projects 6.6 percent growth within the food and grocery category in 2011, and 6.1 percent growth in 2012. Economic growth in Hong Kong is expected to reach 5 percent in 2010, benefiting from the continued economic growth in mainland China.

However, rents and wages are rising in Hong Kong and inflation may limit Hong Kong's future economic growth. Also, mainland China is expected to take austerity measures to cool its economy in late 2010 and 2011 and these measures could also impact Hong Kong's economic growth. Despite these factors, competitively priced products that provide consumers with quality and safety assurance will continue to fair well.[ii]

1.3 Drivers behind growth

Food is typically purchased in street markets or wet markets, however with longer working hours, rising incomes and more women working there has been increased demand for healthy prepared meals and frozen foods. Food safety and nutrition awareness is high because of the number of food product safety scares in recent years.

Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and "mom-and-pop" shops. While both wet market and supermarket sales are increasing, supermarkets are taking a greater share of total sales. The supermarket's share in terms of retail sales rose from 44 percent of total sales in 1995 to 53 percent in 2009. Many supermarkets in Hong Kong have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment that is very different from traditional wet markets.

Hong Kong's food culture is "fresh". Consumer preference for fresh and live products is due to tradition, as well as concerns about food safety. Overall, wet markets are strong in fresh foods, while supermarkets are strong in processed, chilled and frozen, 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.

Hong Kong consumers are price sensitive and not generally brand loyal. They also have a preference for small and convenient packaging. Premium western food products are becoming popular with the younger middle to high income groups.

Hong Kong consumers are also increasingly health conscious. Hong Kong has over 50 small to medium size health food stores. The two leading supermarket chains (Wellcome and ParknShop) and drug store chains (Manning's and Watson's) also sell natural / organic products at their outlets. Organic foods are also gaining popularity as evidenced by the growth of specialised retail outlets for organic foods.[iii]

1.4 Import trends

China, the United States and Brazil are the largest F&B exporters to Hong Kong and combined accounted for 44 percent of total exports in 2009. Nearly all of the top fifteen F&B exporters to Hong Kong experienced double-digit compound average growth rate (CAGR) figures over the past five years. Brazil and Germany in particular enjoyed strong growth. New Zealand's F&B exports totalled US$267 million in 2009, placing it as the twelfth most significant F&B supplier to Hong Kong.

The highest grossing F&B import category in 2009 was offal (US$1.46 billion), followed by poultry, molluscs, nuts and pork. Again, most top fifteen F&B items experienced double-digit CAGR growth over the 2005 – 2009 period.

Top 15 Food and Beverage Imports Hong Kong (US$ million)

		2005	2006	2007	2008	2009	CAGR
0	Total F&B imports	8,070.33	8,632.81	10,311.57	13,047.77	14,142.59	15.06%
1	Swine, bovine, sheep and goat offal	298.67	392.31	662.64	1,317.91	1,462.10	48.75%
2	Poultry meat and offal	581.13	659.69	896.10	1,140.98	1,213.83	20.22%
3	Molluscs	582.02	638.73	720.62	690.35	785.97	7.80%
4	Nuts not elsewhere specified	244.66	256.19	381.91	514.34	737.88	31.78%
5	Fresh, chilled or frozen pork	275.92	273.75	359.42	639.85	537.98	18.17%
6	Crustaceans	287.75	367.18	404.51	464.72	530.73	16.54%
7	Wine	89.08	106.95	204.45	367.54	520.40	55.47%

Top 15 Food and Beverage Imports Hong Kong (US$ million)							
		2005	2006	2007	2008	2009	CAGR
8	Prepared or preserved meat and offal	173.96	193.64	256.62	399.75	457.53	27.35%
9	Frozen beef	117.52	137.52	178.31	307.93	419.48	37.45%
10	Concentrated or sweetened milk and cream	191.56	220.53	239.75	314.37	419.47	21.65%
11	Dried, salted and smoked fish	428.00	375.40	408.19	454.75	401.32	-1.60%
15	Water	370.15	262.19	303.29	276.72	397.92	1.82%

Source: Hong Kong Census and Statistics Department, via World Trade Map

Top 15 Food & Beverage Exporters to Hong Kong (US$ million)							
		2005	2006	2007	2008	2009	CAGR
0	--The World--	8,070.33	8,632.81	10,311.57	13,047.77	14,142.59	15.06%
1	China	1,977.62	2,032.39	2,183.01	2,469.50	2,680.22	7.90%
2	United States	831.83	885.85	1,034.70	1,669.19	1,955.99	23.83%
3	Brazil	500.08	661.21	1,013.01	1,463.38	1,616.13	34.08%
4	Thailand	476.25	499.38	611.92	750.05	858.56	15.87%
5	Japan	456.12	502.51	594.80	631.67	738.32	12.80%
6	Australia	467.52	511.72	565.39	650.15	717.39	11.30%
7	France	255.83	288.09	410.67	538.27	619.61	24.75%
8	Indonesia	334.20	339.15	436.68	463.47	476.21	9.26%
9	Netherlands	157.91	166.60	216.12	310.15	324.29	19.71%
10	Canada	199.88	192.88	210.56	330.39	320.89	12.56%
11	Germany	78.85	88.64	153.10	302.08	290.98	38.60%
12	New Zealand	169.52	197.37	225.73	259.82	266.95	12.02%

Source: Hong Kong Census and Statistics Department, via World Trade Map

1.5 Key players in the market

There are two dominant supermarket chains in Hong Kong: Wellcome, with 250 outlets and ParknShop, with 260 outlets. Combined, they account for nearly 80 percent of all supermarket turnover in Hong Kong. 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: CR Vanguard Supermarket (CRC), Dah Chong Hong, Jusco and City Super.

In the past decade, a “superstore” concept has emerged in the operation of supermarkets, blending the western supermarket style with a traditional Hong Kong wet market. Superstores offer traditional Chinese fresh food like live fish, meats, ready-to-eat foods and market-style fruit and vegetables as well as the most extensive range of international products.

ParknShop opened its first superstore in 1996 with a floor area of 45,000 sq. ft. Presently, its largest supermarket in Hong Kong has a floor area of 72,000 sq. ft. giving customers a modern one-stop shopping solution. The store sells over 20,000 product categories ranging from snacks to electrical household appliances. The ParknShop supermarket chain carries two of its own-label product lines – ParknShop and Best Buy, first introduced in 1995.

ParknShop is also associated with three other supermarkets by the name of Great, Taste, and Gourmet. These three high-end supermarkets cater mostly to the expatriates and more affluent clientele. They are ideal outlets for innovative, quality and priced international food products. These stores also carry a wide selection of organic products. Great adopts a stylish international food hall concept and its flagship store offers over 46,000 gourmet items. The first 35,000 square feet Taste food galleria was opened in November 2004, and features more than 25,000 quality food items sourced from around the world. Gourmet, opened in 2005, occupied 15,000-square-foot store offering a selection of over 20,000 products carried across 30 merchandise categories of quality and premium foods.[iii]

1.6 Regulatory information

1.6.1 Duties / taxes

As Hong Kong is a free port, there are no customs tariffs on goods imported into or exported from Hong Kong. Excise duties are levied on only four types of goods, namely, liquors, tobacco, hydrocarbon oil and methyl alcohol, regardless of whether they are imported or produced locally. The Hong Kong government waived the import duty for wines in late February 2008 after a reduction of import duty to 40 percent in 2007. Hong Kong does not have VAT or GST.

1.6.2 Regulatory requirements

In Hong Kong, the legal framework of food safety control is laid down in Part V of the Public Health and Municipal Services Ordinance, Cap 132 and its subsidiary legislation. The basic requirement, as stipulated in section 54 of the Ordinance, is that no food intended for sale should be unfit for human consumption.

Food and Environmental Hygiene Department

The Food and Environmental Hygiene Department of the Government of the Hong Kong Special Administrative Region is responsible for implementing territory-wide policies of food safety control and enforcing the food legislation. To this end, part of its duties is to exercise the power provided under Section 62(1) of the Public Health and Municipal Services Ordinance to take food samples at points of entry to the territory for various kinds of tests, including bacteriological examinations and chemical analyses.

The Food and Environmental Hygiene Department will pay the market price of any food samples taken from importers. Due to difficulties in ascertaining the price at entry points, the Department will issue a sampling notice to importers when samples are collected. The notice will specify items and quantities of food samples which have been taken. Importers can then send an invoice and a copy of the notice afterwards to the Department for payment.

Importers

Food importers, through close liaison with exporting countries, are responsible for ensuring that food items they procure comply with the local legislation. To help ensure hygienic standards of food, importers are encouraged to obtain health certificates issued by health authorities of countries of origin to accompany their imports certifying that the food products concerned are fit for human consumption.

1.6.3 Licensing and registration requirements

There are specific legal requirements or administrative arrangements for the import of the following selected food items (such as import licences), due to their perishable or high-risk nature:

(a) game, meat and poultry;
(b) milk and milk beverages;
(c) frozen confections; and
(d) marine products.

A Food Safety Bill aimed at the compulsory registration of all companies engaged in food importation and distribution with the Centre for Food Safety (CFS) is currently being debated by the Hong Kong Legislative Council. The Bill provides for food safety control measures including, among others, a requirement for food traders to maintain proper transaction records to enhance food traceability. A six month grace period will be granted to food traders for registering themselves with the Food and Environmental Hygiene Department after the bill is passed.

Before enacting the new legislation, the government has launched a pre-statutory voluntary scheme to encourage registration by all importers and distributors of poultry meat and eggs, meat, game meat, dairy products, vegetables and fruit, fish and fishery products and processed food products.

For further information, please visit the CFS website: www.cfs.gov.hk.

Organic Products

The Consumer Council is pressing the Hong Kong Government to implement laws (production, certification and labelling) which would ensure the authenticity of local produce claimed to be organic. This would include a mandatory labelling scheme, which in the Council's view should draw on the experience of other countries, including New Zealand. It argues there is a temptation to misrepresent foods as organic because of the higher market prices for organic produce. The Council has criticised the Government for "lagging behind" other countries including key food exporters to Hong Kong, who have already implemented such regulations. From a consumer perspective, organic products continue to gain in popularity, particularly in stores targeting higher demographic and expatriate groups, owing to a perception that organic food is safer.[iv]

1.6.4 Labelling requirements

A mandatory nutrition labelling scheme came into force on 1 July 2010. The scheme defines the need for prepackaged food to provide nutrition labels, with standardised format and content. It requires information on energy and seven specified nutrients, or so called "1+7", to be listed on food labels. The "1+7" on the nutrition label refers to energy values and the amount of seven specified nutrients, namely: protein , carbohydrates , total fat , saturated fat , transfat , sodium and sugars.

'Labelling Guidelines On Food Allergens, Food Additives And Date Format' can be found at the following website: www.cfs.gov.hk/english/food_leg/food_leg_lgfa.html.

'Technical Guidance Notes on Nutrition Labelling and Nutrition Claims' can be found at this website: http://www.cfs.gov.hk/english/food_leg/files/nl_technical_guidance_e.pdf.

‘Method Guidance Notes on Nutrition Labelling and Nutrition Claims’ can be found at this website: http://www.cfs.gov.hk/english/food_leg/files/nl_method_guidance_e.pdf.

All imported foods making nutrition claims must be re-labelled for the Hong Kong market.

Key points of the Nutritional Labelling Law:

- The legislation aligns with current Australia and NZ nutritional labelling regulations – except the Hong Kong regulations include labelling requirements for transfat.
- There are restrictions on claims for Omega 3.
- A “small volume” exemption will be granted for products where sales are less than 30,000 pieces per year (except where claims are made. However, some "non-Codex claims" commonly used in a local context such as "low-sugar" and "transfat-free" will be allowed).

1.6.5 Preservatives

Hong Kong amended its Preservatives Regulation, which became effective July 1, 2008. A two-year transitional period for compliance ended on June 30, 2010. Compared to the original regulation, the new regulation no longer allows for the use of propyl para-hydroxybenzoate, but additionally allows the use of the following preservatives:

- Guaiac resin
- Isopropyl citrates
- Stannous chloride
- Tertiary butylhydroquinone (TBHQ)
- Thiodipropionic acid
- Dimethyl dicarbonate
- Ferrous gluconate
- Formic acid
- Hexamethylene tetramine
- Lysozyme
- Pimaricin

Another change brought about by the amendment to the regulation is the adoption of a food category system based on Codex’s General Standard for Food Additives (GSFA) and the incorporation of those preservatives and antioxidants, as well as their permitted levels of use, in GSFA.

To help companies understand the amended regulation, the Hong Kong Government has issued a “User Guideline”, which provides the definition of each food category of the newly adopted food category system. Also, the Guidelines include some questions and answers pertaining to the amended regulations. The full Guidelines are available at the following website: www.cfs.gov.hk/english/whatsnew/whatsnew_fstr/files/User_Guideline_e.pdf.

Hong Kong’s Preservatives Regulation adopts the principle of a positive list. In other words, Hong Kong does not allow any preservatives or antioxidants in foods if they are not expressly permitted by the Preservatives Regulation. The list of permitted preservatives and their maximum permitted levels may be retrieved from the following website: www.legco.gov.hk/yr07-08/english/subleg/negative/ln085-08-e.pdf.[iii]

1.6.6 Quotas

No quota regimes apply for products imported into Hong Kong.

1.6.7 Industry standards

The local food industry has not developed its own industry standards apart from organic products. While there are no regulations particularly cover organic products, importers can import organic products of any standards from any part of the world as long as the products are fit for human consumption. With funding support from the Agricultural Development Fund of Vegetable Marketing Organization, the Hong Kong Organic Resource Centre (HKORC) was established in December 2002. It is the first local certification body of organic products set up under the Agricultural Development Fund to facilitate the development of organic farming.

1.7 Sustainability

Hong Kong remains heavily dependent on imported food products, and in this context ‘local’ production is not seen as a sustainability issue. In 2009, only 3% of the vegetables Hong Kong people consumed, together with 46% of live poultry and 7% of live pigs, came from local farms. Local production is geared to complement, rather than compete with, other major market suppliers. Local production efforts are aimed mainly at high-value fresh foods and home grown pre-packaged food products, mostly serving local traditional tastes. Japanese and Korean products are increasingly popular with Asian consumers, with Japanese food perceived as more ‘premium’. Lifestyle brands tend to have a short shelf life and product selection changes every 4-6 months, which encourages consumer interest.

Hong Kong remains one of the world’s largest per capita consumers of seafood. However, there is an increasing awareness amongst consumers of sustainable fishing issues.

WWF's recent calls to halt the consumption of blue-fin tuna received some public support in Hong Kong, and increasing numbers of Hong Kong people (including local restaurants) are supporting the campaign against the consumption of shark fin soup – a traditional Chinese delicacy. WWF has also established an eco-fish farming scheme, which helps local pond-fish farmers breed species without the use of chemicals or genetic modification. It is supported by financial firm UBS and the consumer response to the first batch of eco-fish at markets was extremely positive.

Sustainable packaging is not commonplace in Hong Kong, nor marketed as such. Attractive packaging, especially for products which are sold as gifts, remains popular and is seen as a key factor for success in the Hong Kong market. There have been some recent efforts to educate the Hong Kong public on the need for sustainable packaging. Community campaigns have focused mostly on recycling expensive packaging (e.g. tin boxes for moon cakes during the Mid-Autumn Festival) instead of encouraging local people to opt for sustainable packaging.[v]

Together with the Ministry of Foreign Affairs and Trade, New Zealand Trade and Enterprise provides regular updates on sustainability issues in the Hong Kong Market. To view these updates, go to the Doing Business in Hong Kong web page: http://www.nzte.govt.nz/explore-export-markets/North-Asia/doing-business-in-hong-kong/Pages/Doing-business-in-Hong-Kong.aspx.

2 MARKET ENTRY AND DEVELOPMENT

2.1 Marketing entry strategies

Competition in the food market in Hong Kong is very fierce. New Zealand exporters should provide advertising and promotional assistance to their importers. This is standard practice for the introduction of new F&B products to the Hong Kong market. Consideration should be given to running free tastings at retail outlets as this is a very effective way to promote new products in Hong Kong.

Effective branding is vital in the Hong Kong market. The most popular grocery product brands are those for which heavy advertising and promotion investment has been made. Television, radio, magazines, newspaper and signboard are the most popular advertising media used by food companies. However, free tasting at points of sale is still a very effective way to promote food products in Hong Kong, especially for new products.

2.2 Points of differentiation

New Zealand has a “clean and green” image in the market and the country has a high reputation for supplying safe food. New Zealand food companies can leverage this advantage to position their products in high end outlets that feature life style and natural products. The use of ingredients unique to New Zealand can also differentiate New Zealand products from those of other countries.

2.3 Long term strategic issues for exporters to consider

New Zealand products are often seen as less competitive in price against major competitors like Australia and the USA while the products are of similar quality. This is usually attributed to relatively high production and shipping costs. The high exchange rate for New Zealand dollar against Hong Kong currency has also contributed.

To enhance the competitiveness of New Zealand products, exporters should focus on supplying value added and new concept products that can be differentiated from others, but this also requires strong advertising and promotion support to grab the attention of buyers.

Increasing organic products supply is another area that New Zealand food companies can work on as the global trend on organic products is growing. Hong Kong consumers are now more willing to pay a premium for organic and healthy food products.

3 MARKET RESOURCES AND CONTACTS

Government

Hong Kong Centre for Food Safety - www.cfs.gov.hk/eindex.html

Census and Statistics Department – www.censtatd.gov.hk

Industry

Wellcome - www.wellcome.com.hk/en/index.html

Park'N Shop - www.parknshop.com

Trade events

Asia Fruit Logistica

Held in Hong Kong every year in September

www.asiafruitlogistica.com

HOFEX

Held in Hong Kong every year in May

www.hofex.com

Restaurant and Bar

Held in Hong Kong every year in September

www.restaurantandbarhk.com

[i] Source: Datamonitor. Food and Drinks Specialists in Hong Kong. August 2010.

[ii] Source: USDA Foreign Agricultural Service Gain Report. Hong Kong Food Service – Hotel Restaurant Institutional HRI Food Service Sector. 9/1/2010. Gain Report Number HK0012; Datamonitor, May 2010. Food and Grocery Sales via Key Retail Formats in Hong Kong to 2013.

[iii] Source: USDA Foreign Agricultural Service Gain Report. Hong Kong Food Service – Retail. 12/11/2009. Gain Report Number HK9024.

[iv] Source: Ministry of Foreign Affairs and Trade with New Zealand Trade and Enterprise. Sustainability Market Intelligence July 2010 Quarterly Report. www.nzte.govt.nz/explore-export-markets/market-research-by-industry/Food-and-beverage/Documents/FB%20Sustainability%20report%20for%20Hong%20Kong%20July%202010.pdf.

[v] *Source: Ministry of Foreign Affairs and Trade with New Zealand Trade and Enterprise. Sustainability Market Intelligence July 2010 Quarterly Report*. www.nzte.govt.nz/explore-export-markets/market-research-by-industry/Food-and-beverage/Documents/FB%20Sustainability%20report%20for%20Hong%20Kong%20July%202010.pdf.