

Voluntary Report – Voluntary - Public Distribution

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Report Name: Hong Kong Food Consumers Feel the Pinch of Supply Chain Disruptions

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Report Highlights:

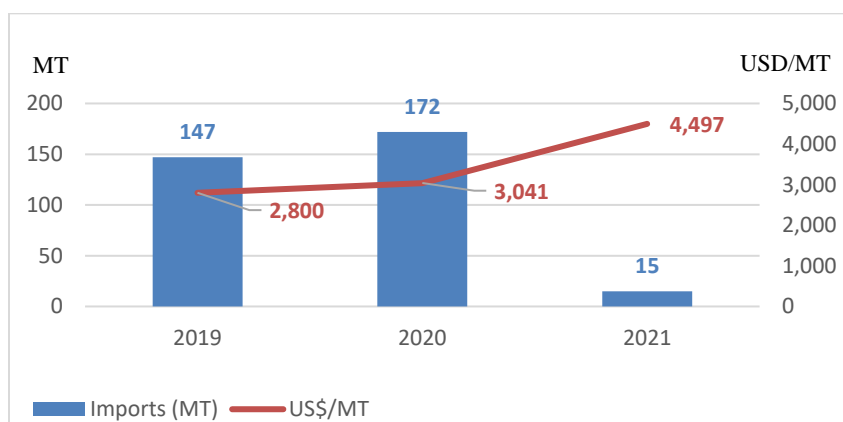
Hong Kong traders complain about ongoing issues with global shipping logistics and resulting disruptions on supply chains. Given the open nature of the Hong Kong market and reliance on food imports, traders point to these disruptions as the culprit fueling food prices in Hong Kong.

Traders are unanimously pointing to the prevailing global logistics problems (delayed shipments, port congestion, container shortage and skyrocketing transportation costs) as the source of rising food prices. The COVID-19 pandemic is regarded as the main cause of the logistics problems. For example, when certain places along the supply chain experience lockdowns due to worsening pandemic conditions, this impacts the ground transportation of shipments, availability of workers in plants and terminals, and the supply of containers. Moreover, demand for goods remains high. These combined effects in various parts of the world contribute to unreliable shipping schedules and drive logistic costs. (For more information on Hong Kong’s current port situation see GAIN reports: [Hong Kong Ports Respond to Shipping Challenges](#) and [The Hong Kong Port Braves Continuing Pressure](#))

Hong Kong relies on imports for over 95 percent of its food supplies and, therefore, is vulnerable to rising transportation costs for imports. Disruptions to the supply chain translate into rising food costs. Local media has extensively reported that prices for various imported food categories from various regions have risen significantly. Apart from pandemic and logistics reasons, there could be other factors at play, such as lower supplier production, contributing to the rise of food prices in Hong Kong.

U.S. food exports to Hong Kong have been hit hard by logistics problems. ATO Hong Kong continues to receive inquiries from local importers, and recently from media, regarding lower supplies of U.S. food products including hash browns, frozen French fries, lamb, Alaskan crab, and whole frozen turkeys. With the holiday season approaching, Hong Kong food traders are feeling the impact of ongoing disruptions in global supply chains and shipping logistics. Local traders report that this year, U.S. supplies of whole frozen turkeys are down tremendously compared to previous years. Uncertainty about the status of the Hong Kong hospitality sector following the COVID-19 pandemic exacerbated the situation as traders hesitated to place their usual orders earlier in this year. Some traders have opted to airship frozen turkeys from the United States, an expensive option, to try and satisfy the recovering holiday demand. The United States is the largest supplier of whole turkeys to Hong Kong, contributing 98 percent of supplies during the first nine months of 2020 and 80 percent during the same period in 2021. However, political protests in 2019 and the pandemic since 2020 have disturbed hospitality operations and slowed Hong Kong’s global imports of frozen turkeys, including from the United States.

Figure 1: Hong Kong Import Volume and Unit Price of U.S. Turkeys, January – September



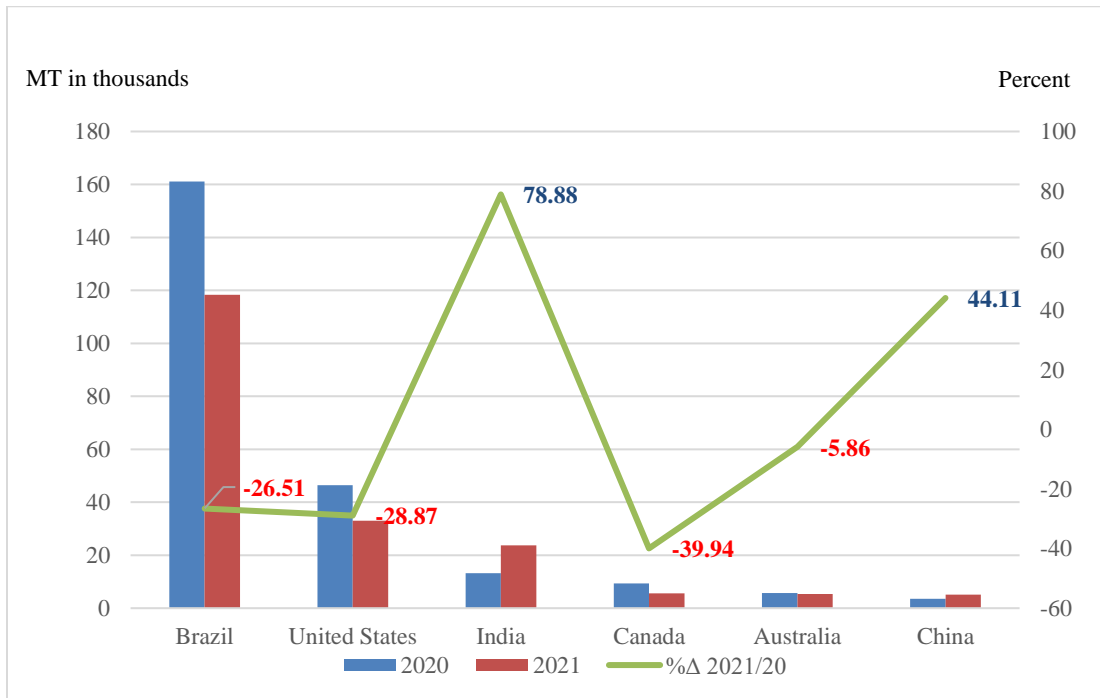
Note: Between January – September 2020 and January – September 2021, import volume decreased 92 percent while unit value rose 48 percent.

Source: Hong Kong Census & Statistics Department – Global Trade Monitor, LLC

Similarly, a local frozen meat distributor commented he fears his stocks of U.S. Angus beef will run out in the winter and prices have been soaring to high levels. U.S. beef prices have jumped between 50 to 70 percent. U.S. trade association representatives in Hong Kong said that both the strong demand in the U.S. domestic market and the high transport costs contribute to the exorbitant beef prices. Some traders are choosing to airship products in order to have better control of arrival schedules but will usually reduce the shipped quantity.

Trade statistics for the first nine months of 2021 show that Hong Kong’s beef imports from its top suppliers (namely Brazil, the United States, and Canada) registered double digit drops ranging from 27 to 40 percent compared to the same period in 2020. Conversely, Hong Kong’s imports from India increased 79 percent and China 44 percent. In 2019, Hong Kong imports of Indian beef remained low (1,549 MT) but shipments suddenly surged to 28,024 MT in 2020 and continue to grow exponentially in 2021. According to the Hong Kong Center for Food Safety, only one Indian plant is eligible to export livestock products to Hong Kong and only buffalo meat from this plant is allowed entry. Apart from the trade figures, little information is available about these Indian buffalo imports. No Indian beef boxes are seen circulated in the Hong Kong market, nor labels at retails or food service menus with India as the country-of-origin.

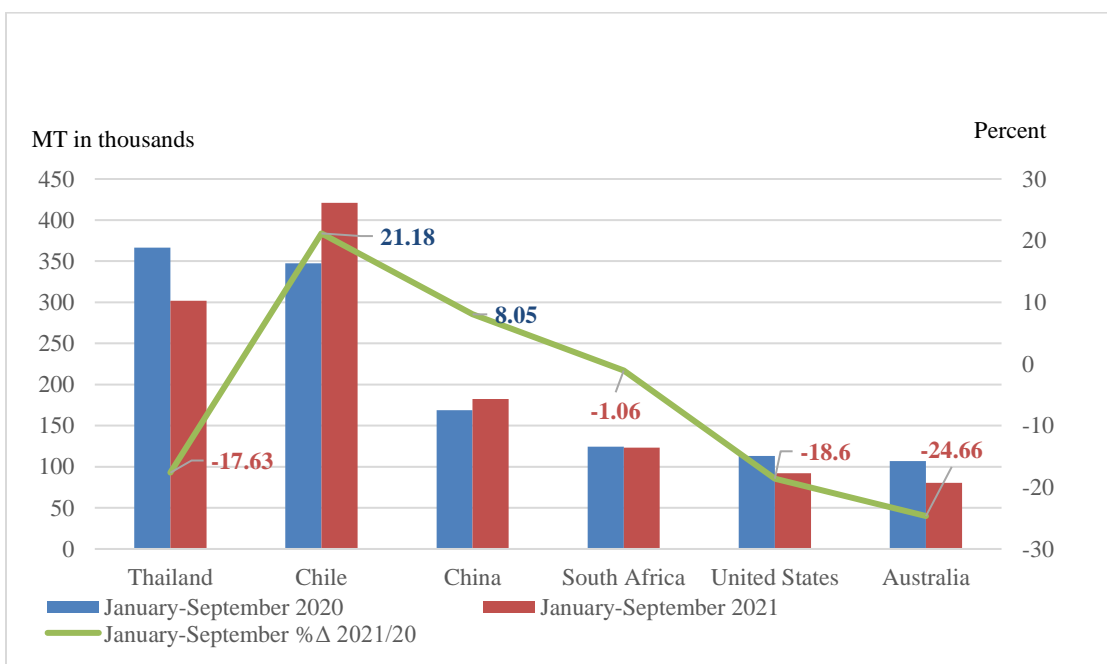
Figure 2: Hong Kong Beef Imports by Major Suppliers (Volume)



Source: Hong Kong Census & Statistics Department – Global Trade Monitor, LLC

Another example of high food prices is U.S. oranges. The import cost of a single U.S. orange recently jumped from \$0.64 to \$1.15. Fruit importers report that U.S. orange exporters used to ship to Hong Kong three times a week, but the shipment frequency has now dropped to once every two weeks, with double or triple logistics costs. Another fruit importer complained that the transport cost for U.S. grapes have soared 15 percent this year, but he has reservation of passing the entire increased cost to downstream buyers fearing the loss of potential clients. To combat the situation, Hong Kong fruit traders who used to focus on overseas fruits have diversified their sourcing to more fruits from the region, particularly from China, instead of sourcing from their traditional suppliers in other regions.

Figure 3: Hong Kong Fruit Imports by Major Suppliers (Volume)



Source: Hong Kong Census & Statistics Department – Global Trade Monitor, LLC

Trade statistics support traders’ comments. Between January – September 2020 and January – September 2021, Hong Kong’s fruit imports from China increased (8 percent) in contrast to the decrease from other suppliers such as the Thailand (-18 percent), United States (-19 percent) and Australia (-25 percent). Chile’s exceptionally strong performance to Hong Kong (21 percent) was due to the huge re-exports demand for cherries to China.

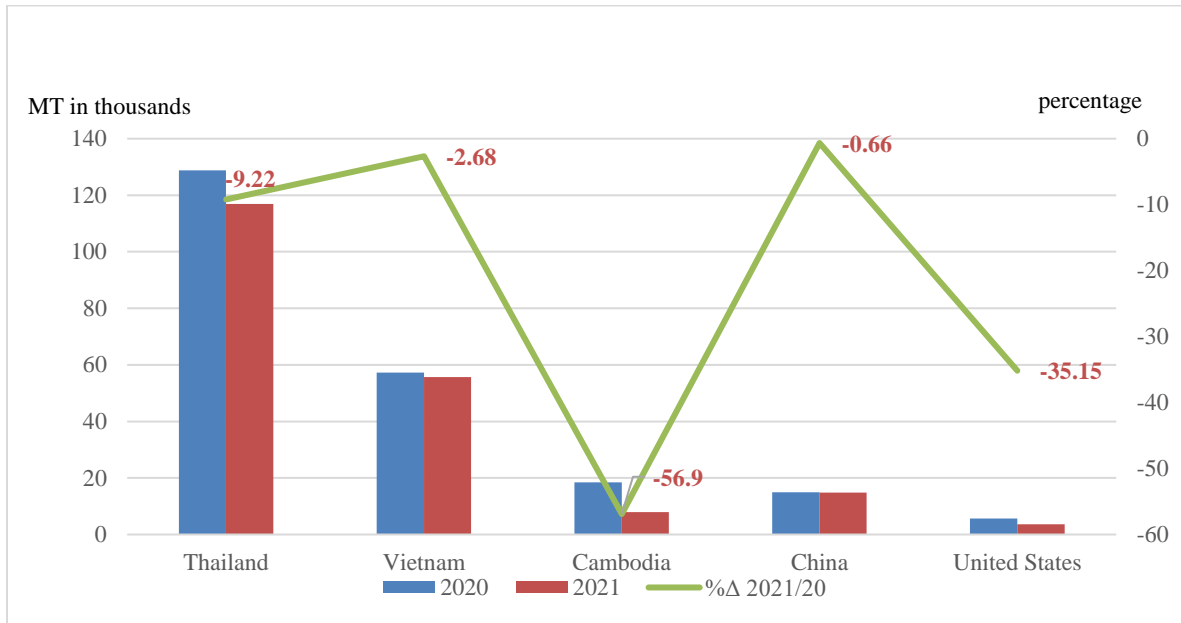
However, sourcing from China does not offer an easy way out because domestic demand in China is strong and prices are high. China has occasional lockdowns in certain regions/cities in response to COVID-19 outbreak cases which inevitably affect production. Moreover, the recent appreciation of Renminbi has augmented the price increase of supplies from China and some importers commented that the currency fluctuation is equally if not more formidable as soaring transportation costs. Finally, the electricity restrictions in certain areas in China has reduced production as well as raised local production costs of food supplies. Although state-owned corporations are not or less affected by restriction measures, small and medium sized companies are mostly affected. To reduce energy consumption, plants have to cut production days or replace some machine operation with labor.

All these factors have a combined effect of triggering the price increase of a wide spectrum of China's food supplies to Hong Kong such as live cattle, canned food and produce. Hong Kong's live cattle supply from China is handled by a sole agent who raised the supplying price in mid - October 2021. The wholesale price per 100 catties (60 kg) of regular beef rose 3 percent from \$618 to \$637 and that for premium beef containing more fat which is a popular ingredient for hotpot dishes in winter by 8 percent to \$732 from \$677. The agent explained that strong demand in China and higher farming cost were the reasons for the price increase. With a sole agent handling live cattle supply to Hong Kong, consumers do not have alternative sources for freshly slaughtered meats. The remaining likely options are substituting with chilled and frozen meats or other meat types. However, while beef traders expect higher costs will continue to be passed on to consumers, they are less concerned about losing consumers to higher prices, a different scenario compared to other products like grapes.

Freshly slaughtered pork is an exception amid the wave of higher prices across almost all food supplies. The average live pig auction price per 100 catties (60 kg) in October 2021, dropped 54 percent to \$169 from \$368 compared to the same month in 2020. China's pig supply to Hong Kong has rebounded following China's recovery from the impact of African Swine Fever. A trade representative anticipates that pork prices will remain the same or rise slightly by the end of the year.

Rice is a staple food in Hong Kong. Thailand is the major rice supplier by volume accounting for 54 percent of Hong Kong's market, followed by Vietnam at 26 percent. A rice dealer reports that this year, import prices of Thai rice have risen 70 percent. Nearly a month of flooding caused by several storms and heavy rain in Thailand during the summer severely damaged rice fields. Supply is further limited by the fact that each cargo vessel has a quota for rice. When the quota is filled, an exporter must wait for the next vessel even though a buyer in Hong Kong has placed an order. Wholesale prices for rice in Hong Kong already rose around 20 to 30 percent this year. As a result, Hong Kong traders have turned to buy more Vietnam rice. Hong Kong trade statistics show that during the first nine months of 2021, imports of Thai rice decreased 9 percent and imports from Vietnam lowered 3 percent. However, Hong Kong has enough rice supplies, according to traders, as the government requires rice stockholders to store three months' supply.

Figure 4: Hong Kong Rice Imports by Major Suppliers (Volume), January - September



Source: Hong Kong Census & Statistics Department – Global Trade Monitor, LLC

Hong Kong’s economy is reportedly on the track of recovery growing 5.4 percent in the third quarter of 2021 over the same period last year. Hong Kong’s financial secretary is projecting a 6.5 percent GDP growth for the whole year. Meanwhile, the government warns that Hong Kong is under the pressure of inflation as a result of high overseas energy and commodity prices and shipping costs.

The pandemic has disrupted the global supply chain and pushed prices upward. Despite all these challenges, Hong Kong maintains an efficient air and sea cargo services enabling Hong Kong to source sufficient food supplies from all over the world. Traders have mapped out ways to cope with evolving challenges. For example, experienced traders have modified their procurement schedule to cope with unreliable shipping dates by buying more in advance than what they did in the past. When stock of certain product types might not be replenished in a timely manner, they will seek assistance from other suppliers in Hong Kong who are selling the same products. Such cooperation happens more frequently than in the past. For certain products, traders might choose to import the products into Hong Kong at a reduced volume by air in order to meet immediate demand, such as special holidays.

According to the latest government statistics, year-on-year increase in prices were recorded in September 2021 for meals out and takeaway food (2.8 percent), and basic food (1.3 percent). Alcoholic drinks and tobacco had a September year-on-year decrease of 0.6 percent.

Attachments:

No Attachments.