

# **LegCo Panel on Commerce and Industry**

## **Rice Control Scheme**

### **Introduction**

At the Panel Meeting held on 6 March 2000, we briefed Members on the operation of the Rice Control Scheme and the liberalisation plan of the rice trade. This paper updates Members on the progress and the liberalisation measures taken since then.

### **Background**

2. The Rice Control Scheme (the Scheme) was introduced in 1955 when rice supply was a major concern of the community. The objective of the Scheme is to ensure a regular and steady supply of rice for the consumption of the community, and to provide a reserve stock to cater for emergency situations or any short term shortage of supplies.

3. Under the Reserved Commodities Ordinance (Cap 296), rice is classified as a reserved commodity and its import and export are subject to licensing control. All stockholders (importers) importing rice for local consumption are required to be registered with the Director-General of Trade and Industry, and fulfill certain registration requirements. Stockholders are allocated import quota but they have flexibility to determine their level of import within a certain range under the Optional Quota System which has been implemented since October 1997. Stockholders are also required to maintain a reserve stock, the aggregate of which is currently fixed at 19,000 tonnes, sufficient for consumption by the local population for 21 days.

4. In the light of our commitment to maintaining steady rice supply on the one hand and enhancing competition within the rice trade on the other, the Rice Advisory Committee (RAC) reviews the Scheme periodically with a view to liberalising the rice trade. Through our meetings with this Panel in 1996, 1998 and March 2000, we have kept

Members informed of our deliberations and plans on the various stages of liberalisation.

### Liberalisation measures in 2000

5. Since the Panel Meeting of 6 March 2000, the following measures have been implemented to pave the way for full liberalization of the rice trade :

- (i) We have relaxed the registration criteria of rice stockholders in July 2000. Capital and financial requirements have been relaxed, the requirements of local residency and annual turnover have been removed, and the restriction on cross-ownership of registered stockholders and wholesalers that they cannot operate the others' business at the same time has been lifted. <sup>Note 1</sup>
- (ii) We have conducted a registration exercise of stockholders under the relaxed registration criteria in August/ September 2000. The registration was opened to all registered rice wholesalers.
- (iii) We have introduced progressive flexibility in the operation of the Optional Quota System. The fixed (minimum) quota to be imported by a rice importer has been reduced from 60% of the overall import quota in the second half of 2000 to 50% in 2001.

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Note 1 Details of relaxation of the registration criteria of rice stockholders are namely :

- a) capital requirement has been reduced from HK\$4 million to HK\$1.5 million;
- b) financial requirement (in terms of bank credit for rice trade) has been reduced from HK\$6 million to HK\$1.5 million;
- c) requirements of local residency (the applicant, majority of partners or directors or 51% of capital is in the beneficial ownership of persons/entities ordinarily resident in Hong Kong) has been lifted;
- d) three years of annual turnover of HK\$15 million and documentary evidence of an agreement with overseas supplier to supply rice have been lifted; and
- e) restriction on cross-ownership of stockholders and wholesalers has been lifted, that is, stockholders and wholesalers are no longer restricted from engaging in the others' business at the same time.

- (iv) We have reduced the reserve stock level from 40,000 tonnes (45 days' consumption) to 27,000 tonnes (30 days' consumption) in the second half of 2000, and have further reduced the level to 19,000 tonnes (21 days' consumption) in January 2001.
- (v) We have lifted the restriction whereby rice importers can only sell rice by wholesale to registered wholesalers as from 1 January 2001.

### Impact of the new measures on the trade and rice supply

6. The relaxation of registration criteria of rice stockholders has in effect lowered the entry barrier to the trade and enhanced competition among operators in the rice trade. In the registration exercise in 2000, 17 out of the 27 registered wholesalers applied for registration as stockholders and the number of registered stockholders increased from 40 in 2000 to 55 as from January 2001<sup>Note 2</sup>. Starting from 1 January 2001, importers can sell rice directly to any buyers, without going through the wholesalers. Moreover, with the progressive flexibility of the Optional Quota System, importers have greater flexibility in determining their own import level (between the minimum level of 50% of the import quota to a ceiling of 110% of the import quota). Finally, the reduction in reserve stock requirement has lowered the operating cost of the business. All in all, these measures have enhanced market efficiency and introduced a greater element of competition into the rice trade.

7. The new measures have not caused any significant fluctuations in the supply and price of rice. In spite of seasonal fluctuations, the average monthly import level of rice in the past 6 months (Oct 2000 – Mar 2001) remains steady at the level of 26,451 tonnes, which is well sufficient to meet with the estimated monthly consumption of 25,879 tonnes in the same period. The price of rice also remains stable. Take Thai Fragrant rice (which accounts for 66% of total import) as an example, the average import price of January to March 2001, is 8% lower than that in the same period in 2000 and the average importer's selling price is 10% lower than a year ago. Looking back, since the various measures of liberalisation were

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<sup>Note 2</sup> 17 wholesalers registered as stockholders but 2 serving stockholders withdrew from the trade resulting a net gain of 15 new stockholders.

introduced in late 1997, the average retail prices of rice in the past 3 years remain steady with a slight declining trend. Again, if we take Thai Fragrant rice as an example, the average monthly retail price of January to March 2001 is 14%, 6% and 2% lower than that of 1998, 1999 and 2000 respectively.

### Way forward

8. Our objective is to ensure that upon full liberalisation in 2003, the rice trade will operate as far as possible in a full market environment. Government only needs to exercise the minimum control necessary if there is a proven need to ensure a stable and steady supply of rice. We are mindful that in the process towards full liberalisation, we would need to proceed in a measured manner to prepare the trade for the changes in the trading environment. In this regard, the RAC has agreed to the timeframe for the liberation of the rice trade. In 2002, we will invite all interested parties to register as importers to further enhance competition. By 2003, we shall remove the import quota. The decision on the level of rice to be imported will be made by individual registered importers in accordance with their assessment of the market demand.

9. We will continue to review if it is still necessary to retain a reserve stock of rice. There has been an ongoing debate on the need for a reserve stock and so far there is no clear consensus on such a requirement. The view in support of a reserve stock is that the population may still have a psychological attachment to rice as a staple diet. In case of unexpected shortage and uncertainties, there may be a tendency to hoard and the absence of a reserve might arouse public concern. On the other hand, there seem to be equally good reasons to remove the reserve when the trade fully liberalises. For instance,

- i) the reliance of our population on rice as a staple diet continues to decline sharply, as evidenced by the trend of decreasing per capita consumption over the past decades (average annual per capita consumption has lowered from 78 kg in 1975 down to 48 kg in 2000);

- ii) stable society and abundant supply of a variety of foodstuff have reduced the reliance on and the psychological attachment to rice as major supply of food. In addition, improvement in transportation has also made replenishment of supply much faster, widely accessible and more reliable. These in effect greatly reduce the level of reserve required; and
- iii) doing away with the reserve stock should lower traders' operating cost and eventually benefit consumers. It will also remove the control requirements for registering and regulating stockholders, hence relieving Government resources in administering the control scheme. In other words, rice will become just an ordinary commodity that can be traded freely in the market.

10. We shall continue to consult the trade and formulate our policy in full deliberation with the Rice Advisory Committee. We shall also keep Members informed of development in due course.

Trade and Industry Department  
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