

LegCo Panel on Commerce and Industry

Liberalisation of the Rice Trade

Introduction

At the Panel Meeting held on 14 May 2001, we briefed Members on the progress of the liberalisation of the rice trade. This paper updates Members on the further liberalisation measures taken since then, and the arrangements upon full liberalisation by January 2003.

Background

2. The Rice Control 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 supply.

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 importing rice for local consumption are required to be registered with the Director-General of Trade and Industry (the Director). They are allocated import quota, but they have some flexibility to determine their level of import under the Optional Quota System ^{Note 1}. They are also required to maintain a reserve stock.

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) has reviewed the scheme with a view to liberalising the rice trade in 2003. At our meetings

^{Note 1} The Optional Quota System has been implemented since October 1997. It enables stockholders to adjust their import level within the quota limits, in accordance with their assessment of the market demand. The stockholders are required to import a minimum fixed quota and they can determine for themselves the optional quota to import. The system provides flexibility for stockholders to compete for a larger market share, but the total import quota is still subject to an import quantity set by the Government.

with this Panel in 1996, 1998, 2000 and 2001, we have kept Members informed of our plans on the various stages of liberalisation.

Liberalisation measures in 2002

5. Since the Panel Meeting of 14 May 2001, we have implemented the following measures to pave the way for full liberalisation of the rice trade:

- (i) We have further enhanced the flexibility under the Optional Quota System for stockholders to determine for themselves the quantity of rice to import. The fixed (minimum) quota to be imported by a rice importer has been reduced from 50% of the overall import quota in 2001 to 40% in the first half of 2002. It will be further brought down to 30% in the second half of 2002.
- (ii) We have further reduced the level of rice reserve from 21 days' consumption (19,000 tonnes) in 2001 to 15 days' consumption (13,500 tonnes) as from 1 January 2002. This helps to further bring down the operating cost of rice importers.

Arrangements for 2003

6. Upon full liberalisation in 2003, the rice trade will generally operate in a free market environment. There will not be any restriction on import quantity. Anyone who intends to import rice into Hong Kong may apply to be registered as importers any time. The entry requirements will be removed. The number of operators and their share of the market will be determined by market forces and traders' business decisions. The liberalisation of the rice trade will encourage competition and increase market efficiency. The trade will have more flexibility in operation.

7. The Government will only maintain the minimum control necessary to ensure a stable supply, and to keep a reserve stock to cater for emergencies or any short term shortage of supply. In consultation with the RAC, we have drawn up the arrangements of rice trade as from 1 January 2003. These are set out in paragraphs 8 - 12 below. A table comparing the current rice control system and the new system in 2003 is at Annex.

(i) Registration of importers and the licensing requirements

8. The registration criteria for rice importers will be relaxed. The current capital and financial requirement^{Note 2} will be lifted. To enable the Government to monitor the supply and stock of rice, import and export of rice will continue to be subject to licensing requirements.

(ii) Removal of import quota for rice

9. The Government will not impose any import quota for rice. The level of rice to be imported will be decided by individual importers in accordance with their assessment of market demand and their own marketing capability. Each registered importer will undertake to import a quantity before the commencement of a three-month import period, and will be required to import that quantity within the import period. Each import period is three months to allow importers flexibility to adjust their import level.

(iii) Maintaining a reserve stock of rice

10. In preparing for the full liberalisation of the rice trade, one major issue for consideration is whether a reserve stock should be maintained to cater for emergency situations or any short term shortage of supply. There are arguments for and against it. Having regard to the views of Panel Members in previous meetings and views of the RAC, we have decided that on balance it would be desirable to keep a minimal reserve stock, and that the Government will play a regulatory role to ensure that the requirement is complied with. In arriving at this conclusion, we have taken account of the following considerations :

- (i) the local population 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 stock might arouse public concern;

^{Note 2} Registration as a stockholder is subject to a capital requirement of HK\$1.5 million and a financial requirement of HK\$1.5 million in terms of bank credits for rice trade.

- (ii) maintaining a reserve stock locally through rice importers has operated well for many years. The Administration can conveniently authorise importers to sell part of the reserve stock at any point in time to meet short term shortage in supply; and
- (iii) The Government has gradually reduced the level of reserve stock from 45,000 tonnes (50 days' consumption) before 1998 to 13,500 tonnes (15 days' consumption) in 2002. According to the trade, the cost of maintaining a reserve stock for 15 days' consumption is about HK\$24 million per year, or about \$3.5 per person of the population. Shared among the rice importers, this should no longer be a barrier of entry to the rice trade.

11. The reserve stock will be maintained at a level sufficient for consumption by the local population for 15 days, that is, at about 13,500 tonnes. It will be shared among all registered importers. The level of reserve stock an individual importer is required to maintain will be commensurate with his import level in relation to the aggregate import quantity of all importers. At times of emergency, the Director may direct registered importers to dispose of the reserve stock to maintain sufficient supply of rice in the market.

(iv) Monitoring of the market situation

12. In order to monitor the supply of rice, the Government will continue to collect statistics on rice import and stock through the licensing system and from registered importers. In return, the statistics on actual imports and stock will be regularly disseminated to all importers to facilitate understanding of the market situation, and enable prospective rice importers to make informed decisions.

Consultation with the trade

13. The liberalisation measures for 2002 and arrangements for 2003 are worked out in close consultation with the Rice Advisory Committee. We have also kept the rice trade informed of the deliberation, and have taken into account their feedback in devising the implementation

details. They are generally satisfied with the proposed arrangements.

Way forward

14. The Trade and Industry Department will shortly announce the details of the arrangements for 2003. Registration of importers for 2003 will be invited in the second half of 2002.

Trade and Industry Department
July 2002

**Comparison between
the Current Rice Control System and the New System in 2003**

<u>Arrangements</u>	<u>Current System</u>	<u>2003 System</u>
Registration of Importers	<p>Registration of rice importers is conducted on a need basis, say, when there is a surplus of quota units. The last registration exercise was conducted in 2000.</p> <p>Registration as an importer is subject to capital and financial requirements.</p>	<p>Any interested parties may apply to be registered as rice importers any time.</p> <p>The registration criteria will be relaxed to remove the capital and financial requirements.</p>
Import Quantity	<p>The quantity of rice imports for local consumption is subject to an import quota allocated to individual registered importers. An importer is required to import the minimum fixed quota and can determine within limits the optional quota to import. The importer is obliged to import in full the quantity of rice so determined.</p>	<p>No import quota will be imposed. The level of rice to be imported will be determined by individual importers in accordance with their assessment of the market demand and their own sales capability. Before the commencement of an import period, each registered importer will be invited to undertake to import a quantity, which they will import in full within the import period. If the registered importer has</p>

<u>Arrangements</u>	<u>Current System</u>	<u>2003 System</u>
		not imported in full the undertaken quantity, his registration may be cancelled.
Reserve Stock of Rice	<p>The total reserve stock is 13,500 tonnes, sufficient for 15 days' consumption by the entire population.</p> <p>It is shared among all registered importers on a pro-rata basis, i.e. an importer will maintain a reserve stock proportionate to his import quota in relation to the aggregate import quota of all importers.</p>	<p>The reserve stock will be maintained at a level sufficient for the consumption by the local population for 15 days, that is, about 13,500 tonnes.</p> <p>It will be shared among all registered importers on a percentage basis, i.e. each importer will maintain one-sixth (or 17%) of his import quantity or sales volume as reserve stock in an import period of three months (15 days/ 90 days).</p>
Market Information	There is no regular release of statistics on imports and stock to importers.	The statistics on actual imports and stock will be disseminated monthly to all importers to facilitate their better understanding of the market situation. The statistics will also be made available to all interested parties.

