
INFORMATION NOTE

Pork Supply to Hong Kong

1. Pork Supply to Hong Kong

1.1 There are three sources of pork supply to Hong Kong: the Mainland and local pig farms are the first two sources of fresh pork supply to Hong Kong whereas imported chilled/frozen pork is the third source of pork supply. For an overview of the flow of pork supply to Hong Kong, please refer to Appendix I.

1.2 Regarding the supply of live pigs from the Mainland, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) determines the annual quota for pig export to Hong Kong each year and Ng Fung Hong is the only agent appointed by MOFTEC to import live pigs to Hong Kong. In 2000, there were 1 858 862 pigs imported to Hong Kong and 445 900 pigs supplied by local pig farmers. The ratio between imported pig and local pig supply was therefore 81:19. For details of local and Mainland pork supply, please refer to Appendices II and III.

1.3 At present, there are 659 meat importers importing chilled or frozen pork to Hong Kong from the Mainland and other countries. Details of importation is illustrated in Appendix IV. According to the "Notice on Handing Down the Export Quota for Some Agricultural Products of Year 2002" promulgated by MOFTEC in mid December 2001, the export quota and the appointed agent system for chilled and frozen pork was abolished on 1 January 2002.

2. Licensing of Slaughterhouses

2.1 Section 5 of Slaughterhouses Regulation (Cap. 132 sub. leg. BU) stipulates that slaughtering of food animals for human consumption should be in a licensed slaughterhouse. According to the Slaughterhouses Regulation, any person who intends to operate a slaughterhouse must obtain a slaughterhouse licence issued by the Food and Environmental Hygiene Department (FEHD). To apply for a slaughterhouse licence, a person shall write and enclose three sets of detailed plans of the relating premises to the Director of FEHD seeking his/her approval. Once a licence is issued, it shall be valid for a period of 12 months from the date of issue and may be renewed upon payment of the prescribed fee according to the maximum number of animals permitted to be slaughtered in the premises.

2.2 The Slaughterhouses Regulation further stipulates that any person who requires slaughterhouse services or desires to use the facilities of a licensed slaughterhouse for the purpose of slaughtering shall write to the licensee. Except there is insufficient accommodation available for food animals in the licensed slaughterhouse, the licensee is not allowed to refuse to provide slaughterhouse services or the use of facilities for slaughtering food animals. The licensee is also not allowed to refuse admission of a food animal solely on account of its place of origin.

2.3 At present, there are three licensed slaughterhouses located in Sheung Shui, Tsuen Wan and Cheung Chau, with a total daily throughput of about 6 311 pigs, 140 cattle and a few goats. The slaughterhouse in Sheung Shui is publicly-owned and operated by Ng Fung Hong while the slaughterhouse in Tsuen Wan is privately-owned and operated by a company with investment also from Ng Fung Hong. The third slaughterhouse, which is in Cheung Chau, is publicly-owned and operated by Cheung Chau Meat Merchant Association. FEHD is responsible for ensuring that operations in slaughterhouses achieve the required environmental hygiene standards. Qualified health inspectors are stationed at slaughterhouses to inspect food animals before and after slaughtering.

3. Predatory Pricing - A Strategy for Monopolizing a Market

3.1 Monopoly is an economic situation in which only a single seller or producer supplies a commodity or a service. For a monopoly to be effective, there must be no practical substitutes for the product or service sold, and no serious threat of the entry of a competitor into the market so that the seller or the producer is able to control the price.

3.2 Among the means by which a firm may become and remain a monopolist, one or more of the following elements are of great importance:

- (a) the control of a major resource necessary to produce a product;
- (b) the possession of technological capabilities which allows a single firm to produce at a lower cost than other firms;
- (c) the exclusive control over a patent on a product or on the processes used to produce the product;
- (d) the award of the sole right to produce a commodity or service in a given area; and
- (e) through a variety of strategic decisions, such as controlling essential inputs or adopting predatory pricing (which is explained below).

3.3 The theory of predatory pricing can only be practised by large businesses. The predator, which is a dominant firm, offers its customers a massive discount on a product. The firm may lower its price at a level, which is below the average cost of its competitors for a sufficiently long period of time. Under the above circumstances, competitors do not have any choice but to bring their prices down so as to attract more customers, or else they will lose all of their market share. However, lowering their prices to a level below average cost will eventually lead them to bankruptcy due to losses are incurred on each unit sold. In the end, competitors are forced out of the market. After all of the competitors have left the market, the predatory firm will raise its price, compensating itself for the losses involved while engaging in predatory pricing, and earns monopoly profits thereafter.

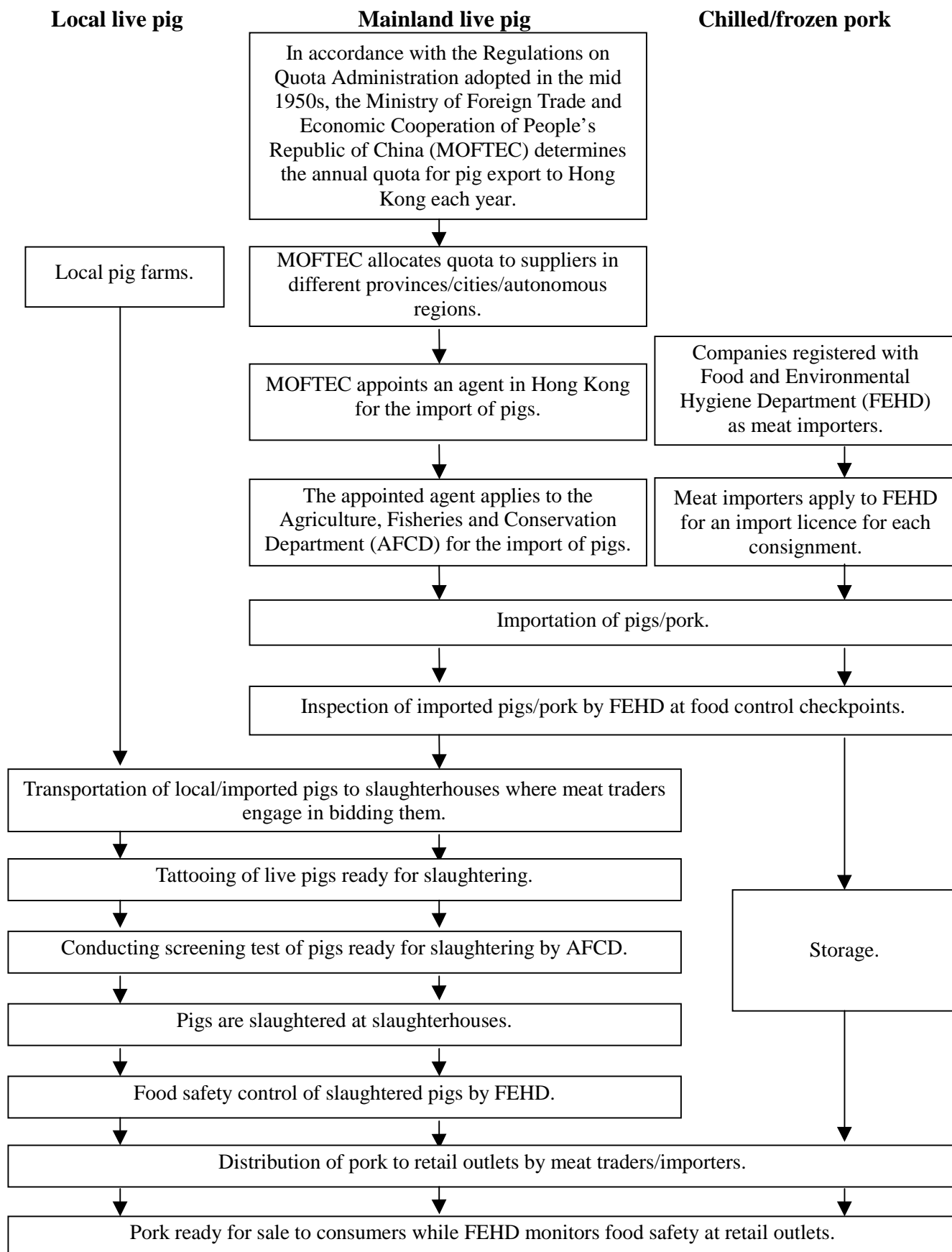
3.4 One incentive for a firm to adopt predatory pricing is that there is an expectation of making up for present losses (or foregone profits) by future gains. Only large businesses are able to outlast their competitors because they may have greater cash reserves, better financing or cross-subsidization from other markets or other products.

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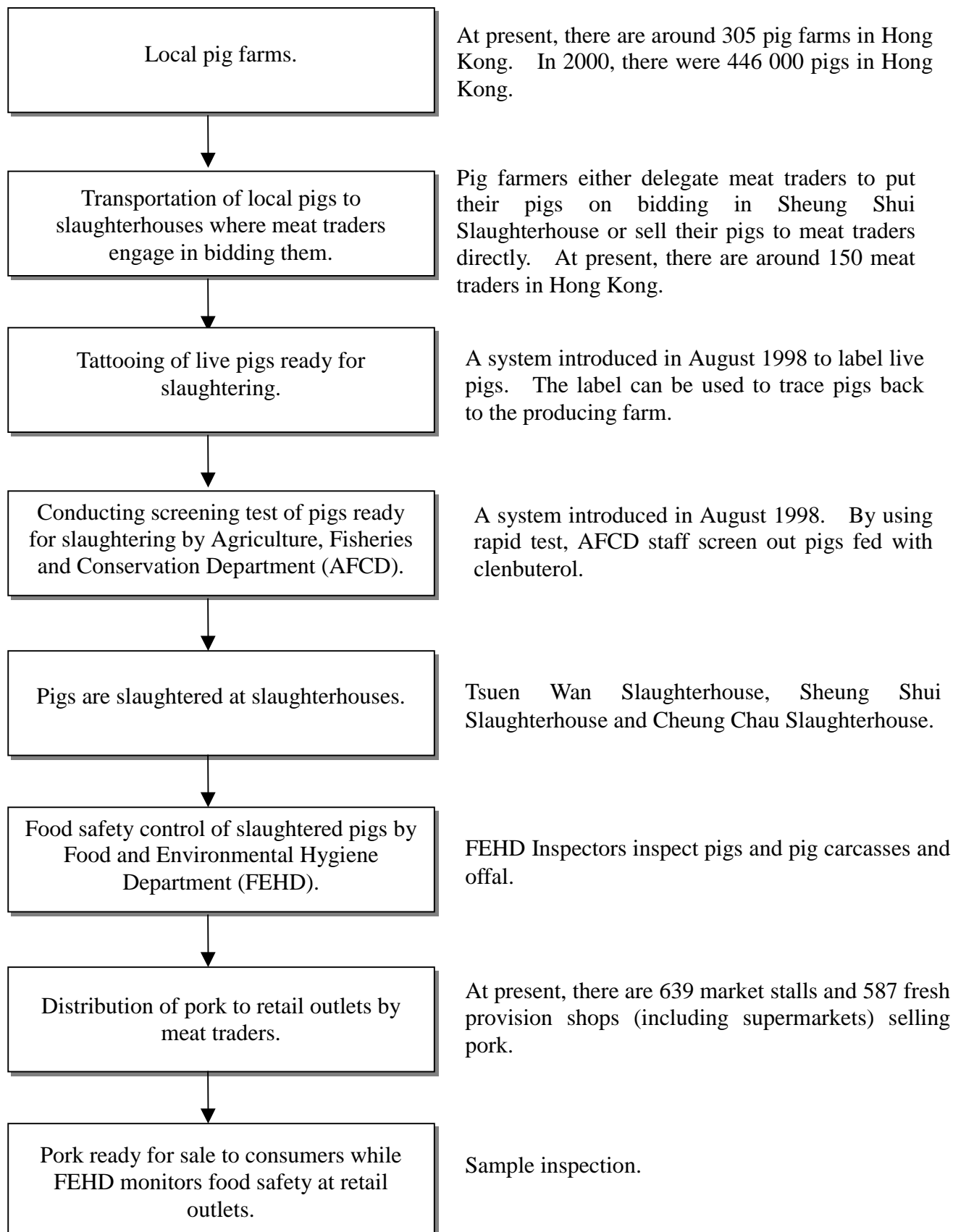
Appendix I

Flowchart of Pork Supply to Hong Kong

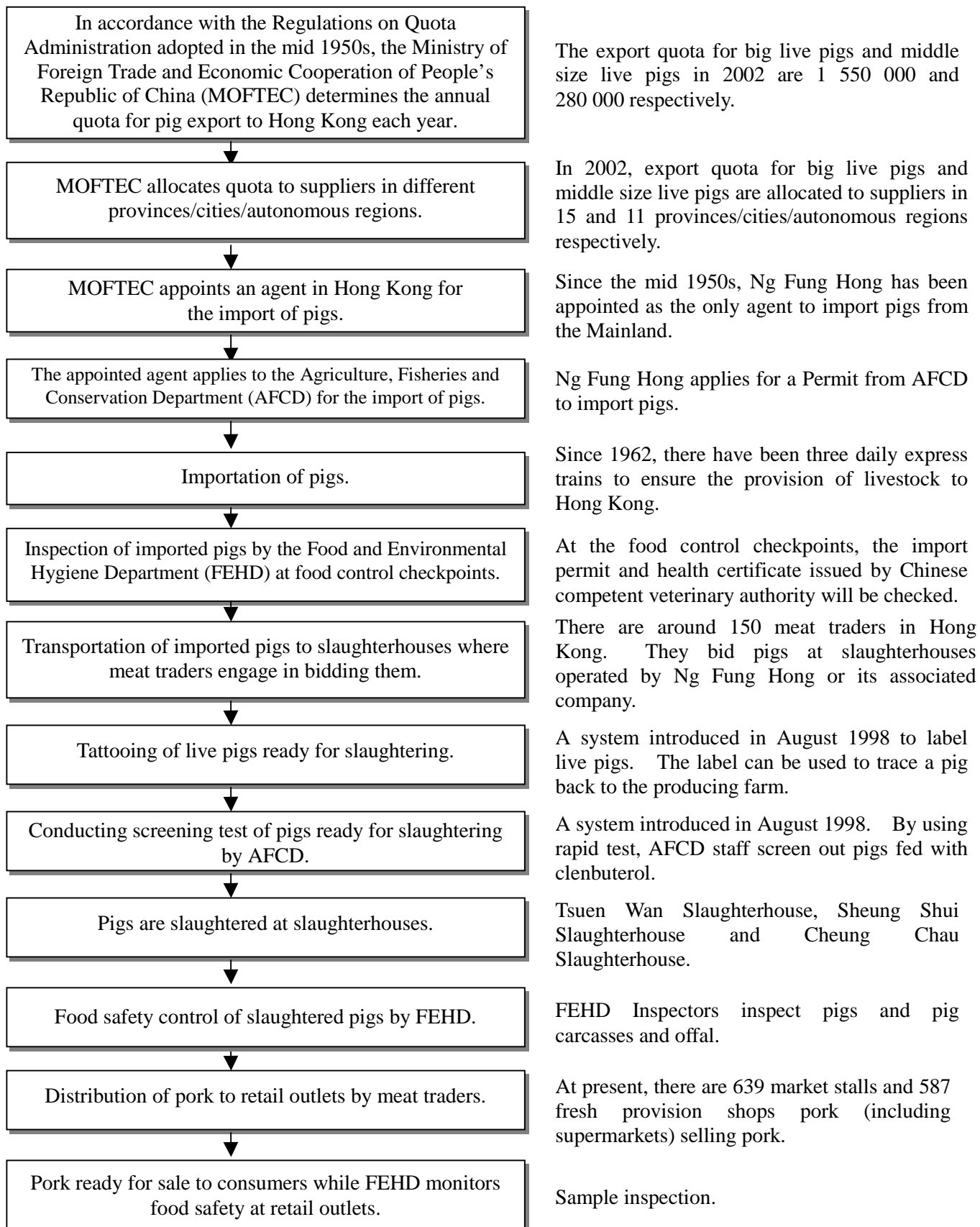


Appendix II

Flowchart of Local Pork Supply

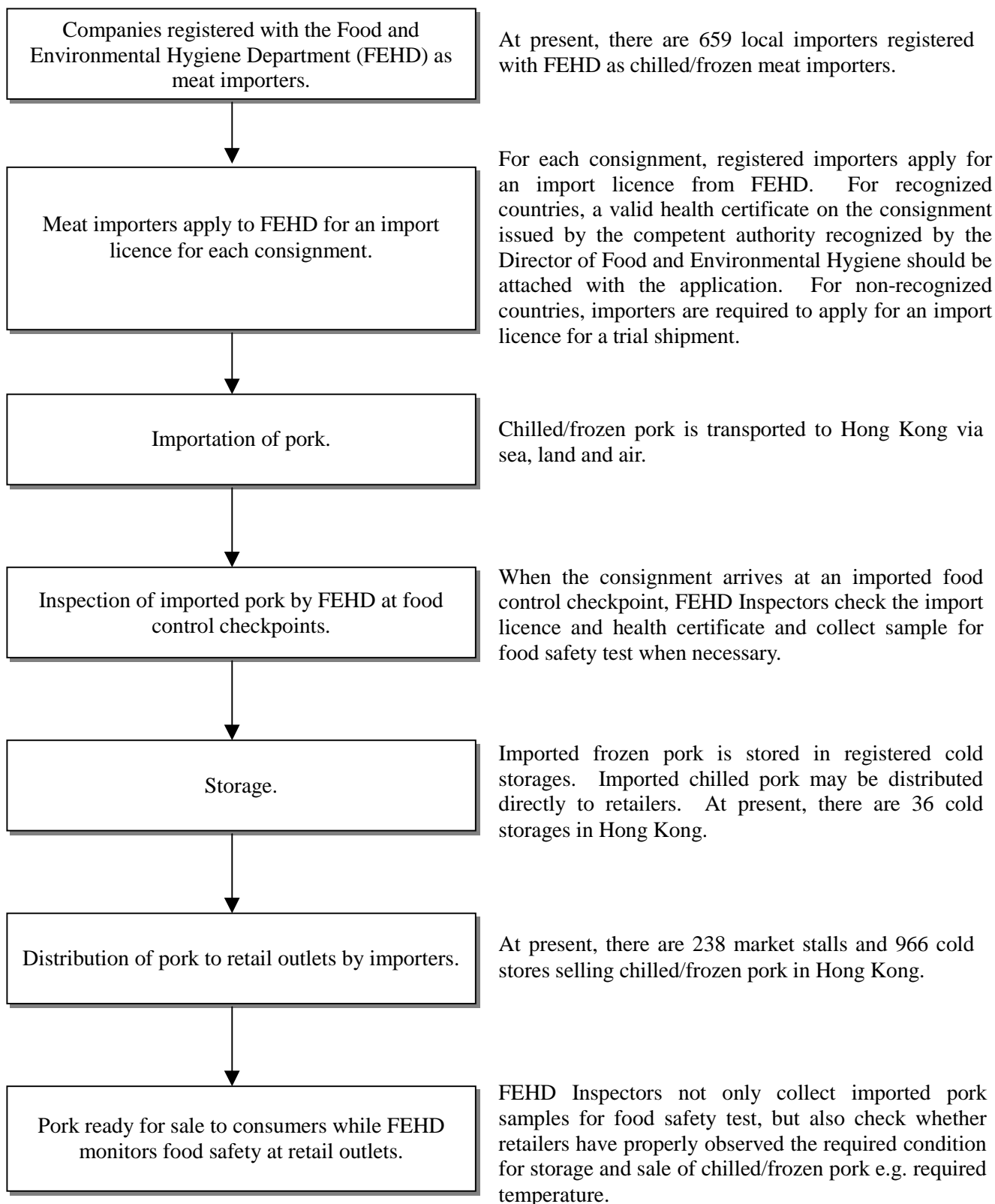


Appendix III

Flowchart of Mainland Pork Supply

Appendix IV

Flowchart of Chilled/Frozen Pork Supply



References

1. Laws of Hong Kong: Slaughterhouses Regulation (Cap. 132 sub. leg. BU).
2. Thomas J. DiLorenzo, "The Myth of Predatory Pricing" in *Policy Analysis* No.169, 28 February 1992.
3. Organization for Economic Co-operation and Development, *Predatory Pricing*, 1989.
4. Legislative Council, Panel on Economic Services, *Minutes of Meeting*, 2 March 1999.
5. Web site of the Agriculture, Fisheries and Conservation Department: http://www.afcd.gov.hk/web/index_e.htm.
6. Web site of the Census and Statistics Department: <http://www.info.gov.hk/censtat/>.
7. Web site of the Food and Environmental Hygiene Department: <http://www.info.gov.hk/fehd/indexe.html>.
8. Web site of Ng Fung Hong: <http://www.nfh.com.hk>.
9. Ng Fung Hong Limited Prospectus: <http://e-lib.hkex>.
10. "Notice on Handing Down the Export Quota for Some Agricultural Products of Year 2002": <http://202.153.121.157/gate/big5/www.isinolaw.com>.