

LegCo Panel on Commerce and Industry

Review of the Rice Control Scheme

Introduction

Members were informed of the progress of the liberalization of the rice trade vide LC Paper No. CB(1)2228/01-02 in July 2002. This paper updates Members on the implementation arrangements since the rice trade was liberalized in January 2003 and the latest situation of the rice market.

Background

2. Rice is a staple food in Hong Kong and is scheduled as a reserved commodity under the Reserved Commodities Ordinance (Cap 296). Its import and export are subject to licensing control. Since 1955, the Government has been operating the Rice Control Scheme (RCS) to ensure a stable supply of rice and to keep a reserve stock sufficient for local consumption for a reasonable period to cater for emergencies or any short term shortage of supply.

3. In the light of our commitment to maintaining a steady rice supply on the one hand, and enhancing competition within the rice trade on the other, the Rice Advisory Committee (RAC)^{Note 1} conducted a review on the RCS with a view to liberalising the rice trade in 2003.

Arrangements since 2003

4. Since January 2003, the registration criteria for rice importers under the RCS have been relaxed. There are no capital and financial requirements, and anyone who is interested in importing rice and possesses a valid business registration in Hong Kong under the Business Registration Ordinance (Cap 310) may apply to be registered as a stockholder.

^{Note 1} The RAC was set up in 1974 to advise the Government on the technical aspects of the operation of the RCS and on all aspects of the rice trade, and to consider such matters concerning the import and distribution of rice as may be referred to it and to make recommendations accordingly. The RAC is chaired by the Director-General of Trade & Industry and comprises representatives of the rice trade and other sectors of the Community.

5. There is no more import quota for rice. The import level is decided by individual stockholders in accordance with their assessment of market demand and their own marketing capability. Each registered stockholder undertakes to import a quantity for each three-month period, and is required to import that quantity within the period. They are also required to maintain a reserve stock.

6. The Government only maintains 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. The reserve stock is maintained at a level sufficient for consumption by the local population for 15 days, and is shared among all registered stockholders in proportion to their import quantity. Currently, each stockholder's reserve stock for any quarter is 17% of its undertaken import quantity (for new stockholders) or 17% of its sales quantity in the immediately preceding quarter (for existing stockholders). At times of emergency, the Director-General of Trade and Industry may direct registered stockholders to dispose of the reserve stock to maintain sufficient supply of rice in the market.

7. To monitor the supply of rice, the Government collects statistics on rice import and stock level through the licensing system and from registered stockholders. The statistics on actual imports and stock level are regularly disseminated to all stockholders to facilitate understanding of the market situation, and are uploaded onto the Trade and Industry Department (TID)'s website to enable prospective rice importers to make informed decisions.

Latest Market Situation

Number of Stockholders

8. Since the liberalization in 2003, the rice trade has been operating generally in a free market environment. The number of stockholders increased substantially from 52 by end 2002 to 83 by end 2003 and further rose to 97 by end 2004. To a certain extent, this illustrates that the liberalisation helps to promote competition in the rice market by attracting new entrants. The number of registered stockholders stabilised in 2005 following a surge in the preceding two years.

Table 1: NUMBER OF STOCKHOLDERS

	2001	2002	2003	2004	2005
No. of Stockholders	55	52	83	97	94

Imports, Consumption and Stock

9. As shown in Table 2.1, actual imports and declared undertaking of imports by registered stockholders both exceeded 332,000 tonnes in 2005, representing an increase of 7.9% and 9.4% respectively over 2004. Thailand continued to be Hong Kong's dominant source of supply, accounting for about 90% of the total imports.

10. While local consumption has remained relatively stable at a level of around 300,000 to 330,000 tonnes in recent years, the consumption in 2005 slightly increased to 339,140 tonnes, representing an increase of about 7.3% from 2004.

Table 2.1: UNDERTAKING, IMPORTS AND CONSUMPTION

	Unit: tonnes				
	2001	2002	2003	2004	2005
Undertaking Quantity	N/A	N/A	315,072	308,638	332,976
Imports	336,073	323,765	322,196	307,796	336,788
<i>From:</i>					
Thailand	283,249 (84.3%)	282,441 (87.2%)	277,731 (86.2%)	274,637 (89.2%)	305,990 (90.9%)
Mainland China	12,384 (3.7%)	11,548 (3.6%)	19,342 (6.0%)	14,103 (4.6%)	12,970 (3.8%)
Australia	34,824 (10.4%)	23,719 (7.3%)	19,387 (6.0%)	14,720 (4.8%)	9,825 (2.9%)
United States	4,636 (1.4%)	5,291 (1.6%)	4,882 (1.5%)	2,652 (0.9%)	6,940 (2.1%)
Viet Nam	909 (0.2%)	532 (0.2%)	418 (0.1%)	891 (0.3%)	865 (0.3%)
Others	71 (negligible)	234 (0.1%)	436 (0.2%)	793 (0.2%)	198 (negligible)
Consumption	329,676	329,941	308,183	315,927	339,140

11. Table 2.2 shows the overall rice stock positions (excluding reserve stock) and the average reserve stock levels in the period 2001 to 2005.

Table 2.2: OVERALL STOCK POSITION AND RESERVE STOCK LEVEL

	Unit: tonnes				
	2001	2002	2003	2004	2005
Opening stock (excluding reserve stock)	9,512	21,409	16,033	28,911	20,649
Closing stock (excluding reserve stock)	15,909	15,233	29,483	21,481	18,441
Reserve stock	19,000	13,500	12,700	13,500	14,200

Rice Storage Places

12. Similar to the registration of rice stockholders, the number of approved rice storage places also increased substantially from 35 by end 2002 to 70 by end 2005 as shown in Table 3 below. The rate of increase from 2004 to 2005 slowed

down to 2.9%. The increase in rice storage places provides more choices and flexibility to rice stockholders.

TABLE 3 : RICE STORAGE PLACES

	2001	2002	2003	2004	2005
No. of approved storage places	27	35	51	68	70

Enforcement Actions

13. TID has taken appropriate and effective administrative actions against violations of requirements under the RCS. In 2005, there were 59 cases of breach of the conditions of registration against which TID issued written warnings to the concerned stockholders. Among these cases, five more serious ones resulted in cancellation of their registration with TID. Table 4 shows the number of written warnings issued by TID in 2001 to 2005.

Table 4: WARNING AGAINST VIOLATION OF CONDITIONS OF REGISTRATION

	2001	2002	2003	2004	2005
No. of stockholders	0 (0)	2 (0)	34 (4)	65 (5)	59 (5)
<i>Reasons:</i>					
Failure to fulfill quota/undertaking quantity	0 (0)	2 (0)	21 (3)	48 (4)	47 (2)
Failure to maintain sufficient reserve stock	0 (0)	0 (0)	13 (1)	17 (1)	12 (3)

Note: Figures in brackets denote the no. of stockholders whose registration was eventually cancelled as a result of the violation.

14. In addition, the Customs and Excise Department (C&ED) conducts regular checks and inspections on the stockholders, storage places and consignments to uphold the integrity of the RCS. C&ED has intensified these enforcement actions since early 2003 in response to the increase in the number of rice stockholders and storage places.

Maintenance of Reserve Stock

15. In the paper circulated to Members in July 2002, we explained that in preparing for the full liberalization of the rice trade, one major issue for consideration was whether a reserve stock should be maintained to cater for emergency situations or any short term shortage of supply. There were arguments for and against it. Having regard to the views of 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. The relevant considerations set out in that paper are recapitulated as follows -:

- (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;
- (ii) maintaining a reserve stock locally through rice stockholders has operated well for many years. The Administration can conveniently authorize stockholders 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.

16. We are of the view that the above considerations remain valid. We do not see any major change in the level of consumption of rice in Hong Kong since liberalization in 2003. Indeed, in the past ten years, the total consumption has been very stable between 300,000 – 330,000 tonnes per year. The per capita consumption of rice in 2002 (before liberalization) and 2005 (three years after liberalization) was the same, i.e. 49 kilograms.

Consultation with the Trade

17. We have been maintaining close contact with the rice trade and members of the RAC. Some rice traders have raised concerns over the need to maintain a reserve stock, and that some new stockholders have failed to comply with the requirements of the RCS. On the former, we have explained our considerations in paragraphs 15 and 16 above while on the latter, we have stepped up checks and investigations which have resulted in more warnings issued and more cancellation of registrations. We have also enhanced our guidelines on RCS to remind existing and prospective stockholders that contravention of the Ordinance and its subsidiary legislation is an offence and the offender will be liable to legal and/or administrative actions.

18. Since liberalization in 2003, the RAC has continued to review the RCS and monitor development of the rice trade. Some further improvement measures have been proposed and implemented to further strengthen the RCS, e.g. disseminating more market information to stockholders, publishing the names of stockholders whose registration was cancelled by TID, etc.

Way Forward

19. We will continue to closely monitor the trend and development of the rice trade, and consult the trade and RAC on further improvements to the RCS.

Trade and Industry Department
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