

香港特別行政區政府  
工商及科技局  
工商科

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11 July 2006

Clerk to Panel on Commerce and Industry  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn: Miss Polly Yeung)

Dear Polly,

**Meeting of the Legislative Council Panel on Commerce and Industry  
Follow-up for meeting held on 16 May 2006**

Thank you for referring to us the written submissions from the Hongkong Rice Importers & Exporters Association, the Rice Merchants' Association of Hongkong Limited, the Hong Kong Rice Suppliers' Association Limited and a practitioner in the rice trade. Further to our comments made at the meeting of the Panel on Commerce and Industry on 16 May 2006, the Administration's views on the four submissions are set out at Annex for Members' reference.

Yours sincerely,

(Philip Yung)

for Secretary for Commerce, Industry and Technology

## **Rice Control Scheme in Hong Kong**

### **The Rice Control Scheme**

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. Since the liberalization of the rice trade in 2003, the Government still maintains a minimum control (including the registration of rice stockholders, maintenance of reserve stock, report of undertaking import quantity etc.) necessary to ensure a stable supply. The RCS has been operating well. The Government will continue to closely monitor the developments in the rice trade, and will continue to consult the trade and the Rice Advisory Committee (RAC) on possible measures for enhancing the RCS.

### **Registration as rice stockholders**

2. The Trade and Industry Department (TID) consulted the RAC in March 2005 on the proposals from the rice trade regarding acceptance of registration of stockholders only during a specified period within a year. In particular, on the proposal to accept applications once a year, both the RAC and the Government considered it too restrictive and not conducive to competition. Finally, the RAC endorsed the proposal to approve new registrations every six months instead of three months. The measure can reduce the frequency of new entries into the market, but at the same time maintain sufficient opportunities for newcomers to enter the market. TID has implemented this new measure since July 2005. We will keep this measure in view and consult the trade and RAC as appropriate.

### **Rice storage place**

3. Any person carrying on a registered business in Hong Kong under the Business Registration Ordinance may apply for TID's approval of his godown as an approved rice storage place, which can be used by him or other stockholders for storage of rice. This arrangement helps lower the operating

costs and increase the operational efficiency of stockholders. If we restrict stockholders to store rice in certain specified godowns, this will create a new entry barrier for the trade and increase the operating costs of existing stockholders.

4. In assessing applications for approval as a rice storage place, TID works with the Customs & Excise Department (C&ED), which conducts pre-approval inspection on the storage places, with a view to ensuring their suitability for storing rice. Moreover, approved storage places are required to lodge monthly returns to TID to report the storage records. C&ED conducts regular checks on the storage places against the relevant monthly returns to ensure that those places are suitable for storing rice, and complying with the Reserved Commodities Ordinance and the "Conditions of Approval as a Rice Storage Place" set by TID. C&ED has intensified enforcement actions in response to the increase in the number of rice storage places.

**Stockholders' reporting frequency for total import quantity for the registration period**

5. Under the Reserved Commodities (Control of Imports, Exports and Reserve Stocks) Regulations (Cap. 296A), an applicant for registration as a stockholder of a reserved commodity shall state the amount of rice which he is prepared to import and hold during the registration period (the indicative total import quantity for the registration period). Moreover, to facilitate stockholders importing rice according to their assessment of market demand, stockholders are required to undertake an import quantity for the relevant import period before the start of each quarterly import period (the import undertaking arrangement).

6. If the reporting of the indicative total import quantity for the registration period is to be done on a quarterly basis, such reporting requirement will duplicate with the current import undertaking arrangement. TID will follow up on this proposal and discuss with the trade this proposal together with other proposals in respect of the reserve stock system and the import undertaking arrangement.

### **Enforcement actions**

7. The RCS is operated under the Reserved Commodities Ordinance (Cap. 296) and its subsidiary regulations. Any person who contravenes the provisions in the said Ordinance/regulations commits an offence and is liable on conviction to a maximum penalty of HK\$100,000 and imprisonment for two years. In addition to prosecution, TID may take administrative actions against these persons and those who have breached the conditions of registration or conditions of approval respectively. Such administrative actions may include issue of warning letters and cancellation of registrations, etc.

8. Since early 2003, C&ED has intensified enforcement actions in response to the increase in the number of rice stockholders and storage places. C&ED continues to adopt a risk management approach in initiating targeted inspections against traders that may contravene the law. If necessary, C&ED deploys its manpower flexibly to step up regular inspections or raids. In 2005, there were 59 cases of breach of 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. We also encourage members of the trade to provide information on illegal activities to C&ED or TID for law enforcement and follow-up actions as appropriate.

9. In addition, to enable prospective stockholders to have a better understanding of the legal and administrative requirements regarding registration as a stockholder, TID also provides information and assistance to them, and highlights the requirement of fulfilling the import undertaking arrangement and maintaining a reserve stock.

### **Liberalization of the rice market and review of the system**

10. There is still a psychological attachment to rice as a staple diet among the local population. 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. We consider that on balance it would be desirable to keep a minimal reserve stock. Nevertheless, over the years, the Government has committed to gradual liberalization of the rice market. The liberalization arrangements have been worked out in consultation with the RAC. The latter's view is that the liberalization of rice trade should be gradual so as to avoid

disruptions in the market which will affect consumers.

11. At present, the rice trade generally operates in a free market environment. The Government only maintains the minimum control necessary to ensure a stable supply of rice. Since the liberalization of the rice trade in 2003, TID has conducted informal consultation with a number of stockholders on the proposal of abolishing the import undertaking arrangement. While some stockholders supported the proposal, others are concerned about the loss of control over reserve stock by TID, thereby affecting the overall stability of the market. The Government will continue to monitor the market situation and consult the trade as appropriate.

### **Fair trade legislation to combat monopoly**

12. At present, there is no evidence suggesting the monopoly of rice market at the import level. Indeed, since the liberalization in 2003, the number of stockholders has increased substantially. In a free market environment where there is no entry barrier, monopolization can be effectively prevented. Regarding the proposal of introducing legislation to prevent unfair competition, the Government appointed in June last year an independent Competition Policy Review Committee (CPRC), which is chaired by a non-official with members drawn from different sectors, to review the effectiveness of the existing competition policy. The CPRC has drawn on international experience and discussed the need to introduce in Hong Kong a comprehensive and cross-sector law on fair competition, as well as its scope and application. The CPRC report on Hong Kong's competition policy containing its conclusions and recommendations has been made available from 4 July 2006 on the Economic Development and Labour Bureau website at [www.edlb.gov.hk/edb/eng/info](http://www.edlb.gov.hk/edb/eng/info) for public information. The Government is carefully considering the recommendations of the CPRC, with a view to drawing up a public discussion document on the way forward for competition policy.

Commerce, Industry and Technology Bureau  
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