

LegCo Panel on Trade and Industry

Rice Control Scheme

INTRODUCTION

This paper briefs Members on the latest development of the Rice Control Scheme. It also sets out the Administration's proposed way forward and timetable for liberalising the rice trade.

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 adequate supply of rice and to provide a reserve stock to cater for emergencies or any short term shortage of supplies.

3. Under the Reserved Commodities Ordinance, rice is classified as a reserved commodity and its import and export are subject to licensing control. All stockholders (importers) and wholesalers have to register with the Director-General of Trade (DGT), and fulfill certain capital, financial, residency and storage availability requirements. Stockholders are allocated import quota and are required to import rice in accordance with a schedule. They are also required to maintain a reserve stock, currently fixed at an aggregate of 40,000 tonnes, which is sufficient for 45 days' consumption by the local population. Restrictions are imposed on stockholders to operate as wholesalers, and vice versa. There are at present 40 stockholders and 27 wholesalers.

4. Following a review in 1996, the Trade Department has implemented the following measures to provide a more flexible mechanism for the rice trade –

- (a) increasing the number of stockholders by 5 in 1996 to increase competition;
- (b) reducing the level of reserve stock from 45,000 tonnes to 40,000 tonnes with effect from 1 January 1998. This reduced the cost of operation for the stockholders;

- (c) removing the prior experience requirement for registration as a stockholder so as to lower the entry barrier for new players to join the rice trade; and
- (d) introducing an optional quota scheme in October 1997, enabling stockholders to adjust their import level below or above their allocated quota, in accordance with their assessment of the market demand. This provided more flexibility especially for small stockholders and encouraged competition.

5. In line with our commitment to trade liberalisation, the Department has, in close consultation with the Rice Advisory Committee (RAC), conducted another review of the Rice Control Scheme in 1999, in order to map out the long term plan and timetable to further liberalise the rice trade.

RICE TRADE LIBERALISATION PLAN

The Need for a Reserve Stock

6. Our objective is that, upon full liberalisation, the Government should exercise the minimum control necessary to ensure a stable supply of rice for consumption by the population. In mapping out the future control mechanism, we must first address the question of whether there is a continued need for a reserve stock when the rice trade is fully liberalised. This will have a bearing on the extent of Government's involvement in regulating the trade.

7. When the matter was discussed by this Panel in April 1996 and January 1998, Members in general supported the retention of a rice reserve for emergency purpose, in view of the fact that rice was the basic foodstuff for the local population.

8. However, RAC members' views on the subject were divided. Some felt that the reserve requirement should be scrapped, taking into account the reduced reliance of the local population on rice as a staple diet, as evident by the trend of decreasing per capita consumption⁽¹⁾ over the past few decades. Doing away with reserve stock would lower traders' operating costs and benefit consumers in terms of lower rice prices. On the other hand, those who advocated the continued need for keeping a reserve were concerned that our population still had a strong psychological attachment to rice. They feared that in case of unexpected shortage and uncertainties, when there was a tendency to

(1) The annual per capita consumption of rice was 69.5 kg in 1980 and reduced to 47 kg in 1999.

hoard, the absence of a reserve could trigger off public panic. There is no consensus in RAC at this stage as to whether the reserve stock requirement should be lifted when the trade fully liberalises.

9. As to the level of reserve stock, members of the RAC unanimously agreed to reduce it in phases, taking into account our population's reducing dependence on rice as a staple diet and the much shortened lead-time for replenishing the stock with improved transportation. Accordingly, the aggregate reserve stock to be kept by the stockholders will be lowered in accordance with the following timetable -

<u>Time</u>	<u>Level of Reserve Stock</u>
2000 (January – June)	Remains at existing level i.e. 45-day consumption (40,000 tonnes)
2000 (July – December)	30-day consumption (27,000 tonnes)
2001 (January – June)	21-day consumption (19,000 tonnes)

Members also agreed to review the need for a reserve stock and its level from time to time.

Liberalisation Arrangements

10. Apart from the reduction of the level of reserve stock, RAC has agreed to a number of measures with a view to fully liberalising the rice trade by the year 2003. These include -

- (a) removing the structural barriers within the rice trade by lifting the current restriction on cross-ownership of importers and wholesalers and allowing them to engage in both importing and wholesaling of rice if they so wish;
- (b) removing the residency, financial and capital requirements for registration as rice importers, such that entry barrier for rice importing business will be removed; and

- (c) subject to the outcome of a review on the need for maintaining a reserve stock, leaving a decision on the level of rice import for a particular period to be taken by the registered importers instead of by DGT whilst requiring importers to maintain a reserve stock having regard to their pledged import level, and to honour their import pledge.

11. In practical terms, through these measures, any person or company may, when the rice trade is fully liberalised, enter the rice market and serve as stockholder, wholesaler, retailer or a combination thereof. The import quota will be removed. The cross-ownership prohibition between stockholders and wholesalers will also be lifted. While stockholders will still be obliged to keep a reserve stock in accordance with the import level they have pledged (but this will be subject to the review referred to in paragraph 10 (c) above), they can, at the same time, sell rice directly to retailers or to consumers, without going through the wholesalers.

Pace of Liberalisation

12. For the overall benefit of the community and to honour Hong Kong's commitment to promote free trade, the Government considers that the rice trade should be opened up as far as practicable. However, the Government also recognises that existing rice traders need a reasonably long transitional period to make arrangements and prepare themselves for operating in a new trading environment.

13. Balancing the views of concerned parties and the Government's position on the issue, the RAC has agreed on the following timeframe for the liberalisation of the rice trade -

January 2001

Removal of the structural barriers within the rice trade by lifting the cross-ownership restriction on importers and wholesalers simultaneously so as to allow both to engage in rice importing and wholesaling businesses if they so wish.

July 2002

Inviting all interested parties to register as rice importers according to the revised registration criteria as set out in 10 (a) & (b).

January 2003

Liberalisation of the rice sector.

WAY FORWARD

13. The Trade Department will continue to work with the RAC and members of the trade in order to formulate the detailed arrangement leading to and upon full liberalisation by 2003.

Trade Department
March 2000

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