

**For discussion  
on 28 May 2013**

**Legislative Council  
Panel on Food Safety and Environmental Hygiene**

**Supply of Live Cattle in Hong Kong**

**Purpose**

This paper briefs Members on the supply of live cattle in Hong Kong as well as the market survey, study and analysis conducted by the Government on the prices of fresh beef.

**Background**

2. In recent years, the community of Hong Kong has expressed concerns about the surge in the price of fresh beef. There are views that the frequent raising of the wholesale price of live cattle by Ng Fung Hong (NFH) over the past two years has driven up the price of fresh beef substantially, resulting in dwindling public demand for fresh beef. Some considered it unreasonable that the price of fresh beef in Hong Kong is higher than that in nearby Mainland cities such as Shenzhen and Guangzhou. On the other hand, we have received views from some quarters that attribute the decline in the supply of live cattle and the price rises to the position of monopoly held by NFH over the supply of live cattle market in Hong Kong, together with requests urging the Government to open up the market of live cattle supply and bring in competition.

**Current situation of the supply of live cattle in Hong Kong**

3. At present, all live cattle in Hong Kong are supplied from the Mainland with NFH as the export agent. In order to ensure the quality of food animal supplied to Hong Kong, all incoming live cattle are sourced from the farms included in the list of registered farms for supplying live food animals to Hong Kong and Macao approved by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ). The authority to approve the export agent for the supply of live cattle to Hong Kong rests with the Ministry of Commerce. The agent is responsible for sourcing and transporting live cattle from the registered farms in the Mainland to Hong Kong for slaughtering, and then for sale to local buyers for subsequent distribution to local retail outlets or restaurants for sale or consumption.

4. Between 2009 and 2011, the supply of live cattle to Hong Kong was relatively stable, with the market taking in about 78 live cattle on average each day. In the first half of 2012, the daily supply of live cattle was 75 on average. However, with supply getting increasingly tighter in the second half of the year, the average daily supply of live cattle went down to 68.

5. In terms of price, NFH has raised the wholesale price of live cattle several times since November 2010. From November 2010 to 6 May 2013, the wholesale price of marbled beef and breeding beef rose from HK\$2,685/picul to HK\$4,690/picul and from HK\$2,325/picul to HK\$4,070/picul respectively, both representing an increase of 75%.

6. On the other hand, based on information we obtain from official sources on the Mainland<sup>1</sup>, the wholesale price of fresh beef in the Mainland has gone up from 31.65 Renminbi (RMB)/kilogramme (kg) on average in November 2010 to RMB49.94/kg in late April this year, representing an increase of approximately 60%. Taking into account the appreciation of RMB, the increase in the price of live cattle in Hong Kong is broadly on par with that in the Mainland over the same period of time.

### **Study and analysis on the current situation**

7. It is the policy objective of the Government to maintain a stable and adequate supply of foodstuffs from diverse sources, in addition to ensuring food safety. The Government has been upholding the principle that food prices should be determined by forces of supply and demand in a free market. The role of the Government lies in enhancing market transparency with a view to facilitating the effective operation of the market.

#### **(a) Recent situation in the Mainland market**

8. The supply of live cattle to Hong Kong and the price surge in recent years are closely related to the development of the live cattle market in the Mainland. Based on the collective information that we have obtained from various channels, the main factors contributing to the tight supply and escalating prices of fresh beef are as follows –

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<sup>1</sup> Reference is made to the data on “National Trend of Fresh Beef Wholesale Prices” available on the website of “Commercial Information Forecast” of the Ministry of Commerce.

- (i) Added to the stringent supply of live cattle in the Mainland, there has been a significant upsurge in demand. As we understand it, the breeding cycle of live cattle normally takes three to four years. Given the low fertility rate and slow growth of cattle, as well as the long breeding cycle, cattle farmers might be hesitant in expanding their breeding capacity. This, coupled with the reduction in farmland with grass and the epidemic that occurred a few years ago, had reportedly caused the breeding stock of cattle in the Mainland to drop by 30% to 40% in 2012 as compared to the preceding year, resulting in tight supply. The present breeding stock of cattle in the whole country is said to be at its lowest level in five years;
- (ii) The upward movement of operating costs in respect of breeding feed, wages, transport, etc, has directly contributed to the stiff beef prices. In the past year, the prices of fresh beef in the Mainland and Hong Kong both registered continuous increases. While the rates of increase in the wholesale prices of live cattle in both places were broadly comparable, the magnitude of the upsurge in the retail price of fresh beef in the Mainland was getting closer to that in Hong Kong; and
- (iii) Rapid economic growth in the Mainland has led to higher spending power on the part of Mainland consumers as well as changes to their eating habit, culminating in strong demand for fresh beef. With demand outstripping supply in the market, the price of live cattle (whether in Hong Kong or the Mainland) is driven up. As far as we understand it, the price gap between live cattle supplied to Hong Kong and live cattle sold in the Mainland's domestic market is narrowing and, at times the price of the former might even fall below that of the latter. This has considerably dampened the incentive for cattle farmers in the Mainland to supply live cattle to Hong Kong.

(b) Market survey

9. In view of the concerns articulated in the community about the supply and price of fresh beef, the Food and Health Bureau has earlier commissioned a consultant to conduct a market survey to gather and compare information on the prices, quality and costs of beef in nearby Mainland cities (including Guangzhou and Shenzhen) and Hong Kong. The survey was conducted between February and March this year to compare the retail prices of individual parts of fresh beef in two selected wet markets and two selected supermarkets in Hong Kong, Guangzhou and Shenzhen respectively.

10. In order to provide an objective basis for comparing the prices of fresh beef in the three cities, the consultant has collected some relevant data and information to facilitate comparison, including the price trend in Hong Kong, Guangzhou and Shenzhen, changes in RMB exchange rate against Hong Kong dollar, cost-of-living and consumption indices.

#### *Price trend*

11. With regard to the price trend, the overall consumer price index (CPI) in Hong Kong in February 2013 registered an increase of about 4.4% over the same month in the preceding year, among which the index for the general food category recorded a growth of 5%. The data collected by the consultant indicated that in February 2013, the price index of beef in Hong Kong was 30.9% higher than that in February 2012, while other meat types also frequently consumed, namely pork and poultry, recorded a growth of 3.9% and 20.8% respectively.

12. The consultant noted that the price of beef in the Mainland also recorded a notable growth in 2012. According to the information released by the National Bureau of Statistics of China, the price of beef in the Mainland in February 2013 recorded an increase of 34.6% over the corresponding month in the preceding year, while the overall CPI recorded a growth of 3.2% during the same period. The consultant also observed a rise of 6% in the price index for the general food category in the Mainland during the same period, among which the prices of pork and mutton dropped 1% and rose 14.5% respectively. As shown in the information of the Ministry of Agriculture, since April 2012, the price of beef in the wholesale markets in different regions of the Mainland has registered an increase of 39% on average over the past year.

#### *Changes in RMB exchange rate against Hong Kong dollar*

13. In recent years, the appreciation of RMB has to a certain extent affected the import price of live cattle. The consultant pointed out that, prior to 2010, the exchange rate between RMB and Hong Kong dollar was relatively stable. However, in 2011, there was an increase of 6% to 8% in RMB exchange rate against the Hong Kong dollar. It is noted that the average wholesale price of live cattle supplied to Hong Kong in 2011 rose by about 10% over 2010.

### *Cost-of-living and consumption indices*

14. As for cost-of-living and consumption indices, the consultant has collected the retail prices of other daily food items (for example, rice, pork and live chicken, etc) in Hong Kong, Guangzhou and Shenzhen in order to compare the cost-of-living indices as well as the price differences among the three cities.

15. On cost-of-living, the consultant has made reference to various surveys on cost-of-living indices and concluded that the index in Hong Kong is the highest among the three cities, followed by Shenzhen and Guangzhou. The consultant quoted a survey on cost-of-living indices conducted by an international human resources consulting firm, namely Mercer, which found that Hong Kong ranked 9<sup>th</sup> in 2012, while Shenzhen and Guangzhou were in the 30<sup>th</sup> and 31<sup>st</sup> positions respectively. Separately, the Economist Intelligence Unit indicated in its report on the survey on cost-of-living indices in 2013 that Hong Kong ranked the 14<sup>th</sup> globally with an index of 115 (which means the cost-of-living in Hong Kong is 15% higher than that in New York, the United States).

16. As regards price differences, information collected by the consultant indicated that the prices of most daily food items are generally the highest in Hong Kong, followed by Shenzhen. Guangzhou is generally the lowest among the three. Take rice, pork and live chicken as examples, the price differences in these three kinds of food between Hong Kong and Guangzhou range from 62.2% to 87.3%.

17. The consultant has also made reference to the information about the per capita income in the three cities as the basis for deriving the purchasing power of their citizens, as well as estimating the commodity prices in these three places. The consultant has made reference to the relevant statistical figures, and pointed out that the per capita income of Hong Kong people is the highest. The average monthly salaries of citizens of Guangzhou and Shenzhen were respectively about 51.2% and 47.5% of that of Hong Kong people. The consultant therefore deduced that for people in the three cities to enjoy the same purchasing power, the commodity prices in Guangzhou and Shenzhen would theoretically have to be equivalent to 51.2% and 47.5% respectively of the Hong Kong price. On this basis, it is conceivable to see a certain gap between the retail price in Hong Kong and that in Guangzhou and Shenzhen, and the higher price found in Hong Kong when compared to Guangzhou and Shenzhen is consistent with the practical realities described above.

*Findings of the survey on fresh beef price*

18. During the period from 2 February 2013 to 30 March 2013, the consultant visited the selected supermarkets and wet markets<sup>2</sup> twice a week (on Wednesdays and Saturdays) to collect retail prices in respect of five parts of fresh beef, namely fresh beef, brisket, shank, tender shank and fillet. The findings of the price survey are summarised below–

Average Retail Price (HK\$/catty) <small>Note</small>	Hong Kong			Guangzhou			Shenzhen		
	Super-market	Wet market	Average	Super-market	Wet market	Average	Super-market	Wet market	Average
Fresh Beef	114	89	101	76	54	67	67	53	60
Fresh Brisket	108	86	97	76	43	63	63	43	53
Fresh Shank	122	85	104	100	54	79	72	56	63
Fresh Tender Shank	145	119	133	Info not available	56	56	71	62	65
Fresh Fillet	142	128	135	90	55	77	80	53	66

**Note:** The prices in Guangzhou and Shenzhen have been converted into Hong Kong dollars per catty using the spot exchange rates at the transaction dates.

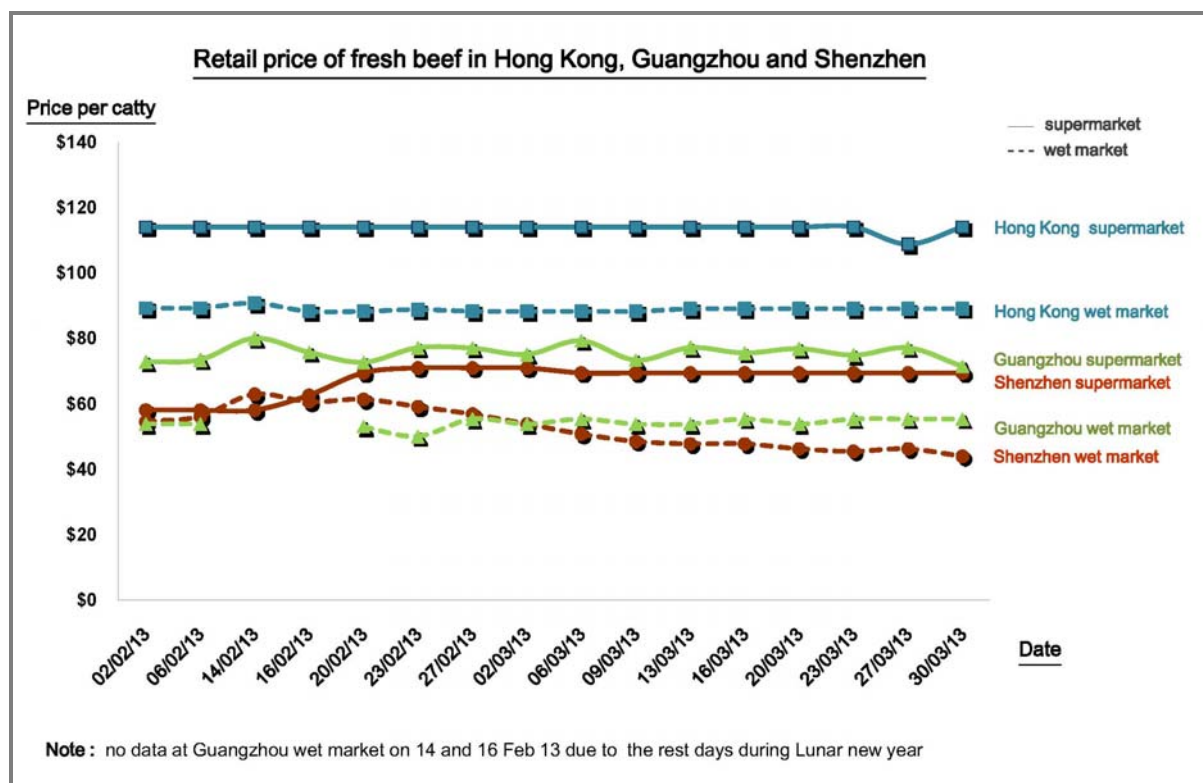
19. Findings of the price survey showed that during the survey period, the retail prices of fresh beef in the supermarkets of the three cities were all higher than those in the local wet markets. The average price of fresh beef in Hong Kong's supermarkets was HK\$114/catty, while the average prices in Guangzhou and Shenzhen were HK\$76/catty and HK\$67/catty respectively after currency conversion, or 67% and 59% of the price in Hong Kong. If comparing the prices of fresh beef sold in wet markets, the average price in Hong Kong was HK\$89, while those in Guangzhou and Shenzhen were HK\$54 and HK\$53 respectively, or approximately 60% of the Hong Kong price. The trend of the retail prices of fresh beef during the survey period is shown in Chart 1.

<sup>2</sup> Hong Kong: Shek Wu Hui Market (Sheung Shui), Sheung Wan Market, Wellcome (Causeway Bay) and Taste (Kwai Fong)

Guangzhou: Shangshe Meat and Vegetable Market (Fengye Road, Zhongshan Avenue West, Tianhe District), Tangde Integrated Market (Tangde West Road, Tangxia, Tianhe District), China Resources Vanguard. Co., Ltd. (Tianhe Park Branch, Zhongshan Avenue, Tianhe District) and Carrefour (Yuancun Branch, Yuancun Henglong Street, Huangpu Avenue Central, Tianhe District)

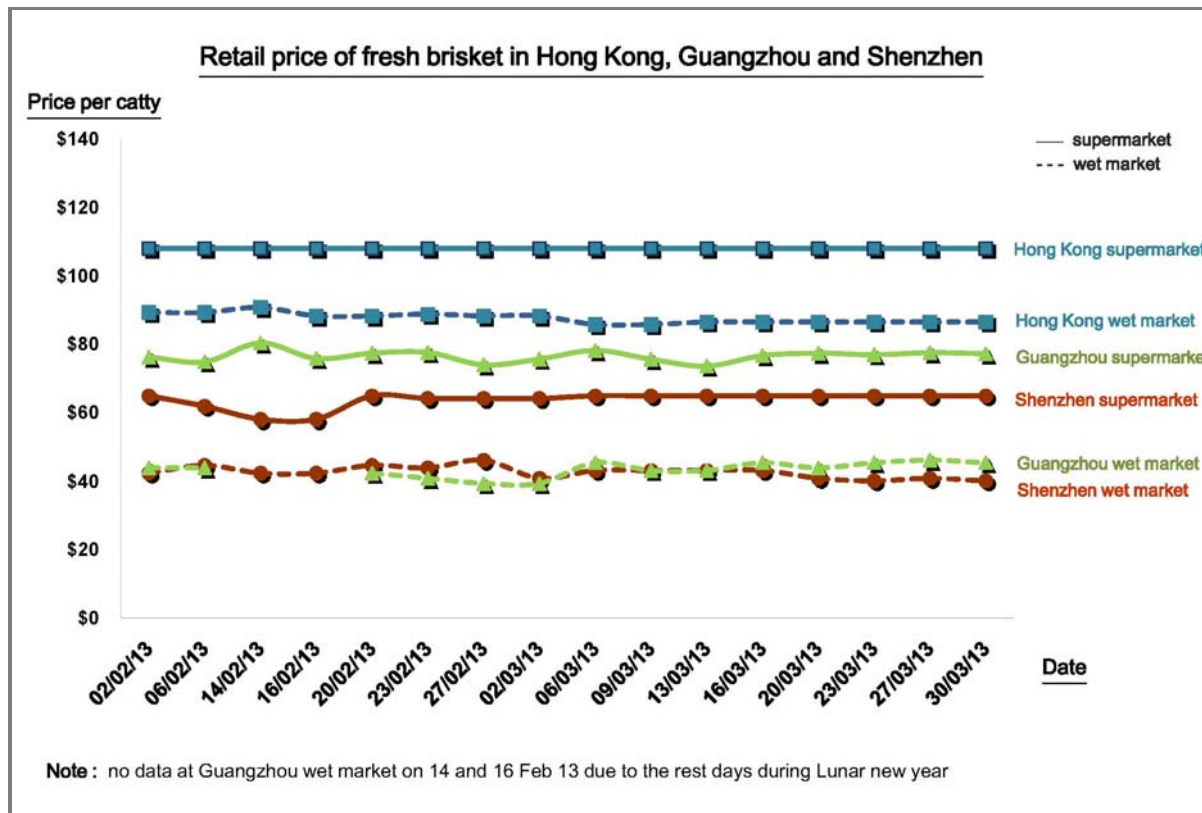
Shenzhen: Ju Zi Keng Market (Dafen, Buji Town, Longgang District), Dong Men Market (Luohu District), Xinyijia Supermarket (Buxin Square Centre, Taibai Road North, Luohu District) and Carrefour (Songyuan Road, Hongling Road Central, Luohu District)

**Chart 1: Retail price of fresh beef in Hong Kong, Guangzhou and Shenzhen between February and March 2013**

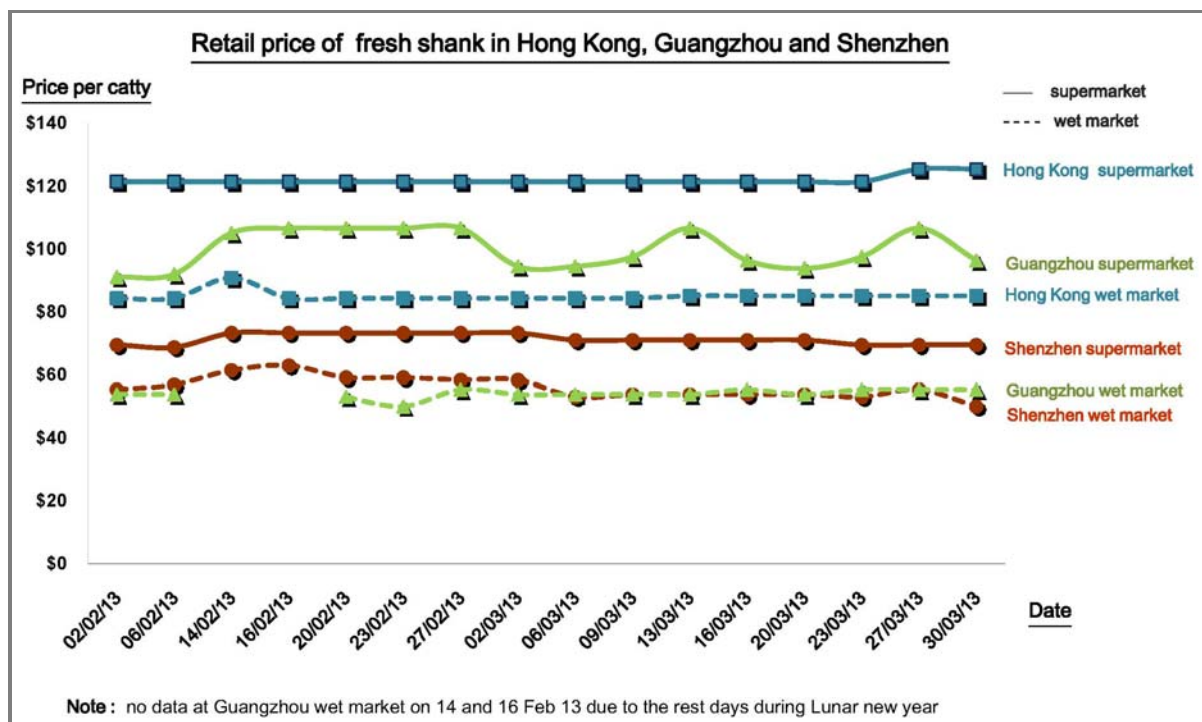


20. For individual parts, a comparison of the prices of fresh shank showed that the average price in the supermarkets in Hong Kong was HK\$122/catty, while the average retail prices in Guangzhou and Shenzhen were about HK\$100/catty and HK\$72/catty respectively after currency conversion, or 82% and 59% of the price in Hong Kong. For the prices of fresh shank in the wet markets, the retail price in Hong Kong was HK\$85/catty, while those in Guangzhou and Shenzhen were HK\$54/catty and HK\$56/catty respectively. We noticed that the price of fresh shank sold in the supermarkets of Guangzhou was even higher than the retail price in Hong Kong's wet markets. The trends of the retail prices of fresh brisket and fresh shank during the survey period are shown in [Chart 2](#) and [Chart 3](#).

**Chart 2: Retail price of fresh brisket in Hong Kong, Guangzhou and Shenzhen between February and March 2013**



**Chart 3: Retail price of fresh shank in Hong Kong, Guangzhou and Shenzhen between February and March 2013**





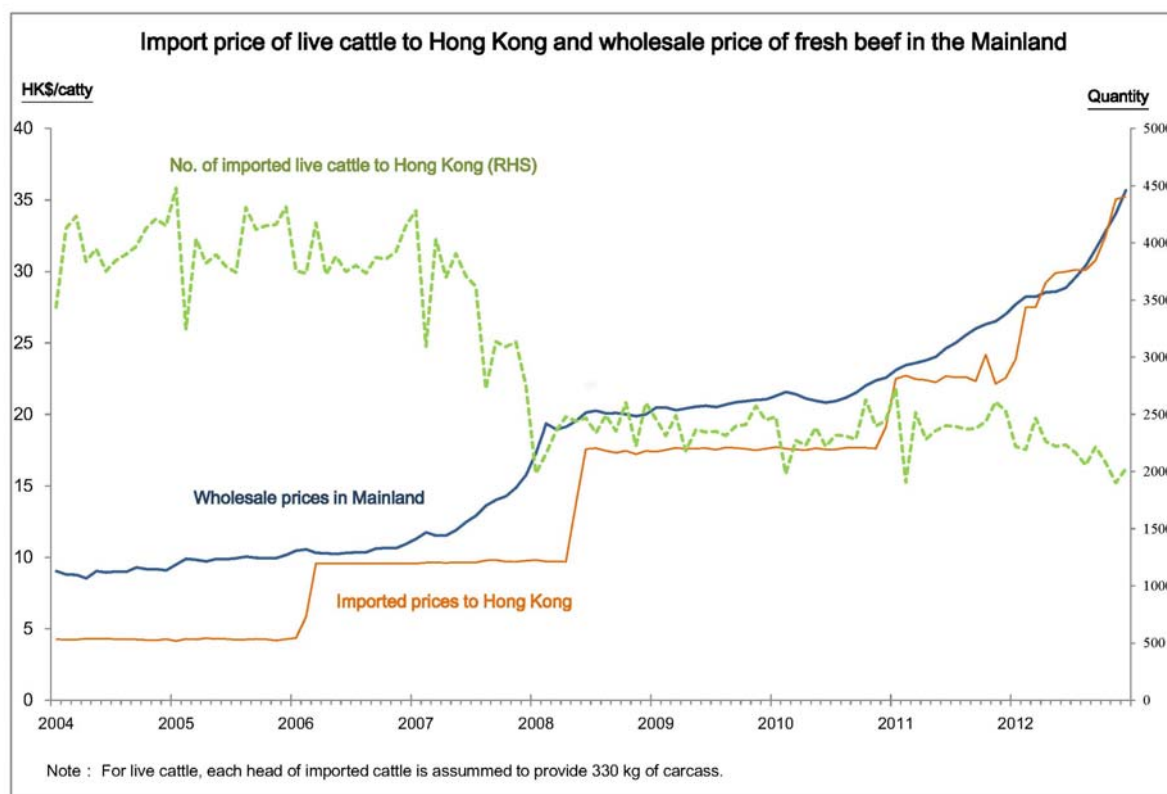
21. Based on the above information, the consultant was of the view that the rates of increase in the prices of fresh beef in Hong Kong and the Mainland in 2012 were comparable. Taking into account the cost-of-living and price differences among the three cities, and considering the higher operating costs in Hong Kong in general (including transportation, wages and rental etc) and the stringent requirements placed on the quality of the live cattle supplied to Hong Kong, the consultant found the differences in the retail price of fresh beef among the three cities understandable and not unreasonable.

22. We would also like to point out that the quality of live cattle supplied to Hong Kong is subject to stringent requirements. As set out in paragraph 3 above, all live cattle supplied to Hong Kong should be sourced from registered farms and should comply with the Control Measures for Inspection and Quarantine of Live Cattle Supplied to Hong Kong and Macao devised by AQSIQ, with more stringent requirements on the breeding standards (such as the requirement on feed and the use of veterinary drugs etc.), as well as inspection and quarantine standards. For live cattle sold in the Mainland, they may differ from those supplied to Hong Kong in terms of their breed and breeding standards. As such, a direct comparison of the prices of fresh beef in the Mainland and Hong Kong may not be entirely appropriate.

(c) Costs and gross profit of NFH

23. To better understand the operation of the live cattle market in Hong Kong, we have also attempted to analyse the costs and gross margin of NFH. As the present sole agent for the supply of live cattle to Hong Kong, NFH imports live cattle from the Mainland and sets the wholesale price. We note that with the rising operating cost on breeding live cattle in the Mainland and the increasing demand across the Mainland for fresh beef, the wholesale price of fresh beef in the Mainland has gone up steadily since 2006. Over the same period, the import price of live cattle in Hong Kong has also recorded a similar rise. According to information available, the wholesale price of fresh beef in the Mainland increased from HK\$10.5/catty on average in 2006 to HK\$30.4/catty on average in 2012, while the import price of live cattle in Hong Kong rose from HK\$8.8/catty on average in 2006 to HK\$30/catty on average in 2012. The import price of live cattle and wholesale price of fresh beef in the Mainland are shown in Chart 4 below.

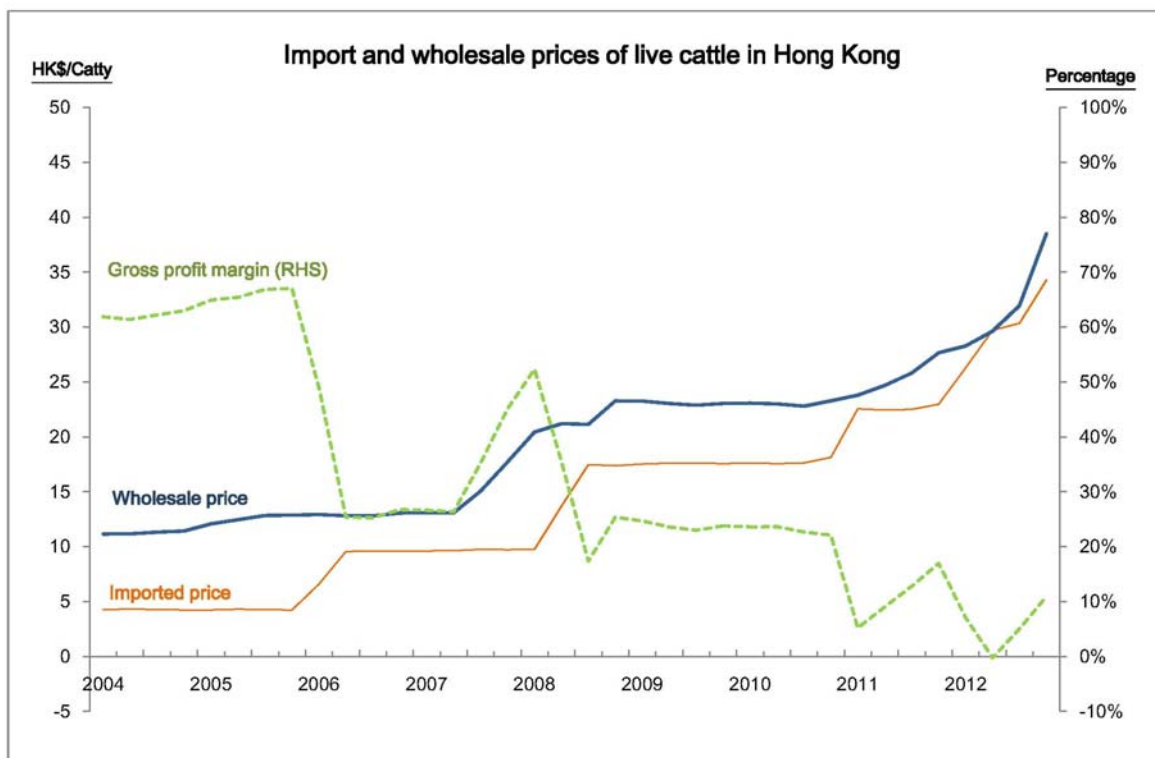
**Chart 4: Import price of live cattle and wholesale price of fresh beef in the Mainland**



24. While we do not have specific details about the operation of NFH, based on the import price indicated on declarations for imported live cattle and the wholesale price of live cattle sold, it is deduced that the gross margin of NFH since 2006 was relatively stable, amounting to about 60% on average. Nevertheless, following the continual rise in import price since 2006, the gross margin of NFH had been narrowing progressively and fell to about 6% in 2012<sup>3</sup>, notwithstanding a continuous upward adjustment of the wholesale price. However, we also take note that with the wholesale price set by NFH going up at a faster pace than the import price in recent months, the gross margin of NFH has risen from near zero level in the second quarter of 2012 to about 11% in the fourth quarter. The relevant situation is shown in Chart 5.

<sup>3</sup> The projection of the gross margin for 2012 was comparable to the figure released by NFH. According to the “Information Update on Distribution Business of Ng Fung Hong Limited in respect of Live Cattle in 2012” issued to the media by NFH on 14 January 2013, the gross margin of NFH in 2012 was 6.53%. We do not have information about the gross margin of NFH for the year 2011 or earlier.

**Chart 5: Import and wholesale prices of live cattle in Hong Kong**



Other choices of beef

25. Apart from fresh beef, chilled and frozen beef are also available in the market to provide choices for the general public. In recent years, many local consumers have opted for chilled and frozen beef. Accordingly, the share of fresh beef in the total amount of beef consumption has dropped from 22% in 2006 to 6% in 2012. During this period, despite a slight drop in 2010 and 2011, the overall trend in total beef consumption in Hong Kong was on the rise over the past seven years. In 2012, Hong Kong consumed a total of about 134 057 metric tons of beef, 90% of which was frozen beef, almost doubled the total consumption in 2006. Detailed data are set out in the following table.

## Consumption of different types of beef between 2006 and 2012

Year	Fresh beef <sup>4</sup>		Chilled beef <sup>5</sup>		Frozen beef <sup>5</sup>		Total	
	Metric ton	%	Metric ton	%	Metric ton	%	Metric ton	%
2006	14 682	22%	3 617	5%	50 185	73%	68 484	100%
2007	13 142	19%	4 447	7%	50 688	74%	68 277	100%
2008	9 036	11%	3 849	4%	72 960	85%	85 845	100%
2009	9 369	9%	4 614	4%	92 023	87%	106 006	100%
2010	9 382	9%	5 541	5%	87 475	86%	102 398	100%
2011	9 275	11%	5 338	6%	70 617	83%	85 230	100%
2012	8 505	6%	5 451	4%	120 101	90%	134 057	100%

26. As shown in the above table, there is adequate overall supply of beef in the market. It is open to consumers to choose different types of beef, based on their needs and preferences.

### Suggestion on opening up the live cattle market

27. The Government has an open mind on the suggestion to open up the live cattle market.

28. Theoretically, opening up the market to bring in competition would induce the distributing agents to improve efficiency and service standards, thus benefiting the development of the overall market in the long run. The live cattle market in Hong Kong is relatively modest in size. Introducing competition may not ultimately change the current market situation whereby there is only one agent in the live cattle market. However, the agent who stays in the market would be the most competitive one. Nevertheless, if the upward trend in the price of live cattle is mainly attributable to tight supply and high demand in the market, an increase in the number of distributing agent may not help ameliorate the situation, whilst costing us instability in the supply of live cattle in Hong Kong. The Government is now critically examining the suggestion.

29. In the meantime, the Government would continue its efforts to ensure a stable, diversified and adequate food supply (including beef), and to safeguard food safety. We would also continue to encourage and assist the trade in broadening the sources of beef supply so as to provide sufficient choices (including chilled or frozen meat) for the general public, whilst leaving the prices of beef to be adjusted freely in accordance with the free market principle.

<sup>4</sup> Data is compiled based on information provided by NFH. The total weight of fresh beef is calculated by multiplying the average weight of cattle carcass and the amount of slaughtered cattle.

<sup>5</sup> Data is compiled with reference to the Hong Kong Merchandise Trade Statistics of the Census and Statistics Department. Consumption is calculated by deducting the amount of re-exports from the total imports.

## **Advice Sought**

30. Members are invited to note the position of live cattle supply in Hong Kong as well as the findings of the market survey, study and analysis as set out above. Members are also invited to give views on the matters discussed above.

**Food and Health Bureau**  
**May 2013**