

ACY0210M

Topic: The Inflation of Pork

Group 1

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Introduction

Objective

- To investigate the live pig market in Hong Kong
- To find out the reason for the inflation of pork
- To analyze the impact on different parties
- To recommend the possible measures to alleviate the problem

Description

2007	Description
May	Import price of live pigs rise rapidly Retail Price: \$26 per catty
31, May	Wu Fung Hang increases the wholesale price of pork to \$1100 per 100 catties Retail Price: about \$28 per catty
3, July	There is no supply of live pigs on that day.
18, July	Wu Fung Hang increases the wholesale price of pork to \$1300 per 100 catties. Retail Price: about \$30 per catty
20, July	Second live pig import agent – Guangnan Hong Company Limited entered
22, Oct	Third live pig import agent – Hong Kong Agricultural Special Zone Limited entered
4, Dec	Ng Fung Hang Limited shifts the allocation system to bidding system

2008	Description
Jan	The wholesale price of pork increases to about \$1400 per 100 catties Retail Price: about \$32 per catty
15, Jan	The highest wholesale price increases to \$2400 per catties. Retail Price: about \$40 per catty
17, Jan	The government shows the estimation of daily import of live pigs supply to the public.

Statistics

Import Supply

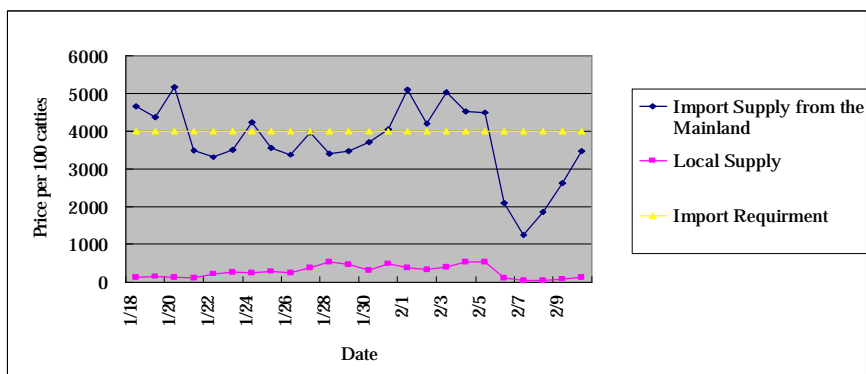


Table 1

Table 1 show the daily import supply from the mainland (Blue line) and local supply (Pink Line) and government expectation of 4000 import live pigs (Yellow line) from 18/1 to 10/2.

From the table, most of import number cannot reach the goal of the government, showing that the supply of live pig is not stable on January. On the other hand, it is obvious that local supply of live pigs increase before Lunar New Year.

During Lunar New Year, the demand of live pig decreases so the import supply also decreases on the holiday as shown on table 1.

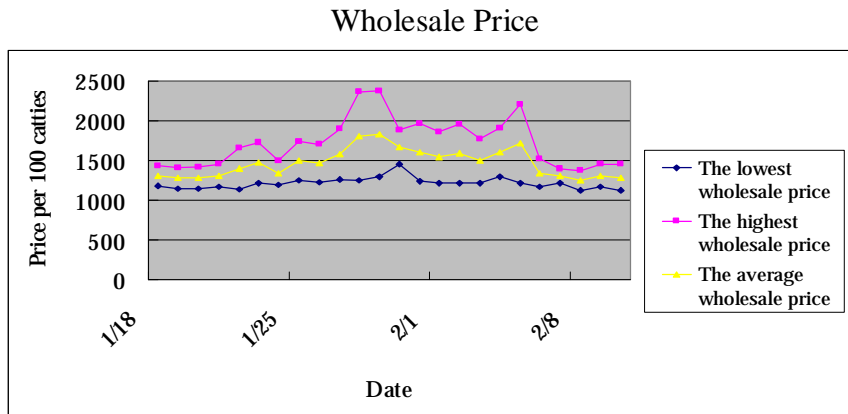


Table 2

Table 2 shows the highest and lowest retail price on that transaction day. It shows that the average price is mostly above \$1300 per 100 cattles. Some even reach to more than \$1500 per 100 cattles before Lunar New Year. But after the holiday the average price decreases to around \$1300 per cattles because the supply of live pig becomes more stable.

Allocated Percentage of live pigs that can be imported from the mainland authorized by the Ministry of Commerce (PRC)		
Ng Fung Hang Limited	Guangnan Hang Limited	Hong Kong Agricultural Special Zone Limited
75%	15%	10%

Three Import Agents

1. Ng Fung Hang Limited

Ng Fung Hang Limited is the largest and leading supplier of fresh, live and frozen foodstuffs in Hong Kong. It commenced in 1951 and became the general agent for foodstuffs imported from the mainland to Hong Kong in the mid 1950's. It has a diversified source of supply in mainland so as to enable stable supply of pork over the forty years. Annually, the supply of live pigs is approximately about 2 million heads, about 75% of total live pigs supply, indicating that it has a vital role in the import of pork.

2. GuangNan Hong Company Limited

Guangnan Hong Company Limited is a wholly-owned subsidiary of Guangnan (Holdings) Limited which was incorporated on 12 March 1982. Its businesses include the distribution of live and fresh foodstuffs, wholesaling of poultry and foodstuffs trading. In July 2007, it becomes an agent for live pigs imported from the mainland to Hong Kong. About 15% of large pigs, 20% of medium-sized pigs imported from the mainland of China to Hong Kong through Guangnan Hong Company Limited.

3. Hong Kong Agricultural Special Zone Limited

It is the third live pigs import agent, entering in the market on October 2007. Only a few hundred live pigs import through this company, occupying less than 10% share of the live pigs import market.

Live Pigs Distribution System

1. Allocation System

Allocation system is adopted by Wu Fung Hang over the years when there is insufficient live pig supply. In the system, the way to allocate live pig will be based on proportion. Buyers will normally get about 70% of their normal live pig supply so the supply of pork to customers remains stable.

2. Bidding System

Under the Bidding System, the way to allocate live pigs is based on auction price. That is, the one who pay higher will get live pigs first. The favorable point is that it is conventional for the trade. But when there is insufficient live pig supply, bidding system will favor large-scaled companies such as Parknshop because it is more readily for them to offer high prices.

Causes of Pork Inflation

The tremendous rise of fresh pork price is caused by factors from different aspects. People believe the devaluation of Hong Kong Dollars and the revaluation of RMB is one of the major causes. However, there are also claims that the ascending living standards of our mainland counterparts contribute an indispensable effort to raise the pork price.

We figure out that there is no single cause for the pork price to climb. We generally arrange them into the following classes:

Tight in Pork Supply

The number of pig farmers (swineherd) has been continuously declining since 2006. There was a serious deduction in pork price in 2006. The swineherds find the industry unprofitable and resign from the industry.

The situation was further promoted when the mainland regional government discourages the breeding of pigs and call back piggery. The operating environments were unfavorable to pig farmers especially in commercializing provinces like Guangdong.

Moreover, in early 2007, the outbreak of the Blue Ear Disease, a disease that causes reproductive failure in breeding stock and respiratory tract illness in young pigs, was also a profound factor to tighten pork supply.

The above situations make pigs breeding risky and unprofitable. As a result, farmers are unwilling to stay in the industry and greatly hinder the supply of pork.

Furthermore, the recent blizzard in southern provinces has frozen most of the transportation system. There are difficulties in transporting pigs from mainland and decreased the number of imported pigs to Hong Kong.

Increasing Cost in Pig Breeding

The costs of raising pork are also up-rising in many areas. For example, the pig feed have increased by 25% since last year. Corns are in great demand due to the increasing popularity of generating fuel from corns. The price of corns has become unacceptable to generate feeds. Though substitutes are found, the cost has still increased.

Moreover, other expenses are also demanding. For example, the cost of veterinary medication has also increased by \$20 RMB per head.

On the other hand, the growing concern on environmental protection has also increased the cost in sewage treatment and other eco-aware measures.

The Revaluation of RMB and Improving Living Standard

The increasing price of RMB has greatly mounted the price of imported goods from mainland China. A revaluation in RMB means Hong Kong dollars are less worthy in buying goods from the PRC and more have to be spent in buying the same quantity of goods.

The appreciation definitely increases the price of daily necessities. This is also the most important cause in nowadays inflation. Raw materials price are rising due to the inflation including imported feeds, fuel and etc. Local piggeries find an increasing cost in operating. Also, cost of transporting flesh mounts.

Another influencing cause bring forward by our mainland counterparts are their up-rising demand on flesh. From statistical issues, every mainlander consumed 20 kg of flesh per year 20 years ago. However, the figure has risen to 50kg in 2007. The

improving living standard of mainlanders has stressed on the demand on flesh. By simple economic theories, we could easily deduce that the price of flesh rises.

The Overwhelming Authority of Ng Fung Hong Ltd

Ng Fung Hong Ltd. once was authorized to be the only agency to import pork from mainland. As a result, it has an overwhelming authority in controlling the quantity of pork imported. After that, Ng Fung Hong has the right to accept or reject the purchasing price proposed by retailers. It was blamed to be monopolizing the pork market.

By controlling the amount of pork imported, it can easily vary the price of pork.

More than that, Ng Fung Hang has a franchise to operate the slaughter house in Sheung Shui. In days of stressful pork supply, it can hold the auction of pork. In the system of “higher price, higher priority”, retailer could only bargain only if they pay a higher price. There are also big bargainers like the Supermarket who push up the price to expel small-sized retailers. As a result, price is being pushed up when there is insufficient supply to meet the demand.

Though two more agencies of imported pork are being introduced in last year, the situation did not seem to be improved.

This is mainly because of the large disparity of the quotas set to the three agencies. As mentioned in the last session, Ng Fung Hang is still occupying a large quota in pork imported. As a result, the power of Ng Fung Hang was not trimmed in a great extend. The overwhelming authority of Ng Fung Hang continues.

Impact

Consumer

In Hong Kong, the general public has a large and high elasticity demand for pork. Most of the general public consumes pork every day. So, consumers are suffered mostly by the rising price of pork. They need to buy expensive pork and its derivative products for daily life. The prices of pork and canned meat in Hong Kong in December 2007 have increased by 42.9% and 34.1%. (Table1) In some extreme cases when retailers strike, consumers cannot buy any pork from the market.

The rising price of pork directly increases the cost of living. Since consumers have to spend a larger portion of their income on the expensive pork and its derivative products, for the same income, they can only spend less or none on others. Consumers therefore have a narrower variety of food to consume and their standard of living decreases.

Pork weights heavily in the Consumer Price Index and it accounts for 1.05% in

Composite Consumer Price Index and 1.65% in Consumer Price Index (A) (Table 1&2). As a result, the rising price of pork, which is a major food in Hong Kong, will greatly increase the Consumer Price Index and cause a high inflation rate. The Composite Consumer Price Index and inflation rate in December 2007 are 107.4 and +3.8% respectively (Table 3).

The main substitutes of pork in Hong Kong are frozen meat, beef and poultry. When the price of pork increases, consumers may turn to these substitutes. As a result, the demands for frozen meat, beef and chicken increase causing a rise in their prices. The price of frozen meat, beef and poultry in Hong Kong in December 2007 has increased by 18.1%, 38.8% and 8.8% respectively (Table 1). This may further increase the cost of living, Consumer Price Index, inflation rate and decrease the standard of living.

Table 1

Composite CPI (Oct 2004-Sept 2005 = 100) for December 2007 compared with preceding month and same month in preceding year				
Commodity	Weight (%)	Index for 2007	Compared with Nov 2007 (%)	Compared with Dec 2006 (%)
Pork	1.05	149.6	+12	+42.9
Canned meat	0.04	135.4	+1.2	+34.1
Frozen meat	0.38	117.8	+1.3	+18.1
Beef	0.17	142.9	+2.1	+38.8
Poultry	0.43	128.8	+2.3	+8.8

Table 2

CPI(A) (Oct 2004-Sept 2005 = 100) for December 2007 compared with preceding month and same month in preceding year				
Commodity	Weight (%)	Index for 2007	Compared with Nov 2007 (%)	Compared with Dec 2006 (%)
Pork	1.65	149.1	+11.9	+42.8
Canned meat	0.05	135.5	+1.3	+33.8
Frozen meat	0.49	120.0	+1.5	+19.7
Beef	0.22	141.9	+1.3	+37.3
Poultry	0.63	128.9	+2.5	+8.5

Table 3

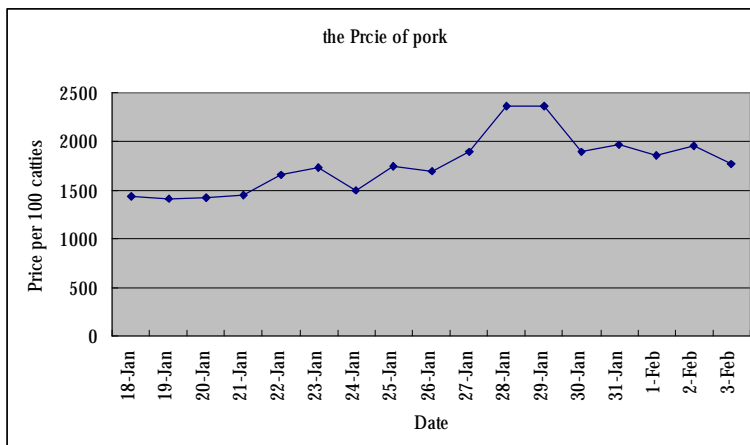
Main Statistics of Consumer Price Indices (Oct 2004-Sept 2005 = 100)		
	Composite CPI	CPI(A)
Indices for December 2007	107.4	106.4
December 2007 compared with December 2006	+3.8%	+3.4%

Source of tables: the Hong Kong Census and Statistics Department

Retailer

When Ng Fung Hong Limited increases the price of pork imported from China, the retailers in Hong Kong, in order to avoid operating a loss, are forced to follow the increase in selling price. As a result, the price of pork in supermarket and market will be increased.

Recently Ng Fung Hong Limited has changed the policy during insufficient supply from allocation system to bidding system. Some retailers fear of acquiring inadequate pork, so they will bid a higher price in order to buy sufficient quantity. In this way, the price of pork will further be increased due to the higher bid price from retailers.



Sometimes when the price of pork offered by Ng Fung Hong Limited or the bid price of pork from other retailers is too high, some retailers may choose to temporarily leave the pork market and strike. This causes a decrease in supply and a further increase in the price of pork in market.

The rising price of pork means it is more profitable of selling pork. This induces illegal activities. Some retailers may sell frozen meat as fresh meat. Some others may buy smuggled pork from unknown suppliers.

Government Attitude

When the price of pork increases within acceptable boundaries, the Hong Kong government keeps its role in a free market i.e. no intervention as possible. It also argues

that the importers of pork have the right to operate in their own interest and earn a profit.

When the price of pork increases beyond acceptable boundaries, the Hong Kong government intervenes by finding measures to stabilize the price and supply of pork. One example is that officers from the Food and Health Bureau (HKSAR) travel to Beijing and compromise with the Ministry of Commerce (PRC) to introduce new importers of pork and to maintain stable supply of pork to Hong Kong.

Possible measure

In order to solve or relieve the impact brought by the soaring price of pork like increasing the burden of lower class people, affecting the cost of maintaining a catering service and creating a dilemma to the government, we must have to find out some possible measures or suggestions. As to present the measures clearly, we can basically separate them into different areas.

Government's stand

First of all, we can first discuss what the government can do in order to reduce the impact of inflated pork to the publics. As we have mentioned before, the basic attitude of the government is to maintain a “free market“for the pork import industry and do not want to participate too much in it. And we do think that this attitude is of crucial importance that it is the foundation of Hong Kong economy and the most attractive point that offering a equal chance to all companies, i.e., competitors to compete with each other and finally a fair balance comes out. Therefore, we do not suggest the government to interfere the market directly like forcing the wholesaler to decrease the price.

Government 's measure

However, when the pork price rised to an unacceptable level which will greatly affecting the lives of small retailers and making the lives of hong kong people become worse, government should jump out and do something for it. Therefore, at that time, regulations have to be implemented. For example, the government can issue out more licenses for wholesaling the pork. Therefore, the competition between the the wholesalers will be larger. And the distribution of the live pig to different wholesalers may need to be adjusted to a more reasonable level. As we have mentioned, Wu Fung Hang still controls over 70% of live pork supply in today's market, another two wholesalers have only little power to bargain with him. If the distribution of pork of Wu Fung Hang decreases to a lower level. It can make the market more tends to a perfect

market with equal competences of every competitor. By this way, Wu Fung Hang can no longer gain extra power to control the number of pigs provided to the market each day. And in order to compete with others, the price of pork should finally decrease.

The government and the wholesalers like Wu Fung Hang should sit down and discuss the bidding system. It is because this system will heavily increase the difficulty of smaller retailers in the wet market to compete with the large supermarket on the input of pork. If it can change back to the ration system as before and give a minimum amount of pork to the retailers in the wet market, it can relieve the impact of increasing pork price.

However, only the above measures are far from enough. It is because another most basic problem is the raising demand of pork in Hong Kong. And the only solution of increasing demand is to increase the number of pork. And it requires the government to talk with the authorities in the mainland about the number of pig imported. And with increasing number of pigs, the price of pork will certainly decrease.

Last but not least, a brand-new idea can be tried. The government may offer an allowance to the local pig farms. For example, the government can provide some cheap feed for the pig farms so that the burden on feeding the pig will be decreased. Or, the tax on operating a pig farm can be deducted. And these kind of incentives can help to promote the piggery industry. Besides operating pig farm in HK, it can also be operated in Mainland China. The government can found a subsidization to help HK people to set up pig farm in China. Then the pigs in these kind of farms can only be imported to HK and help to keep a stable supply of pig. Then the tension of pig supply can be reduced and finally the price can be reduced

Consumers' measure

For the normal household consumption, alternatives of fresh pork can be promoted to replace or reduce the highly demand of pork. For example frozen pork is one of the most suitable substitutes. Compared with fresh pork, the texture of frozen pork may be worse. And the taste of frozen pork is also not as delicious as the fresh pork. But if we consider the health ingredient of both types of pork, there is no much difference between them. They can be both used for different kinds of dishes that normally people are difficult to distinguish them.

And for the catering business, impact of increasing the pork price can be reduced simply by increasing the price of each meal and transfer part of the burden to the customers. However, it is not really beneficial as a whole since it may also reduce the competitive of them also. Therefore, another method is to be more creative that more types of dishes that without using pork should be invented. And they have to provide

more alternatives that the price of meal will not raise too much and affecting the customers.

Conclusion

Soaring rising price of pork cannot be avoided as there are many uncontrollable causes like inflation of RMB and increasing demand of pork usage are part of the development of our society. As we are developing, we deserve more than before. Price of pork, therefore, will rise as a by-product. But what we can do is to make the influence to the lower class as mere as possible. So for today's situation some of the above regulations should be worked out and tried in order to make the price drop back to a more reasonable level.

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