



# China Agricultural Industry Newsletter

September 2008

## Table of Contents

Inspection exemptions for food producers cancelled .....	2
President Hu underscores breakthroughs in reform, development in rural areas .....	2
Calls for livestock waste control .....	3
China tightens control over exporting livestock, poultry genetic resources .....	3
China's GDP to grow 10%, CPI rise 6.1% in Q3 .....	4
Grain output to exceed 510 m tons in 2008 .....	4
COFCO and Japan Itochu formed food alliance .....	5
120 million hectares arable land guaranteed on grain security concern .....	5
Rising prices eating into farmers' income .....	6
Researchers successfully clone pigs with swine fever-resistant gene .....	6
Pork prices likely to fluctuate.....	6
Soybean output set to increase .....	7
Dairy industry inspected after milk powder scandal .....	8
Top 3 Countries Exporting Major Agricultural Produces to China .....	8

### **Inspection exemptions for food producers cancelled<sup>1</sup>**

In the wake of the contaminated baby milk powder scandal, Chinese quality watchdog State Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) on Sep. 18 cancelled all kinds of national inspection exemptions previously given to food producers.

AQSIQ said relevant companies must stop activities of publicizing their national inspection exemption qualifications. The national inspection exemption labels printed on food products and their packages became invalid from Sep. 18.

To help companies avoid repeated examinations and reduce their burden, China began exempting those producing top-quality and globally-competitive products from quality inspections in 2000.

According to previous regulations, any company in China could apply for the inspection-exemption if they had a long standing quality record, large market share, and implemented standards up to or above national or international levels.

The products that passed state or province-level inspections on three consecutive occasions were awarded the qualification. While producers still must report the inspection-free products' quality status on a regular basis, AQSIQ organized spot checks on these products annually.

### **President Hu underscores breakthroughs in reform, development in rural areas<sup>2</sup>**

President Hu Jintao stressed three breakthroughs in rural restructuring, modern agriculture and rural public facilities to push forward reform and development in the countryside.

Hu made the remarks during a visit to central Henan Province from Monday to Wednesday, where he met with local officials, farmers and entrepreneurs.

Vigorous efforts should be made to improve rural operation mechanism, promote the transformation of agricultural business mode and optimize the system supporting the development of agriculture and rural areas, Hu said.

He said governments at all levels should pay more attention to grain production, which is closely linked to economic growth and social stability.

---

<sup>1</sup> Xinhua News Agency Sep. 18, 2008

<sup>2</sup> <http://english.people.com.cn/90001/90776/90785/6497356.html>

All the policies to boost grain production should be fully implemented to raise farmers' enthusiasm to grow crops, he said, while both policy and technology are indispensable to achieve this goal.

Hu also urged local governments to encourage leading enterprises to boost the industrialization of agriculture through various means and find more ways to increase farmers' income.

### **Calls for livestock waste control<sup>3</sup>**

Official sources report that China's State Council is targeting improved water quality and pesticide pollution prevention as its main focus for environmental protection in rural areas from 2010.

It declared that up to a 10 percent rate rise should be achieved in the treatment of sewage and consumer waste, as well as in the livestock and poultry waste utilization rate.

The plan also called for the living environment of rural citizen and ecological conditions to be greatly improved by 2015.

Vice-Premier Li Keqiang, stressed that environmental protection in rural areas is of great concern and of vital interest to rural citizens. It is also needed for the country's sustainable development.

Mr Li emphasized the government should make great efforts in solving environmental problems that damage health and threaten food safety.

He said that the focus of the latest protection work was to ensure water safety in rural areas and further promote the building of sewage treatment facilities.

### **China tightens control over exporting livestock, poultry genetic resources<sup>4</sup>**

China has moved to tighten the control over the export of genetic resources of livestock and poultry with the promulgation of a new ordinance that will take effect on October 1.

The government will ban the export of genetic resources of newly-discovered, unidentified livestock and poultry breeds that are unique to the country, according to the ordinance signed by Chinese Premier Wen Jiabao on August 28.

It will be unlawful to cooperate with overseas institutions or individuals in studying and utilizing those resources forbidden to be exported, said the ordinance.

---

<sup>3</sup> The PigSite News Desk

<sup>4</sup> Xinhua News Agency Sep. 4, 2008

No agencies or individuals will be allowed to transfer the information of the country's livestock and poultry genetic resources to overseas agencies or individuals without government permission. Besides, breed resources listed under national protection must not be carried abroad if it threatens Chinese animal husbandry production and exports.

The move was to "protect and make proper use of the genetic resources of livestock and poultry, prevent them from flowing off and boost the sustainable, healthy development of animal husbandry," said the ordinance.

China boasts 576 breeds of livestock and poultry, about a sixth of the world's total. In the past two decades, at least 10 varieties disappeared, with more than 20 on verge of extinction and over 100 breeds seeing a sharp drop in number.

## Industry and Business Watch

### China's GDP to grow 10%, CPI rise 6.1% in Q3<sup>5</sup>

A consensus estimate produced by 17 Chinese and foreign institutes is that China's GDP will grow 10 percent and the CPI will rise 6.1 percent during the third quarter, down 0.1 percentage points and 1.7 percentage points, respectively, from the second quarter.

"The government's tight monetary policy is beginning to work to bring down inflation with the quickened pace of renminbi appreciation and a slowdown in money supply and GDP growth," Lu Feng, a professor at Peking University and one of the forecasters, said.

Song Guoqing, another Peking University economist, said: "A large portion of the 'hot money' is deposited in banks to profit on interest rate and foreign exchange rate differentials. Plunging stocks have caused wealth losses. These are being translated into a slower pace of fund circulation. Considering changes in the pace of fund circulation and money supply, the growth rate in overall demand is expected to continue slowing."

China's GDP grew 10.6 percent in the first quarter and 10.1 percent in the second, with 10.4 percent growth for the first half of 2008. The CPI stood at 7.9 percent in the first half.

### Grain output to exceed 510 m tons in 2008<sup>6</sup>

China National Grain and Oil Information Center, a state-owned forecaster, said in a report on Sep. 10 that an increase in grain output is expected for the fifth consecutive year in 2008, with production to exceed 510 million tons. In which, 18.73 million metric tons paddy may be harvested, 0.84 percent more than last year, and wheat output will be 112.5 million metric tons, up 2.64 percent.

<sup>5</sup> [http://www.chinadaily.com.cn/bizchina/2008-07/28/content\\_6883209.htm](http://www.chinadaily.com.cn/bizchina/2008-07/28/content_6883209.htm)

<sup>6</sup> Shanghai Daily Sep. 11, 2008 Xinhua News Agency Sep. 11, 2008

The center's report also forecasted that corn yield will be reaching 156 million metric tons, 4.17 million metric tons more than last year; Soybean output may rise 36.72 percent from a year ago to 17.5 million metric tons. China's higher output may slow its growth in soybean imports, which are set to reach a record 34.4 million tons in the year through September 30.

China has adopted multiple measures and policies since late last year in a bid to stabilize grain prices and promote agricultural production, including curbing grain export, raising subsidies for farmers and tackling fertilizer price increase, among others.

### **COFCO and Japan Itochu formed food alliance<sup>7</sup>**

China's largest agricultural trading and processing company, COFCO, has enlisted Japanese trading house Itochu Corp to help it prepare for possible increases in demand for grains and other food from around the world.

Itochu, Japan's fourth biggest trading company, said it and the Chinese company were discussing joint purchases of grains, dairy products and meat to boost their buying power in the international market, after signing a strategic alliance last month.

Rapidly increasing wealth in China has also opened the way for sales of high-quality farm produce from Japan, as tastes in the world's most populous nation turn to meat, dairy products and imported food.

At the same time a rally in international grain prices, such as corn and soybeans and higher fuel and freight costs have made it difficult for food importers to find stable supplies at reasonable prices.

COFCO is expanding its food-processing business as part of an effort to diversify away from grains trading, which is losing importance as China's economy opens up.

### **120 million hectares arable land guaranteed on grain security concern<sup>8</sup>**

Recently, China's Cabinet approved the general outline for the land use plan during 2006-2020 period to ensure the proper use of arable land and guarantee a minimum of 120 million hectares of arable land.

The State Council agreed at an executive meeting the plan to make sure the area of the country's arable land remains at 121 million hectares by 2010 and no less than 120 million hectares by 2020, to ensure grain security, economic and social stability, according to the meeting, presided over by Premier Wen Jiabao.

---

<sup>7</sup> China Daily Sep. 5, 2008

<sup>8</sup> Xinhua News Agency Aug. 31, 2008

The outline also called for tightened restrictions on the acquisition of farmland for construction of housing and factories and urged local authorities to intensify monitoring of land use. Any unlawful land seizure should be timely adjusted.

Experts believed the arable land pollution, together with a declining area of farmed land, had posed a severe threat to the country's food security.

According to the outline, relentless efforts would be made to improve land using efficiency and achieve a structure balance between the ecological land use and lands for other usage. Efforts will be made to push legislation to regulate land use.

### **Rising prices eating into farmers' income<sup>9</sup>**

Farming one mu (0.066 hectares) of wheat will yield 153 yuan (\$22) of net income this summer, a recent official survey on farmers' income has showed. Rising production costs was cited as a major reason behind the decrease in income.

Thinner profit margins have forced the farmers to downsize their planting acreage. Li Taiai, a 58-year-old farmer in Zhongcaiwan village of Shandong province, said: "More and more grain growers are shifting to planting vegetables, which can generate much higher profit in a shorter time." Just a few years ago, half of the land was used to grow wheat and other grain, he said.

### **Researchers successfully clone pigs with swine fever-resistant gene<sup>10</sup>**

Three cloned piglets with a gene-resistant to swine fever virus, a fatal disease for the livestock, have been born in northeast China's Jilin Province, Chinese researchers said.

The piglets, weighing 1,050 grams, 1,100 grams and 550 grams, were born on Sep. 10 in a pig farm of the Agriculture Department, Jilin University.

Experts said the piglets were the first with the gene against swine fever in the world.

### **Pork prices likely to fluctuate<sup>11</sup>**

China's pork prices had almost doubled since last summer because of rising costs, shrinking supplies and blue ear's spread. But the country's pig supply levels have rebounded through government subsidies, lowering pork prices.

Industry statistics show there were about 470 million pigs in the first half of the year, about a 10 percent increase over the same period of 2007.

Beijing-based market analyst Yi Mingqi believed the pork market would be saturated by the end of the year. Yi predicted prices would spike around Spring Festival before hitting a

<sup>9</sup> [http://www.chinadaily.com.cn/china/2008-07/25/content\\_6876031.htm](http://www.chinadaily.com.cn/china/2008-07/25/content_6876031.htm)

<sup>10</sup> Xinhua News Agency Sep. 11, 2008

<sup>11</sup> <http://www.thepigsite.com/swinenews/19035/pork-prices-likely-to-fluctuate>

low point in the second season of 2009.

The Ministry of Agriculture recently said the pork price has been continuously dropping since January, and prices have declined 13 percent on average since then.

The current average price in major markets is about 20 yuan (\$2.92) per kg, down about 3 yuan from January.

The ministry said pig farmers could currently make a profit of 160 yuan per 100 kg on average - less than half the 400 yuan they could earn at the peak season at the end of 2007.

China consumes an average of about 50 million tons of pork annually but only consumed 42 million tons last year due to the shortage. The figure is expected to be 46 million this year.

While the pig population's rapid increase might lead to surplus pork supplies, rising feedstuff costs might diminish the industry's profitability. Experts believe this might lead to a new wave of market fluctuations.

### **Soybean output set to increase<sup>12</sup>**

Chinese government will ramp up soybean production and guide development of the soybean processing industry to reduce reliance on imports, according to a guideline for the soybean processing industry released on Sep. 3 by the National Development and Reform Commission (NDRC).

Last year, China imported 30.82 million tons of soybeans, accounting for 40.9 percent of the world's total soybean trade and pushing up the country's dependence on imports to 78.7 percent, according to this guideline.

This year, China's soybean planting area increased 1.06 million hectares from a year ago and will reach 9.65 million hectares. Output is expected to rise to 17.5 million metric tons, up 36.7 percent from 2007. Efforts to develop new strains of high-yield soybean seeds and introduce advanced planting technologies are also expected to boost output.

Rapid growth of the soybean extraction industry in the past few years led to excess production capacity of 77 million tons in 2007, but the operation rate across the industry was only 44.2 percent, the NDRC said.

The guideline stipulates soybean extraction capacity should be under 75 million tons a year by 2010, and further reduced to 65 million tons a year until 2012.

The NDRC also urged the soybean processing industry be upgraded through mergers and reform, and major soybean processors be set up in the coastal region.

---

<sup>12</sup> China Daily Sep. 4, 2008

The guideline also sets out stringent environment protection rules for soybean processors, requiring energy and water consumption be reduced by 15 and 30 percent respectively by 2012.

### Dairy industry inspected after milk powder scandal<sup>13</sup>

Ministry of Agriculture launched an inspection of the country's dairy industry on Sep. 15 after tainted milk powder sickened babies and aroused concern.

Six ministry teams were dispatched to the country's six major milk-producing regions, including Beijing, Hebei, Inner Mongolia and Heilongjiang in the north, Xinjiang in the west and the central Henan Province.

The officials will talk to dairy farmers, feedstuff producers, operators of milk collection stations and supermarket managers to find out their concerns and suggestions.

They will try to assess the impact the Sanlu baby formula scandal on the dairy industry and put forward policy proposals on how to protect farmers' interests and promote the stable development of the dairy industry.

They will also investigate various links, such as price changes in raw milk and dairy products, problems in raw milk purchase and flaws in milk station management, among others.

In 2006, China had about 1,600 dairy producers with a total annual capacity exceeding 50 million tonnes, while dairy output totaled 33 million tonnes.

## Statistics

### Top 3 Countries Exporting Major Agricultural Produces to China

Quantity: Tonnes Amount: USD 10,000

Top 3 Markets	Jan. - July 2008		Jan. - July 2007		Var. % Jan. - July 2008/2007	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
<b>Soybean: Total</b>	20,733,366.7	1,226,424.4	16,880,860.4	560,669.6	22.8	118.7
<b>1. United States</b>	9,524,168.7	556,796.0	7,839,577.1	254,336.6	21.5	118.9
<b>2. Brazil</b>	6,912,376.8	423,690.3	5,973,098.6	204,241.1	15.7	107.4
<b>3. Argentina</b>	4,125,772.7	236,458.7	3,023,866.2	100,457.3	36.4	135.4

<sup>13</sup> Xinhua News Agency Sep. 15, 2008

<b>Soybean Oil: Total</b>	<b>1,467,881.8</b>	<b>176,196.3</b>	<b>1,334,368.3</b>	<b>90,539.9</b>	<b>10.0</b>	<b>94.6</b>
<b>1. Argentina</b>	<b>943,583.3</b>	<b>110,766.9</b>	<b>1,053,375.4</b>	<b>71,289.9</b>	<b>-10.4</b>	<b>55.4</b>
<b>2. Brazil</b>	<b>349,417.2</b>	<b>44,885.4</b>	<b>154,888.4</b>	<b>10,598.6</b>	<b>125.6</b>	<b>323.5</b>
<b>3. United States</b>	<b>174,321.7</b>	<b>20,492.0</b>	<b>119,896.9</b>	<b>8,160.0</b>	<b>45.4</b>	<b>151.1</b>
<b>Corn: Total</b>	<b>12,182.8</b>	<b>505.1</b>	<b>7,041.2</b>	<b>260.6</b>	<b>73.0</b>	<b>93.8</b>
<b>1. United States</b>	<b>3,805.6</b>	<b>219.4</b>	<b>1,758.7</b>	<b>64.6</b>	<b>116.4</b>	<b>239.4</b>
<b>2. Burma</b>	<b>8,081.0</b>	<b>100.4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2. India</b>	<b>30.8</b>	<b>67.7</b>	<b>35.7</b>	<b>87.7</b>	<b>-13.6</b>	<b>-22.9</b>
<b>Mix Animal Feed: Total</b>	<b>80,656.8</b>	<b>12,125.2</b>	<b>51,154.6</b>	<b>7,171.9</b>	<b>57.7</b>	<b>69.1</b>
<b>1. United States</b>	<b>43,964.4</b>	<b>4,874.3</b>	<b>21,191.5</b>	<b>2,272.8</b>	<b>107.5</b>	<b>114.5</b>
<b>2. France</b>	<b>4,287.8</b>	<b>919.6</b>	<b>2,139.5</b>	<b>545.3</b>	<b>100.4</b>	<b>68.7</b>
<b>3. Holland</b>	<b>10,312.4</b>	<b>916.2</b>	<b>5,716.3</b>	<b>444.1</b>	<b>80.4</b>	<b>106.3</b>
<b>Broilers: Total</b>	<b>475,867.5</b>	<b>60,841.7</b>	<b>466,043.8</b>	<b>50,167.8</b>	<b>2.1</b>	<b>21.3</b>
<b>1. United States</b>	<b>339,702.5</b>	<b>44,009.6</b>	<b>287,835.0</b>	<b>29,097.2</b>	<b>18.0</b>	<b>51.3</b>
<b>2. Argentina</b>	<b>127,888.2</b>	<b>15,745.9</b>	<b>24,407.3</b>	<b>3,019.8</b>	<b>424.0</b>	<b>421.4</b>
<b>3. Chile</b>	<b>4,508.9</b>	<b>606.1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source: China Chamber of Commerce of Import and Export of Foodstuffs, Native Produce and Animal By-Products.