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## China Agricultural Newsletter – September 2009

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## Laws, Regulations and Policies

### Food safety standards to be formulated<sup>1</sup>

Vice Minister of Health Chen Xiaohong said a new system of food safety standards is being drafted that is expected to guarantee people's health and be more compatible with international norms.

"The Ministry of Health is now working with other government agencies to formulate a new system of food safety standards, as required by the country's new food safety law that went into effect 1 June this year," said Mr. Chen.

According to Mr. Chen, the new system will integrate existing food safety standards, eliminate areas that overlap or contradict each other, and establish new standards for areas that previously lacked regulation. "The amount of pathogenic microorganisms, pesticide residue, microorganism residue, heavy metals and pollutants in food products, as well as the use of food additives are the priority areas," noted Mr Chen. "We are also building up an expert team on food safety standards."

Mr. Chen promised transparency in the making of the new system and encouraged experts and enterprises to submit suggestions. The new system will also be subject to the opinions of international organizations and other countries, in line with a request from the WTO, he said.

### Corn-processing enterprises subsidized for using stored reserves<sup>2</sup>

Corn products producers who use the nation's reserves will be subsidized by the government, the Ministry of Finance (MOF) said on Sept. 14.

China is to sell stored corn to enterprises producing corn products in Liaoning, Jilin and Heilongjiang provinces and the Inner Mongolia Autonomous Region.

<sup>1</sup> ThePigSite News Sept. 1, 2009

<sup>2</sup> Xinhua News Sept. 14, 2009

The subsidies, to come from the central budget, will first be channeled from central government to local governments who will allocate funding to individual enterprises.

The MOF said the move aimed to increase the rate of operation of China's corn-processing enterprises, and to clear a space at corn reserves.

Enterprises are expected to receive 150 yuan (US\$ 21.96) for every ton of corn they process.

### **System to recall defective agricultural machines set up<sup>3</sup>**

Producers of machines used in agriculture shall recall defective products, said a regulation published by the State Council.

The regulation aims to ensure operators' safety, said an official with the Department of Agriculture Mechanization Administration of the Ministry of Agriculture. China faces a tough safety situation with regard to machines used in agriculture, the official said.

China reported 58,000 accidents related to defective products in the agriculture sector from 2004 to 2008, which killed 16,700 people, injured a further 51,500 and led to 163 million yuan (23.87 million U.S. dollars) in losses.

Machines in agriculture use include tractors, reaping machines, rice seedling planting machines, threshers and hay cutters among others, the regulation says.

The new regulation will take effect on Nov. 1, 2009.

### **Outbound investment to simplify procedures<sup>4</sup>**

Zhang Yingxin, deputy director of Investment Promotion Agency of China's Ministry of Commerce (MOFCOM), said on Sept. 18 that the ministry would simplify outbound investment approval procedures and encourage Chinese firms to invest overseas.

She said that the ministry's regulation on enterprises' overseas investment focused on the programs' influence in China's economic safety and foreign affairs. Enterprises should do feasibility studies considering market rules and its development. The government should not set barriers to their overseas investment.

By the end of 2008, 70 percent of Chinese enterprises overseas mergers and acquisitions failed. Zhang suggested that enterprises could pay more attention to real economy, and that operation philosophy, local legal and political risks as well as transnational operation capacity should all be taken into consideration.

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<sup>3</sup> Xinhua News Sept. 24, 2009

<sup>4</sup> People's Daily Sept. 18, 2009

### **Top legislature sends work groups to inspect food safety law implementation<sup>5</sup>**

The Standing Committee of National People's Congress (NPC) decided to send five workgroups to 10 municipalities and provinces to ensure the new food safety law is properly enforced.

The work groups, headed by five vice chairpersons of the NPC Standing Committee, will visit the municipalities and provinces from September to December, according to a decision reached at the first plenary session of the work groups.

Wu Bangguo, Chinese top legislator, said the inspection was aimed at ensuring the Food Safety Law is effectively enforced, food safety guaranteed and people's immediate interests are well protected.

The work groups are scheduled to visit the municipalities of Beijing and Chongqing, the provinces of Hebei, Shanxi, Heilongjiang, Zhejiang, Anhui, Fujian and Shandong, and Guangxi Zhuang Autonomous Region.

### **Farmers' income to continue rising in 2009<sup>6</sup>**

Chinese farmers would see their income continue to rise this year, Vice Minister of Agriculture Chen Xiaohua said at a press conference on Sept. 26.

Farmers' per capita cash income in the first half of this year reached 2,733 yuan (US\$ 400), up 8.1 percent year on year. But the increase rate was 2.2 percentage points slower than that in the same period last year, according to Chen.

Chen also stressed the importance of creating more jobs for surplus rural laborers in a bid to increase their salary income. Chen also said the government will increase fiscal support for farmers in subsidizing their purchase of seed, diesel, fertilizer and other production materials.

### **Corn producing regions experiencing evere drought<sup>7</sup>**

China is suffering from severe drought conditions in corn producing regions. As a result, China's feed grains production is projected to fall, minimizing their competitiveness in export markets and allowing speculation about the likelihood of imports.

The official corn production number for the 2009-10 crop year from China National Grain and Oils Information Center's September report was 165.5 million metric tons (6.5 billion bushels), down approximately 1 million metric tons (3.9 million bushels) from August.

USDA's World Agricultural Supply and Demand Estimates projected China's corn production at

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<sup>5</sup> Xinhua News Sept. 22, 2009

<sup>6</sup> Business China Sept. 27, 2009

<sup>7</sup> Feed E-News Sept. 14, 2009

162.5 million metric tons (6.4 billion bushels).

According to Cary Sifferath, U.S. Grains Council senior director in China, Chinese corn is currently priced too high to compete in export markets. China's corn prices are isolated from the rest of the world due to absence of imports or exports, pushing prices higher than the world average.

China exported 5.27 million metric tons (207.5 million bushels) of corn during the 2006-07 crop year. Since then, there have only been minimal corn exports.

Based on China's expected drop in corn production, it is unlikely that significant quantities of corn will be exported during the 2009-10 crop year. Whether China will import corn is anybody's guess, according to Sifferath, the U.S. will be the likely origin if the time comes.

### **Retaliation against US soy farms is unlikely<sup>8</sup>**

China imported a record 29.9 million tons of soybeans in the first eight months of the year, around 40 percent of which originated in the United States.

China might be eager to retaliate against Washington, but hitting the soybean sector would not be the right way to go about it, a Chinese analyst said. China was already dependent on cheap and plentiful foreign supplies even before a long drought hit its major growing regions in the northeast.

"There is no other source of cheap soybeans except the United States until at least March or April," said Nobuyuki Chino, president of Tokyo-based grain trading company Unipac Grain. "Even if the US government has imposed duties on Chinese tires, I don't think they will take such an action," he said.

"The soybean trade volume has reached around \$10 billion now, while tire exports amounted to \$2.2 billion, so China won't choose soybeans to protest against the United States," said Qin Pei at Guangtong Futures.

### **U.S. crop growers eye rural China<sup>9</sup>**

Soybean growers in the United States want to increase livestock feed sales to small landowners in rural China to help boost exports, the United Soybean Board reported.

US exporters sold 16.9 million tons of soybeans as of Sept 3, of which 10.2 million tons were bought by China, the biggest buyer of US soybeans.

China's feed industry consumes about 100 million tons of protein meal annually, with half of that used by small land-holders who often feed table scraps to their chickens, hogs and dairy cows, said Thomas Wray, a director of the board that helps market US soybeans internationally.

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<sup>8</sup> China Daily Sept. 28, 2009

<sup>9</sup> China Daily Sept. 28, 2009

Only about 30 percent of China's protein meal needs are met with soybean meal, Wray said.

### **22 mln hectares of winter wheat to ensure good yield<sup>10</sup>**

China will increase spending to pledge more than 333 million mu (22.2 million hectares) of winter wheat nationwide this year to ensure a good yield for next year, Minister of Agriculture Sun Zhengcai said.

Sun also said the planting area of winter rape should exceed 100 million mu (6.67 million hectares) nationwide, and that for winter potato in the south should reach more than 20 million mu (1.33 million hectares) this year.

Sun called for more efforts to increase yield. Output of wheat should be more than 320 kilograms per mu this year, 1 kilogram more than a year ago. Yield for rape is set above 128 kilograms per mu this year, 2 kilograms more than last year.

He urged local agriculture authorities to work out detailed plans for subsidies to farmers for high-quality seed purchase and make sure they receive the subsidies before planting in autumn and winter this year.

He ordered good implementation of the policies of minimum purchase price for wheat and temporary reserves for rape to stabilize their market prices. He also promoted the use of advanced technology and equipment, and prevention of natural disaster and insect problems.

### **Training base of hybrid rice breeding launched for foreigners<sup>11</sup>**

A training base aiming to help foreign agro-technicians and governmental officials acquire China's world-leading hybrid-rice cultivating technique was officially launched on Sept. 10.

Yuan Longping High-Tech Agriculture, a state-owned company named after "the Father of China's Hybrid Rice," aims to train 5,000 foreigners, establish 10 breeding centers and expand overseas cultivation bases to 10,000 hectares within 10 years. China's technical assistance in hybrid rice could help overseas farmers breed new crop varieties and reap harvests on their home turf.

Established in June 1999, the company headed by Academician Yuan Longping was designated as China's first training base for the spread of hybrid-rice breeding and cultivation techniques.

So far more than 2,000 government officials and agro-technicians from 50 countries have been trained through 30 courses.

### **Soaring pork price not to trigger inflation<sup>12</sup>**

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<sup>10</sup> Xinhua News Sept. 11, 2009

<sup>11</sup> ThePigSite News Sept. 7, 2009

<sup>12</sup> ThePigSite News Sept. 7, 2009

Although pork price in China has risen for 13 straight weeks, it is not likely to trigger inflation as it did previously, economists and industry analysts observed.

"The markup was a natural result of prices being too low in the previous period," said Xu Lianzhong, director with the analysis and prediction office under the Price Monitoring Center of the country's top economic planner, National Development and Reform Commission (NDRC).

From March to June this year, China's pork prices fell straight on oversupply and concerns that the A/H1N1 influenza virus was connected with pigs, according to the NDRC.

The government then started to stockpile frozen pork to stabilize prices and protect pig breeders from losses and frustration.

On Aug. 19, prices for live pigs and pork reached 11.98 yuan per kilogram (1.75 US dollars) and 15.7 yuan per kilogram (2.30 US dollars), up 23.5 per cent and 22.3 per cent respectively from the lowest price of 2009, but both were still 12 per cent lower compared with the same period of last year.

Low prices pushed breeders to cut hog stocks. Statistics from the Ministry of Agriculture (MOA) indicates that in the first half of 2009, the number of sows declined steadily and so did the live hog stocks except for March and April. The decreases in market supply also helped push up the prices.

China needs about 410 million live hogs, including 41 million sows, to balance the pork consumption market, according to NDRC statistics. Data from MOA showed that at the end of June, China had 450 million live hogs, including 48 million sows. Analysts believe the supply is able to meet the demand.

### **Pig meat industry needs to modernize and industrialize<sup>13</sup>**

Deng Fuijiang, the standing vice president and secretary general of the China Meat Association told the World Pork Conference, held in Qingdao on Sept. 3, that China's total meat production reached 72.782 million tonnes last year – a rise of six percent on the previous year.

China now has a 29 percent share of the global meat trade and it has also seen consumption rise to 54.8 kg per person. Over the last year, China has also seen its total trade in meat and meat products rise dramatically with a 31.2 per cent increase in pork trade and 23.4 per cent increase in the beef trade.

Of the total production, pork took the largest share with 40.7 million tonnes more than 60 percent of total production. Last year, the country had a total of 3,096 meat plants, which was a rise of 249 on the previous year.

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<sup>13</sup> ThePigSite News Sept. 2009

The great proportion of the meat industry is held by the large companies with the top 90 companies holding a 75 percent market share of production in volume and 72 percent in value. In all, the Chinese meat processing companies had a turnover last year of RMB 42.423 billion (US\$ 6.211 billion) and they saw their profits rise by 15.9 per cent to RMB 15.37 billion (US\$ 2.25 billion).

While the industry is growing, it is also in the process of strategically restructuring. Mr. Deng said there was not only a shortage of raw materials, but also a severe overcapacity in the industry. While many companies in the past slaughtered and processed all their own products, now some companies are slaughtering for others, and processors are being forced to buy in meat. 80 percent of the processors and slaughterers are under-equipped technologically. This has put the meat industry at a critical point in the process of upgrading.

To achieve this, Mr Deng said China has to change its scattered rearing to production on an industrial scale. It also needs to change its system of small workshop slaughterhouses to modern industrial-sized processing plants and the country also needs to grow and develop its transport and logistics systems.

### **China denied import blocks of EU pig meat<sup>14</sup>**

China has denied restrictions on pork imports from the European Union. EU health and food safety commissioner Androulla Vassiliou said that China recently started imposing curbs on EU pork imports, as Denmark, France, Italy and Spain were asked to prove the safety of their live pigs.

China still allows pork imports from these countries, but only asks for additional inspection out of H1N1 fears, according to Yu Taiwei, minister of China 's General Administration of Quality Supervision, Inspection and Quarantine.

China imported 932,000 tons of pork last year, or 50.6% of total meat import volumes, says China's Ministry of Commerce. Currently, China only imports pig meat from five countries, four of which are in the EU.

### **Chicken parts imports from U.S. probed<sup>15</sup>**

China formally launched an anti-dumping and anti-subsidy investigation into chicken parts imports from the United States on Sept. 27, two days after US lawmakers agreed to end a gag order that prevented the US from even considering importing Chinese cooked poultry.

China said it would investigate chicken wings and feet, as well as automotive imports from the US, immediately after the Obama administration decided to impose hefty "safeguard" duties on Chinese-made tires.

Chicken wings and feet are virtually worthless in the US, where they sell for about 2 US cents a

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<sup>14</sup> Pig E-News Sept. 24, 2009

<sup>15</sup> Shanghai Daily Sept. 28, 2009

pound, but are a delicacy in China where they fetch 40 US cents a pound.

Imports from the US are equal to about half of the total output of Chinese poultry producers, and rose to over 60 percent of Chinese production in the first half of this year, the Ministry of Commerce said, citing figures from the Chinese Animal Agricultural Association.

### **Trade remedy measures considered for U.S. broiler meat imports<sup>16</sup>**

China is considering whether to launch trade remedy measures against imports of broiler meat from the US, said Ma Chuang, vice-secretary general of China Animal Agriculture Association.

The Association, representing 20 large-scale broiler meat companies whose annual output accounts for more than 50% of the total, is worried losing market share to the US. It recently sent a proposal to the Ministry of Commerce (MOFCOM) claiming the large volume of the US imports and their comparatively lower prices have disrupted the Chinese poultry market, squeezing local companies' profits and hurting sales, Ma said.

"We are aware of the appeal from the industry and we will carefully study it and respond accordingly," said officials from MOFCOM.

If enacted, the proposal will be the first trade remedy deal that China has launched in the agriculture industry and will seriously reduce US broiler exports.

### **Minhe poultry farm making use of most waste<sup>17</sup>**

Minhe Animal Husbandry, a poultry farm in Shandong Province, is creating green energy with chicken manure in a biogas energy plant.

The operation includes an anaerobic digester system daily consuming 300 tons of manure and 500 tons of wastewater. The biogas is fed to three 1MW Jenbacher gas engines from the U.S.'s GE Energy.

Electricity from the biogas plant supplies the farm with all its energy, and extra power is fed into the grid. The plant is expected to generate 16.8GWh of energy per year and reduce CO2 emissions by 67,000 tons annually. Residual material can be used as fertilizer.

Minhe produces 3.7 million chickens annually and maintains 1.5 million chickens for breeding. The plant has been registered under the UN's clean development mechanism plan.

### **COFCO's investment in NW Xinjiang to double in the next 5 years<sup>18</sup>**

China National Cereals, Oils & Foodstuffs Corporation (COFCO) said the corporation's total investment in the northwestern Xinjiang Uygur Autonomous Region would reach 10 billion yuan (1.46 billion U.S. dollars) over the next five years.

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<sup>16</sup> China Daily Sept. 3, 2009

<sup>17</sup> WATT Poultry E-News Sept. 27, 2009

<sup>18</sup> Xinhua News Sept. 28, 2009

Currently, COFCO's accumulative investment in the region is about 5 billion yuan, focused on tomato processing, sugar manufacturing, and beverages.

In 2005, COFCO made an investment in Xinjiang's Tunhe Investment Co., Ltd. by taking over a 37.2 percent share of Tunhe. So far COFCO Tunhe has become the largest tomato ketchup producer in Asia, and the second largest in the world.

### **CP Group to invest US\$1.2 billion in North China<sup>19</sup>**

Thailand's Charoen Pokphand Group (CP Group) and the Chinese government signed a deal on September 8 worth 7.9 billion Yuan (US\$1.2 billion) for a food project in North China.

Under the deal, three integrated operations — a hen project with 3 million birds in stock, a broiler project with a 100-million-bird annual output and a hog project with 1 million head of annual production — will be built in Changchun, the capital of Jilin province.

Currently, CP Group is working with the Jilin authorities for a detailed plan, and is expected to launch the project this year, according to Li Yang, the company executive in charge of the project.

"After producing, we will sell shell eggs and pork across China in order to meet rising domestic demand," Li said. "While, for our broiler meat, 60-70% of them will be exported to Europe and Japan as cooked products, and the rest will be sold in China as fresh meat," he added.

Li also mentioned that the company may provide live pigs to China's leading slaughtering facilities such as Henan-based Shine way Group. But long-term, CP Group is eager to develop its own pork products.

### **Zhongpin invests US\$ 6 million to upgrade pork processing plant<sup>20</sup>**

Zhongpin Inc., a leading meat and food processing company in China, has announced that it has upgraded its slaughtering and processing facility in Changge of Henan province that produces chilled and frozen pork products.

Process engineering and information technology improvements have increased the plant's annual production capacity by 37 percent, from 59,760 metric tons to 81,760 tons, at a cost of approximately US\$6 million. This higher capacity will help support Zhongpin's expansion into new markets for its chilled and frozen pork products.

Going forward, this newly modernized plant in Changge and the new plant in Tianjin that is currently under construction will assist Zhongpin to better serve its important north China market including the affluent cities of Beijing, Tianjin, and Tangshan.

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<sup>19</sup> WATT Poultry E-News Sept. 10, 2009

<sup>20</sup> ThePigSite News Sept. 1, 2009

The new Tianjin plant, which is expected to begin pork production by mid-February 2010, also will have state-of-the-art processes to produce chilled and frozen pork products of the highest quality and safety.

### **Mengniu H1 profit up 14%<sup>21</sup>**

Mengniu Dairy Co. saw its profit go up 14 percent in the first half of the year despite a fall in sales revenue. The rise indicated that the company has recovered from most of the problems associated with last year's melamine scandal.

Mengniu's net profit during the first half of the year stood at 661.9 million yuan (US\$ 94.6 million), or 0.424 yuan per share, compared with 582.9 million yuan, or 0.409 yuan per share, from a year earlier. Sales revenue for the period fell by 11.7 percent to 12.1 billion yuan.

Because of the melamine scandal last year, except for Sanyuan, all other listed dairy companies including Mengniu, Yili and Bright Dairy slipped into the red in 2008. But this year most of the firms have bounced back by reporting healthy first half earnings numbers.

Mengniu has also managed to outperform its peer Yili with higher profits. Yili reported a 118-percent increase in first-half profit at 254 million yuan.

According to AC Nielsen statistics, Mengniu leads the Chinese liquid milk market, although it lags behind Yili as the second largest dairy producer by sales volume.

### **Feihe invests US\$ 732 million to boost milk output capacity<sup>22</sup>**

Infant formula maker Feihe Dairy Industry is investing 5 billion yuan (US\$ 732 million) over the next five years to boost its milk output capacity. The New York Stock Exchange listed firm intends to set up 8 large-scale pastures and 1,000 small-scale pastures as part of the plan to increase its total milk output to around 1.6 million tons.

The eight large pastures that are expected to come up in the next five years would have a capacity of 10,000 milk cows each, while the 1,000 small pastures would be able to house 1,000 milk cows each.

Feihe has for long been plagued by an acute output crunch. It has only three large pastures in Heilongjiang province with an annual output capacity of 300,000 tons. The three pastures can only contribute to 40 percent of its output volume every year. That has left the company relying largely on external supplies from individual farmers to cater to its requirements.

Unlike other dairy firms, Feihe does not have cash problems and reported fairly good performance for the first half. The company had earlier raised funds worth US\$ 63 million from US private equity firm Sequoia Capital. It was also one of the few firms that were left unscathed in last year's melamine scandal. In contrast to its peers, the company bucked the trend and

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<sup>21</sup> Xinhua News Sept. 9, 2009

<sup>22</sup> China Daily Sept. 1, 2009

registered sales of US\$193 million in 2008, and during the first half of this year, its sales surged by 258 percent to US \$150 million.

According to a recent ACNielsen survey, Feihe had a 7.3 percent market share in the infant formula market during the first half of the year.

According to a report by China Investment Consulting, the Chinese infant formula market is expected to grow at a scorching pace from 2009 to 2012 with a market size of around 30 billion yuan. By 2010 China is also expected to become the largest high-end infant formula market.

After the expansion, Feihe intends to utilize most of the milk collected for infant formula manufacture, and subsequently double its market share to 15 percent in the next five years.

The company has 80,000 sales outlets in China, with most of them in Henan, Shandong, Hebei and Heilongjiang provinces. During the second half the company plans to concentrate on bigger cities and add another 20,000 sales outlets. It will also step up brand building efforts by spending more on advertisements and on other communication modes.

### **Demand to soar for cold storage<sup>23</sup>**

China's market for refrigerated warehouses is expected to grow by about 24 percent for each of the next five years amid a thriving consumer market and food-export sector, real estate services provider Jones Lang LaSalle predicted.

A change in eating habits and heightened awareness of food safety standards are boosting domestic demand for cold storage logistics, a report by the company said.

"China's cold chain market is seriously underdeveloped," said Stuart Ross, head of industrials for Jones Lang LaSalle's China operation. "It's estimated that only 15 percent of products that should be temperature-controlled are now handled properly."

The per capita stock of refrigerated warehouse space stood at only 0.01 cubic meter in 2008, compared with 0.29 cubic meter in Australia, 0.23 cubic meter in the United States and 0.22 cubic meter in Japan, according to the International Association of Refrigerated Warehouses and the China Statistics Year Book.

In anticipation of more robust demand, an increasing number of players have already begun to look for opportunities in China. Preferred Freezer Services, a US-based cold storage specialist, kicked off construction in July on a refrigerated warehouse in Shanghai's Lingang Logistics Park.

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<sup>23</sup> Shanghai Daily Sept. 16, 2009

## Statistics

### China major meat sales price (September 2009)<sup>24</sup>

#### Pork (Lean):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
A. 09/11/09-09/20/09	B. 09/01/09-09/10/09	C. 08/11/09-08/20/09	D. 09/11/08-09/20/08	(A-B)/B	(A-C)/C	(A-D)/D
23.14	23.08	22.48	27.18	0.26%	2.94%	-14.86%

#### Chicken:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
E. 09/11/09-09/20/09	F. 09/01/09-09/10/09	G. 08/11/09-08/20/09	H. 09/11/08-09/20/08	(E-F)/F	(E-G)/G	(E-H)/H
14.50	14.48	14.26	15.04	0.14%	1.68%	-3.59%

#### Beef (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
I. 09/11/09-09/20/09	J. 09/01/09-09/10/09	K. 08/11/09-08/20/09	L. 09/11/08-09/20/08	(I-J)/J	(I-K)/K	(I-L)/L
33.84	33.78	33.70	33.60	0.18%	0.42%	0.71%

#### Egg:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
M. 09/11/09-09/20/09	N. 09/01/09-09/10/09	O. 08/11/09-08/20/09	P. 09/11/08-09/20/08	(M-N)/N	(M-O)/O	(M-P)/P
8.36	8.20	7.88	8.56	1.95%	6.09%	-2.34%

<sup>24</sup> China Animal Agriculture Association