



www.iowalifechanging.com

## China Agricultural Newsletter – February 2010

The China Agricultural Update is provided to you in partnership with the Iowa Farm Bureau Federation and the Iowa Department of Economic Development's (IDED) office in China, which is operated by Phoenix Consulting LLC. Ms. Wendy Zhang, IDED's agricultural trade specialist in the China office, can provide customized market research information for your company. For more information on how to utilize the services offered by IDED's Beijing Office, please contact Kathy Hill at 515.725.3141 or [Kathy.hill@iowalifechanging.com](mailto:Kathy.hill@iowalifechanging.com).

### Table of Contents

New efforts to boost rural development.....	2
Farming subsidy US\$12.7b embarked.....	2
NDRC raised rice minimum purchasing price .....	3
Controls on animal feed tightened .....	3
Hong Kong to enact GMO regulation .....	3
Rules on maritime wind energy projects issued with stress on environmental protection .....	4
Fund allocated to fight worst drought for 50 years in south.....	4
Retail sales soared during holiday period .....	5
GM rice to be commercial planted in 3 to 5 years .....	5
Diseased pork poses danger to consumers.....	5
Zhengzhou city orders pigs rest pre-slaughter .....	6
Additional duty on import of US poultry meat levied.....	6
China becomes the 3 <sup>rd</sup> largest market for U.S. DDGS .....	6
Haid Group to build three new feed plants .....	7
AgFeed sells part of its feed business.....	7
New Hope acquires remaining 41 percent stake in Anhui Purity .....	7
Tonnes of tainted milk powder still on market.....	8
Wind power sector faces challenges.....	8

National renewable energy center planned to set up .....	9
Agricultural produce average prices from 200 major production counties Feb. 1-10, 2010 .....	10
Major meat retail price late January to early February 2010 .....	11

## Laws, Regulations and Policies

### **New efforts to boost rural development<sup>1</sup>**

China will put more investment, subsidies, fiscal and policy supports into vast rural areas this year in a bid to better coordinate urban and rural development, the central government said on Feb. 1.

The government will continue to enhance financial support to agriculture and farmers, improve agricultural subsidy systems and maintain a good order in farm produce market, said the first document of the year issued jointly by the Central Committee of the Communist Party and the State Council.

The central government said budget priority should be given to infrastructure construction in rural areas and programs which are aimed at improving rural residents' livelihood.

More subsidies will be channeled to increase the output of crops, potato, highland barley and peanut, as well as the purchase of agricultural machinery, said the document.

The government would implement more policies for purchasing and stockpiling major agricultural products, including corn, soybean and oilseeds, to stabilize prices of major farm produce.

More efforts will be made to strengthen financial services including micro-credit loans and insurance service in rural areas, according to the document. It promised that basic banking services would be available in all villages and towns in the next three years. It called for more efforts to develop village banks, loan-lending companies, and mutual funds in a bid to guide more capital flows into the rural financial market.

The central government also asked for further expansion of rural consumption market as part of the country's accelerating measures to boost consumption.

Despite remarkable achievements in improving agricultural production and the livelihood of rural residents in the past six years, China now faces growing difficulties in increasing farmers' income and narrowing the gap between urban and rural areas, said the document, the seventh of its kind since 2004 to address rural problems.

### **Farming subsidy US\$12.7b embarked<sup>2</sup>**

Ministry of Finance (MOF) announced it had earmarked 86.7 billion yuan (US\$12.7 billion) in subsidies for grain-growers.

<sup>1</sup> Xinhua News Feb. 1, 2010

<sup>2</sup> Global Times Feb. 5, 2010

The subsidy is to partly offset the seed, pesticide and chemical fertilizer costs for farmers in the spring, the MOF said.

### **NDRC raised rice minimum purchasing price<sup>3</sup>**

National Development and Reform Commission (NDRC) said it would raise the minimum state purchasing prices for rice in major rice-production areas by up to 10.5 percent in 2010.

The move was aimed to encourage farmers to increase grain production and help grain prices rise in a stable manner, according to NDRC.

The state purchasing prices for japonica rice would rise 10.5 percent to 105 yuan (US\$15.37) per 50 kilograms this year. Prices for early and middle-late indica rice would increase 3.3 percent and 5.4 percent to 93 yuan and 97 yuan per 50 kilograms respectively.

In 2004, China started the practice of buying grain from farmers at state-set minimum prices when market prices drop below a specified point in order to encourage grain production.

The NDRC has already raised the minimum state purchasing prices for wheat in major production areas at the start of the year.

In January 2009, the NDRC raised the minimum state purchasing prices for rice up to 16.9 percent, the largest hike since the mechanism was introduced in 2004.

### **Controls on animal feed tightened<sup>4</sup>**

The State Council Legislative Affairs Office has posted a draft regulation for strengthening supervision of animal feed on its website, and feedback can be sent before March 15.

Animal raisers face a fine of up to 50,000 yuan (US\$7,320) for improper use of feed and additives, including practices such as adding illegal materials to animal feed and feed additives, and using meat and bone meal for ruminant livestock feed, according to this draft regulation made public to solicit public opinion.

The draft regulation also stipulates that animal feed and feed additive companies are obliged to immediately recall products upon discovery of any defect that may harm animals or people.

Other stipulations in the draft include those covering imports and exports. For example, foreign companies are only allowed to sell feed and additives in China through domestic branches or local agents.

The office said the draft regulation is to meet the increasing public demand for better quality and safety of animal products.

### **Hong Kong to enact GMO regulation<sup>5</sup>**

The Hong Kong government informed the World Trade Organization (WTO) members that it would enact the Genetically Modified Organisms (Documentation for Import and Export) regulation through notifications G/SPS/N/HKG/32 and G/TBT/N/HKG/34.

---

<sup>3</sup> Xinhua News Feb. 21, 2010

<sup>4</sup> China Daily Feb. 23, 2010

<sup>5</sup> Crops Biotech Update Feb. 19, 2010

It invited comments on the consultation paper from WTO members regarding the draft regulation before March 31, 2010, a subsidiary regulation to the GM (Control of Release) Bill. The subsidiary regulation provides detailed information on documentation requirements accompanying shipment containing GMOs.

### **Rules on maritime wind energy projects issued with stress on environmental protection<sup>6</sup>**

The National Energy Administration and the State Oceanic Administration (SOA) has jointly issued regulations on the development and construction of offshore wind power projects in a bid to promote reasonable use of sea space and resources and better protect oceanic environment.

The rules specify procedures and requirements for the planning of offshore wind energy developments, the authorization of such projects, the application and approval of the use of sea space, and construction verification, among others.

The rules stress that projects should be based on the principles of planning before major construction starts.

According to the regulations, energy departments at provincial level will be responsible for drawing up plans for local offshore wind energy development, while oceanic departments at the same level should provide initial opinions on the plans regarding the projects' impact on the ocean environment.

Such projects should be conducted according to reasonable distribution and sparing use of sea areas, the rules said.

In addition, projects may only be started after being verified by authorities and the obtaining of rights for the use of the sea space.

When it comes to uninhabited islands, projects should also receive certificates of island use, according to the procedures set out by the law of island protection.

The rules also require project principals to report on project's environmental impact with submissions to the oceanic administrative department.

## **Industry and Business Watch**

### **Fund allocated to fight worst drought for 50 years in south<sup>7</sup>**

China has earmarked 50 million yuan (US\$7.35 million) of emergency fund to help South China fight the worst drought in 50 years, the Ministry of Finance said.

The money will go to the southwestern Yunnan Province and Guangxi Zhuang Autonomous Region in restoring agriculture production and making sure people and livestock have adequate drinking water supply, the ministry said.

---

<sup>6</sup> Xinhua News Feb. 10, 2010

<sup>7</sup> China Daily Feb. 1, 2010

The drought affected 2.91 million people and 1.48 million large livestock in Yunnan, while up to 57.5 percent of crops, or 21.24 million mu (1.42 million hectares), in the southwestern province were also affected.

In Guangxi, more than 80,000 people in Donglan County suffered water shortage, local authorities said.

### **Retail sales soared during holiday period<sup>8</sup>**

Retail sales during the Lunar New Year holiday rocketed by more than a sixth on last year, in a possible sign of growing confidence among the billions of Chinese consumers.

Shops across the country rang up 340 billion yuan (US\$49.8 billion) in sales, up 17.2 percent from the same period in 2009, according to the Ministry of Commerce.

As families across the country reunited to celebrate the Spring Festival, an important holiday marking the beginning of the Lunar New Year, people splashed out on food, tobacco and liquor.

Food sales jumped 16.5 percent while sales of tobacco and liquor were up 13.2 percent during the holiday period, which ended on Feb.19. Communications equipment, jewelry and home appliances were also popular, with sales up 19.2 percent, 19.1 percent and 15.4 percent respectively.

### **GM rice to be commercial planted in 3 to 5 years<sup>9</sup>**

The Chinese government is expected to approve commercial planting of genetically modified (GM) rice in three to five years as a major effort to raise food supply.

Huang Dafang, a member of the Biosafety Committee at the Ministry of Agriculture, said the nation - which faces shrinking farmland and an increasing population - will turn to genetically modified organism technology to ensure grain security.

Last November, the ministry issued bio-safety certificates to strains of pest-resistant GM rice and corn. The strains need registration and production trials before commercial output can begin, which may take three to five years, Huang said.

The government has set a target of increasing grain output by 50 million tons between 2009 and 2020.

The ministry granted safety certificates to other GM crops like cotton in 1998 and tomato and pepper in 1999.

### **Diseased pork poses danger to consumers<sup>10</sup>**

The Chinese State Administration of Industry and Commerce issued an urgent notice to inform consumers and local law enforcement officers that 'diseased pork' is being sold in some regions of the country.

The notice said that some of the sick pigs were slaughtered earlier than scheduled. It stated, "The pork has entered the market and poses a danger to consumers' health."

---

<sup>8</sup> AFP Feb. 20, 2010

<sup>9</sup> China Daily Feb. 4, 2010

<sup>10</sup> Pig Progress.net Feb. 15, 2010

The administration urged local law enforcement officers to inspect all purchases, ask for safety certificates for the pork and to make purchase and sales ledgers. The announcement further said that problematic pork should be seized and destroyed.

### **Zhengzhou city orders pigs rest pre-slaughter<sup>11</sup>**

Zhengzhou city is requiring improved animal handling to in turn improve the taste of the pork, ordering they get up to a day of rest and relaxation before they go to the slaughterhouse.

An official at the commerce commission in Zhengzhou, capital of Henan province, said, "After long-distance transport, the rest can help pigs get rid of tiredness. The rest will ensure the pork has the best taste and will prevent water-logged pork entering the market."

The rules, posted on the commission's website, stipulate that those who do not implement the rules will be 'severely punished'.

According to a report in Shanghai Daily, officials have suggested slaughterhouse employees play music to the pigs and pat them to help them relax before they are killed.

### **Additional duty on import of US poultry meat levied<sup>12</sup>**

The Ministry of Commerce announced on February 5 its decision to impose preliminary import duties on US poultry imports effective 13 February 2010. Initial anti-dumping duties ranging from 43.1 to 105.4 percent will be levied on US chicken products exported to China.

The ministry's initial investigation showed that US companies had dumped chicken products into the Chinese market, according to an official source. The investigation was announced after the US imposed safeguard duties on Chinese-made tyres, which China is now fighting at the World Trade Organization.

Chicken wings and feet, which are virtually worthless in the US market, are a delicacy in China. Many US poultry producers count on the Chinese market to round out their profits.

Companies that appealed the finding will see duties of 43.1 percent to 80.5 percent on their products, with US companies that active investor and lobby in China getting the lowest rate. Those that did not appeal would pay duties of 105.4 percent, the ministry said.

### **China becomes the 3<sup>rd</sup> largest market for U.S. DDGS<sup>13</sup>**

The U.S. ethanol industry exported 5.64 million metric tons of distillers grains worth nearly US\$1billion in 2009, breaking the previous record set in 2008, according to data released last week by the U.S. Foreign Agricultural Service. Exports in 2009 were 24% above 2008 levels and more than five times higher than the amount of distillers grains exported as animal feed just five years ago.

The top three export markets were Mexico (1.5 million metric tons), Canada (804,000 metric tons) and China (542,000 metric tons). Turkey and Thailand ranked fourth and fifth, respectively.

---

<sup>11</sup> Pig Progress.net Feb. 26, 2010

<sup>12</sup> ThePoultrySite News Feb. 5, 2010

<sup>13</sup> Feed E-News Feb. 15, 2010

Total U.S. distillers grains production in 2009 was approximately 30.5 million metric tons.

### **Haid Group to build three new feed plants<sup>14</sup>**

Haid Group Co Ltd, an aquatic and poultry feed producer based in Guangzhou, Guangdong province, has announced that it plans to spend a total of 249 million yuan (US\$36.47 million) to build three plants with a combined annual output of 640,000 tons of feed.

One plant, which will be located in Changzhou, Jiangsu Province and cost 98.6 million yuan, will include five production lines for granulated feed and two for the production of extruded feed.

Haid Group will also invest 82 million yuan to build a 220,000-ton plant in Jiayang, Guangdong province. The third plant, which will be located in Chengmai, Hainan Province, will produce 180,000 tons of feed.

The three plants are expected to go into operation in 2011.

In addition, the enterprise intends to invest up to US\$8 million to launch a wholly owned subsidiary overseas for materials procurement in the international market.

Haid Group, which listed on ChiNext, China's Nasdaq-style stock market, on 27 November 2009, raised 1.5 billion yuan through an initial public offering, 861 million yuan more than its target.

The firm will use 183 million yuan of the surplus funds to repay bank loans and 309 million yuan to develop projects under construction or in the pipeline, it said at the third extraordinary shareholder meeting of 2009.

### **AgFeed sells part of its feed business<sup>15</sup>**

AgFeed Industries, one of the largest independent hog production and animal nutrient companies in China, announced the proposed sale of a maximum of 20 percent of its animal nutrients feed subsidiary via a listing and initial public offering of the subsidiary's common stock.

The IPO is anticipated to raise US\$20 to 25 million. Dr Songyan Li, AgFeed's chairman, stated "the IPO reflects our Board's desire to provide dedicated capital to our animal nutrient business to develop its presence in other segments of the animal nutrition market, specifically the compound feed and concentrated feed markets which together comprise 95 percent of China's expanding production."

Junhong Xiong, AgFeed's president, added: "Hog feed comprises 35 percent, or US\$20 billion of the US\$58 billion animal feed market in China. Most producers have an annual production capacity of approximately 10,000 tonnes. Our animal nutrition unit sold over 95,000 tonnes of feed in 2009 and we feel that the IPO is a great opportunity to position our animal nutrition business to pursue opportunities for organic growth and growth through acquisitions."

### **New Hope acquires remaining 41 percent stake in Anhui Purity<sup>16</sup>**

---

<sup>14</sup> ThePoultrySite News Feb. 17, 2010

<sup>15</sup> Pig Progress.net Feb. 10, 2010

<sup>16</sup> China Daily Feb. 11, 2010

New Hope Dairy, a wholly owned subsidiary of New Hope Group, said it had acquired full ownership of Anhui Purity Dairy Co Ltd yesterday after buying the remaining 41 percent stake in the company.

Sichuan-based New Hope Group said in a filing to the Shenzhen Stock Exchange that it paid 26.51 million yuan for the remaining stake in the State-owned dairy.

In recent years, New Hope Dairy has acquired a total of 12 small- and medium-sized dairy companies in Hefei, Anhui province, Baoding, Hebei province, Changchun, Jilin province and Qingdao in Shandong province.

China's per capita milk consumption among urban residents was only 27 kilograms in 2008, nearly one-tenth the amount in the US, and the figure will be even lower in rural areas.

Wu Zhengwu, an analyst with Aijian Securities, said New Hope Dairy will encounter fierce competition in vying for a larger market share. "The overall market has already formed, and it's hard to disturb the status quo. In addition, an increasing number of foreign milk powder brands are entering. A newly launched brand such as New Hope will face a lot of difficulties," Wu said.

### **Tonnes of tainted milk powder still on market<sup>17</sup>**

China is hunting for nearly 100 tonnes of tainted milk powder that was supposed to have been destroyed after a 2008 scandal over the deaths of six babies. Dairy products containing the industrial chemical melamine have been turning up again in stores in China, more than a year after the authorities had declared the threat from tainted milk over.

Two dairy firms in the northern Ningxia region were closed down on Feb. 7 for selling contaminated milk powder, and candies made with powder were found in the northeastern province of Jilin.

Police in Ningxia found that a company outside the region gave one of the dairy firms around 170 tonnes of tainted milk powder left over from the 2008 scandal as debt payment in July last year. The firm Ningxia Tiantian Dairy company then repackaged nearly all of the powder and sold it to five factories in northern and southern China. Only 72 tonnes of powder have been recovered and authorities are tracking down the rest.

A string of reports have said leftover milk powder had resurfaced and was being distributed more widely than thought, raising new doubts about China's food safety monitoring systems.

Wang Huaibao, former deputy head of the Dairy Association of China, said the re-emergence of the problem pointed to lax government oversight and the desperation of milk firms caught up in the scandal. The government has dispatched inspectors to 16 provinces to check if tainted products have slipped on to the market. Police have arrested at least three people in the new crackdown.

### **Wind power sector faces challenges<sup>18</sup>**

Amid steep competition and lower profit margins, some industry insiders say China's wind turbine sector grew at the expense of quality.

---

<sup>17</sup> AFP Feb. 8, 2010

<sup>18</sup> UPI Feb. 22, 2010

In 2004, there were six wind turbine manufacturers in China. By 2009 that number increased to more than 70 companies. During the same period, China's wind power capacity increased from 760 megawatts to 20,000 megawatts. Now the country is the world's third largest wind power market.

Turbine blade prices have decreased by about one-third since 2004, an industry insider said. In 2004, profit margins for some turbine companies were about 25 to 30 percent. Now they are about 10 percent. Some insiders say the drop in price is because some companies are forsaking quality to sell their products cheaply.

In the beginning of 2009, the cost for each kilowatt for a 1.5-megawatt wind power turbine was about US\$879. Now the price is less than US\$732.

Other insiders say that China's wind power industry suffers from inadequate research and planning. When companies rushed to enter the wind power sector in 2007 and 2008, many of them didn't have a good understanding of wind power, said Xu Zhichun, vice-general manager of Tianjin Dongqi Wind Turbine Blade Engineering Co. Inadequate research and lack of planning has led the industry to expand rapidly at the expense of quality.

Fewer than 10 of China's 70 wind power equipment producers have the capability to conduct large-scale research and development to improve the technology, said Han Junliang, president of Sinovel Wind Group Company.

Sinovel is building a national offshore wind power technology and equipment R & D center, approved by the National Energy Administration, to study the technical difficulties challenging China's offshore wind power development.

Wu Gang, chairman of Goldwind Science & Technology Ltd., another leading wind turbine manufacturer in China, said his company would consider acquiring small firms should the industry enter a consolidation phase. Wu said Goldwind is also exploring markets in the United States, Australia, Central Europe and Africa, either for investing in local wind farms or to sell wind power products.

### **National renewable energy center planned to set up<sup>19</sup>**

China plans to build a national renewable energy center to further shore up development of the industry.

The establishment of the center is in the preliminary planning stages, according to Han Wenke, director general of Energy Research Institute under the National Development and Reform Commission.

The center will be responsible for policy-making, key project and program management, market and industrial operations, database and information platform establishment as well as international exchanges.

China made great progress in renewable energy growth last year. It accounted for 7.5 percent of the country's primary energy consumption in 2009 - or the equivalent of 230 million tons of coal.

---

<sup>19</sup> Xinhua News Feb. 10, 2010

## Statistics

### Agricultural produce average prices from 200 major production counties Feb. 1-10, 2010<sup>20</sup>

Product	Grade/Unit	Price (CNY)	Percentage changes as compared to last period (% , Jan. 21-31, 2009)
Corn	Unprocessed / kg	1.91	0.93
Soybean	Unprocessed / kg	4.92	0.13
Hsien rice	Unprocessed / kg	2.04	-1.20
Japonica rice	Unprocessed / kg	2.43	0.83
Wheat	Unprocessed / kg	2.01	0.15
Rapeseed	kg	4.00	0.32
Peanut	Shelled / kg	9.45	1.67
Hog	Finisher / kg	11.42	-4.67
	Piglet / kg	15.86	-3.35
Broiler	Ready for slaughter / kg	12.04	1.43
Live cattle	Ready for slaughter / kg	17.09	0.21
Live goat	Ready for slaughter / kg	17.63	1.85

<sup>20</sup> National Bureau of Statistics

## Major meat retail price late January to early February 2010<sup>21</sup>

### Pork (Lean):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
A. 02/01/10-02/10/10	B. 01/21/10-01/31/10	C. 01/01/10-01/10/10	D. 02/01/09-02/10/09	(A-B)/B	(A-C)/C	(A-D)/D
23.04	23.32	23.54	25.52	-1.20%	-2.12%	-9.72%

### Egg:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
E. 02/01/10-02/10/10	F. 01/21/10-01/31/10	G. 01/01/10-01/10/10	H. 02/01/09-02/10/09	(E-F)/F	(E-G)/G	(E-H)/H
7.92	7.90	7.72	7.14	0.25%	2.59%	10.92%

### Chicken:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
I. 01/21/10-01/31/10	J. 01/11/10-01/20/10	K. 12/21/09-12/31/09	L. 01/21/09-01/31/09	(I-J)/J	(I-K)/K	(I-L)/L
14.60	14.58	14.46	14.82	0.14%	0.97%	-1.48 %

### Beef (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
M. 01/21/10-01/31/10	N. 01/11/10-01/20/10	O. 12/21/09-12/31/09	P. 01/21/09-01/31/09	(M-N)/N	(M-O)/O	(M-P)/P
34.28	34.26	34.16	34.80	0.06%	0.35%	-1.49%

<sup>21</sup> China Animal Agriculture Association