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China Agricultural Newsletter – July 2010

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Laws, Regulations and Policies

Regulation on food import-export updated¹

The General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ), has initiated the collection of suggestions for a new draft on food safety management for imports and exports, it released on July 6.

The new criteria will be as follows:

- All overseas exporters and business agents intending to export food to China will be required a file-registration at AQSIQ. For first-time food exports, sanitary inspection provided by health administrative departments of the State Council will be rule.
- In case of contamination or safety problems, inspection and quarantine organizations will have the authority to demand a recall from the exporters.

According to media reports, imported foods have attracted the Chinese considerably in recent years, regardless of their high price. While oftentimes, safety problems are a common occurrence due to the long transportation, especially in liquid-containing foods.

NDRC orders curbs on grain price speculation²

The National Development and Reform Commission (NDRC), China's top economic planner, ordered local authorities to take actions to prevent hoarding and price speculation in grain markets and work to maintain market order on July 28.

¹ Global Times July 7, 2010

² People's Daily July 28, 2010

The NDRC accused some businesses of blindly buying large amounts of grain, then bidding up grain prices following adverse weather in some regions. "This leads to farmers' reluctance to sell and enterprises hoarding," it said in a statement.

Such move not only disrupts the normal order of grain markets, but also undermines the government's efforts to avoid possible inflation, it said.

Further, the NDRC asked grain reserve enterprises to stop government purchasing when market prices went above the government-set levels.

It also urged regional grain and pricing authorities to improve inspecting the management of government purchasing for grain and oilseed to curb price manipulation.

Reserve enterprises violating pricing regulations would be banned from government purchasing for three years, according to the statement.

Agricultural machinery industry on fast track³

Agricultural machinery industry will be moving on the fast track in the next decade, boosted by a raft of policy incentives.

The State Council, or the Cabinet, on July 9 outlined tasks and goals for "sound and fast" development of the country's farm mechanization.

In a statement to ministries and local governments, the State Council said China was now at a critical transition stage in its development from traditional labor-intensive farm production to that which is more reliant on machinery. Farm mechanization and increasing the use of agricultural machinery was essential for boosting agricultural production and increasing domestic consumption in rural areas, said the statement.

With the release of the document, further detailed measures are likely to be rolled out by the Ministry of Industry and Information Technology, insiders said.

In the document the government commits itself to increase policy support to the agricultural machinery sector and continue the subsidies for the purchase of agricultural machinery. The tax benefits for the agricultural machinery sector will be implemented.

About 49.13 percent of China's farmland was plowed, planted and harvested by machines by the end of 2009, nearly 7 percentage points higher than in 2007, according to figures from the Chinese Society for Agricultural Machinery.

Domestic agricultural machinery manufacturers are encouraged to set up research and development centers with foreign companies through joint ventures to reduce China's dependence on imports of advanced technologies, according to the statement.

The document says the government will encourage the restructuring of agricultural machinery makers to form large companies that are highly competitive.

The document also sets goals for the development of agricultural machinery. By 2015, the total power of China's agricultural machinery will reach 1 billion kW, of which irrigation machinery

³ Xinhua News July 12, 2010

power should total 100 million kW. The figures are expected to rise to 1.2 billion kW and 110 million kW respectively by 2020.

China's agricultural machinery sector had been through a period of recovery since a low point in 2004 and has maintained a growth rate of over 20 percent for six years running. The gross output of large agricultural machinery makers totaled 230 billion yuan in 2009.

The mechanization of China's agricultural production has reduced the annual need for around 10 million farm labors, according an estimate by China Agricultural University.

China's rural population is expected to shrink from the current 900 million to 400 million over the next 30 years as farmers migrate to cities, according to a forecast by the State Council Development Research Center.

CMA develops 12th five year plan for meat industry⁴

President of the China Meat Association (CMA) Li Shuilong said at the China International Meat Industry summit, held on June 29 in Beijing, CMA has issued a research report for the development of the 12th five year plan investing in quality, food safety and technology for the improvement of the industry.

The 12th five year plan for the Chinese meat industry will see investment in new technology and a streamlining of the processing sector. The new investment will strengthen the larger integrated processing organizations and help remove many of the small backstreet slaughterhouses with poor hygiene and food safety controls. The investment will also concentrate on developing food safety and the quality of the meat products on the market.

New dairy products standards meet with international standards⁵

China will soon put into effect 66 new national safety standards for dairy products that are completely consistent with international standards, said Chen Rui, a senior official from the Ministry of Health.

All related departments led by the Ministry of Health began to refine the previous more than 160 dairy products safety standards into 66 new standards starting in late 2008.

The Ministry of Health will now accelerate the smooth integration of the new food safety standards and establish a national food safety standard system.

Crackdown on illegal cooking oil intensified⁶

China's State Council has ordered authorities to intensify their crackdown on the sale and use of illegal cooking oil in restaurants, according to a circular made public on July 19.

The State Council ordered central government departments and local governments to carry out special campaigns to eradicate "gutter oil," which posed "serious food safety risk" to the public, said the circular issued by the General Office of the State Council.

⁴ ThePigSite News July 1, 2010

⁵ People's Daily July 14, 2010

⁶ Xinhua News July 19, 2010

The campaign would target places where "gutter oil" was produced. It would also focus on small restaurants, construction sites and school canteens.

Catering establishments which use the illegal oil could face punishments ranging from suspension of operations to revocation of their business licenses.

The food safety commission under the State Council would analyze the results of the campaign from September to October this year to see whether it had been effective, according to the circular.

As a preventive measure, the State Council also called for reinforced efforts to create standardized collection of kitchen waste.

Weather insurance planed to help farmers⁷

China may roll out its first weather insurance coverage before the end of the year to help farmers cope with economic losses from natural disasters.

"The policy will first be carried out on a pilot basis in Fujian province, an area that is frequently hit by typhoons," a source with a major insurer said.

A weather index insurance will pay out a contractually predetermined amount should the observed result meet the policy's requirement. It is different from traditional agriculture insurance, which requires adjustment for losses and claims auditing.

The country's current insurance coverage is unable to offer adequate compensation for losses from catastrophes, statistics from the China Insurance Regulatory Commission (CIRC) showed. Insurers cover about 30 percent of losses from natural disasters in developed countries, but that figure is below 5 percent in China.

As of July 16, about 38.2 million people in 10 southern provinces and Chongqing municipality had been affected by continuous rainstorms and floods since July 1, the Ministry of Civil Affairs said in a statement. About 124,000 homes have been destroyed and more than 1.3 million people relocated, it said. Direct economic losses were estimated at about 29.5 billion yuan (US\$4.4 billion).

Industry and Business Watch

Growth slowed in second quarter⁸

China's economic growth slowed in the second quarter, as massive stimulus spending was scaled back and moves to rein in soaring property prices started to bite.

Gross domestic product maintained its double-digit growth for the third quarter in a row, expanding 10.3 percent in the three months to June, according to the national statistics bureau. The second quarter figure marked a slowdown from the blistering 11.9 percent growth in January-March and 10.7 percent in the last quarter of 2009, after Beijing introduced measures to cool the red-hot economy.

⁷ China Daily July 20, 2010

⁸ Terra Daily July 15, 2010

The data added to mounting evidence that the Chinese economy is losing steam, although Beijing has shown no intention of reversing tightening policies, and analysts downplayed the risk of a sharp let-up.

Analysts said growth was expected to slip to single digits in the second half, but dismissed the idea of any serious troubles in the short term.

The closely watched consumer price index, the main gauge of inflation, rose 2.9 percent year-on-year in June, compared with 3.1 percent the previous month, the statistics bureau said.

China's fixed asset investment in urban areas, a measure of government spending on infrastructure and a key driver of the economy, rose 25.5 percent in the first half from the same period last year, the government said.

Industrial output from the country's millions of factories and workshops increased 17.6 percent on year in the six-month period.

Retail sales, a key measure of consumer spending, rose 18.2 percent in the first half of 2010 from a year ago.

Beijing has shown no intention of altering its policy tightening stance despite signs the economy is cooling, and has begun to rein in the huge stimulus spending put in place in the wake of the global financial crisis.

In recent weeks, China also has slightly loosened its grip on the yuan exchange rate by allowing the currency to trade more freely against the dollar, while export tax rebates on some products have been removed.

Forecast for 2010 rice production cut⁹

China reduced the 2010 rice output forecast to 196.6 million metric tons from an estimate of 197.3 million tons made a month ago, the China National Grain & Oils Information Center said in its July report.

The 2010 production forecasts for other crops were maintained at 168 million tons of corn, 115.1 million tons of wheat, 14.5 million tons of soybeans and 12.6 million tons of rapeseed, according to the report.

Corn prices driving a rise in feed prices¹⁰

Himfr reports that, from March of this year, corn prices began sharply rising, with a rise from 1,762 yuan to 2,000 yuan per ton. In the non-producing areas of Jiangsu and Sichuan, corn prices have already reached 2,010 yuan per ton.

China is not experiencing a shortage of corn. The rise in price is mainly due to last year's drought. Among agricultural products, the rise in wheat and corn prices has been relatively low.

⁹ Xinhua News July 14, 2010

¹⁰ Farm News June 30, 2010

Wheat rose 8 percent last year, rice rose 14 percent, and corn 20 percent, while cereals rose 50 to 60 percent, and some grains and field crops doubled in price. The key issue is the market's inflation expectations.

The current supply stock is about 120 million tons. Major demand comes from the use of corn in animal feed, about 90 million tons of corn. Alcohol manufacturers require 30 million tons, while human consumption accounts for about 14 million tons.

In the past, Chinese corn exports amounted to about 300-400 million tons each year. These past two years have seen decreased export numbers as the state has apportioned more corn reserves for the development of ethanol.

2009 saw corn production reduced by about 10 million tons. Feed demand decreased, export stagnated, and alcohol usage also reduced, basically offsetting the reduction in production.

The rise in corn prices is not the biggest in all agricultural products, but the impact may be greatest, because it will affect the cost of feed and food processing.

Feed is becoming more expensive, and this is mainly because of corn prices. Corn accounts for 60 to 70 percent of feed, while the cost per ton has increased several hundred yuan, compared with last year, and is expected to increase by at least another 20 percent.

JCI: China's corn imports beginning of "New Era"¹¹

The chairman and chief consultant of Shanghai JC Intelligence Co. Ltd. (JCI) Hanver Li said his organization anticipates that China will import some 1.7 million tons of corn this year, 5.8 million tons next year and as much as 15 million tons in 2014-2015.

JCI estimates that meat consumption per capita will grow from 59 kg in 2005 to 61.7 kg this year to 63.1 kg in 2015. Milk consumption will grow from 22.0 in 2005 to 30.1 and 33.4 in that same time frame, while aquatic products will grow from 39.2 to 44.1 and 48.9. Li said rural areas will drive meat demand, while urban centers will drive milk and aquatic products demand.

To answer the question about why China imported U.S. corn this year, Li explained there is simply a short supply in China right now due to production shortfalls driven by poor weather but demand has remained strong. He said prices have moved up and the amount of corn in storage has fallen – and JCI believes there is less corn on hand than the government's official estimates.

This also explains why China's imports of U.S. distiller's dried grains with solubles (DDGS) have grown so quickly, he said. China is on pace to become the largest buyer of U.S. DDGS this year, buying some 1.5 million tons. JCI estimates imports of 1.5 million to 1.8 million tons.

Li said imports of U.S. corn and higher local prices for corn and wheat indicates that "we have gotten to the turning point" – the point where China will become a regular importer of corn.

In addition to economic growth, the population continues to expand, Li said, and even with normal weather, China's ability to produce corn can't keep up with that growth. "That's why we've come to the conclusion that a new era of China importing corn is here," he said.

Foreign seeds cause worries over food safety¹²

¹¹ Farms.com July 23, 2010

The aggressive expansion tactics adopted by foreign seed companies in China have increased concerns over the nation's food safety especially at a time when agricultural yields have been falling.

There are 35 foreign seed companies in China. Out of this five supply corn seeds, while the rest are involved with vegetable and flower seeds. Foreign corn seeds account for just 10 percent of the overall maize market in the nation, Hu Ruifa, a researcher at the Center for Chinese Agricultural Policy under the Chinese Academy of Sciences, said.

Pioneer Hi-Bred International Inc is one of the foreign seed companies in the corn market. The US company has increased the area under Xianyu 335 corn seed cultivation to 40 million hectares this year. The company's expansion has raised eyebrows as it is fast approaching the 60 million hectares under Zhengdan 958, the biggest domestic corn seed, said Hu. China has a total corn sowing area of around 450 million hectares.

Corn prices are expected to continue their uptrend this year also, said experts. The average purchasing price of corn per kilogram has increased from 1.88 yuan (US\$0.28) in January to 2.12 yuan in July, said Ma Wenfeng, an analyst with Boabc Agriculture Network.

The situation is not that bad when it comes to other staples like wheat and rice where domestic companies still have a sizable lead over foreign players. But analysts said the scenario may not remain the same. Chinese companies will have to make significant technological advances and develop better marketing strategies if they have to stay ahead of the foreign companies.

China has about 8,700 seed firms, and only 10 of them have independent R&D capabilities. The industry should also increase the entry threshold for seed companies. At present, companies need registration funds of only 1 to 5 million yuan to enter the market.

Strong international presence at meat exhibition¹³

China International Meat Industry Exhibition opened in Beijing from June 29 to July 1 with a growing presence from international meat industry companies and organizations.

For the first time at the annual exhibition, the Netherlands has a national pavilion including Europe's leading meat industry company Vion Foods and automatic pig feeding system manufacturer Nedap Velos.

Gerard Wiejers from Nedap Velos said that more and more farms in China are turning to larger integrated systems, whereas in Europe and the western world, the emphasis is on maximizing production. In China, emphasis is laid on maximizing efficiency.

The exhibition has also attracted international presence from the Irish meat industry through the national food agency Bord Bia, the Canadian Pork Promotion Council and the Canadian Beef Export Federation and the German meat industry association, German Meat, together with leading companies such as Tönnies Fleisch and integrated cooperative Böseler Goldschmaus.

Together with many international meat industry equipment manufacturers, the exhibition is also a showcase for the leading Chinese meat industry companies including Shineway, Zhongpin, Yurun Food Group and Goldkinn Foods.

¹² China Daily July 29, 2010

¹³ ThePigSite News July 1, 2010

With a focus on food safety and quality in the Chinese meat industry outlined in the 12th Five Year Plan, the exhibition is also focusing on many new organizations delivering food safety systems and assistance. Lawrie Stewart from Sealed Air Cryovac said that the new plan for the meat industry offered a change in attitude for the Chinese meat industry with not only investment in technology but also a change in direction with more emphasis on food safety and quality.

New food safety committee set up¹⁴

During the China International Meat Industry summit in Beijing, the China Meat Association established the Complaint Mediation Committee.

The new committee will work with government organizations and agencies and meat industry enterprises in a bid to overcome food safety issues that have been affecting the meat industry.

The committee will oversee implementation of food safety regulations and measures, and assist in strengthening discipline in the industry.

It will also help in publicizing new laws and regulations, handling complaints and publicizing standards, deputy general secretary of the CMA Gao Guan told the industry summit.

The committee will also help consumers with any complaints and problems.

Zhongpin to build new pork plant in Jilin¹⁵

Zhongpin Inc., a leading meat and food processing company in China, announced it will construct a new slaughtering and processing plant, low-temperature prepared pork plant, logistics centre, and research & development centre in Nong'an county in the Jilin province of China. Zhongpin expects to invest about US\$61.5 million in the new facility.

The new plant will be located in China's largest grain-producing county, which is also the country's largest animal husbandry region and one of its premium meat producing counties. About four million hogs are slaughtered for food in Nong'an county each year. This site is adjacent to the main markets that include the cities of Harbin and Changchun, making the location ideal for both the source of hogs and for large markets that consume pork products.

The new plant's annual production capacity will be a total of 125,000 tonnes, with 70,000 for chilled pork, 25,000 for frozen pork, and 30,000 for prepared pork products. Zhongpin expects to process about 1.2 million hogs in its new plant each year.

The first phase of construction, which includes the production lines and cold-chain logistics and distribution systems for chilled pork and frozen pork, R&D centre and employee living area, is scheduled to start construction in the third quarter of 2010, with trial pork production starting in the fourth quarter 2011. The second phase of construction, which will include production facilities for prepared pork products, will begin in the second quarter of 2011 and should be completed in the third quarter of 2012.

AgFeed to acquire major US hog production company¹⁶

¹⁴ ThPigSite News July 1, 2010

¹⁵ ThePigSite News July 26, 2010

¹⁶ PigProgree.net July 22, 2010

AgFeed Industries, an independent hog production and animal nutrient company in China, announced that it has reached an agreement to acquire the operations of M2P2 LLC, a US hog production company, based in Ames, Iowa.

It is anticipated that John Stadler, Chairman of M2P2 will join AgFeed's Board of Directors upon completion of the transaction. M2P2 has, according to AgFeed, set standards of excellence in innovation, productivity and efficiency in pork production. M2P2 is a joint venture partner with AgFeed in AgFeed International Protein Technology Corp. (AFIPT).

Dr. Songyan Li, AgFeed's Chairman, said: "Through our work together in AFIPT we have developed enormous respect for M2P2 and its team of professionals. M2P2's dedication to continuous performance improvements in the hog production industry has resulted in impressive performance metrics in sow productivity and feed conversions. For both AgFeed and M2P2 this is a transformational opportunity to position our combined businesses to achieve superior growth and earnings on an international basis as we respond to global market opportunities."

The aggregate consideration AgFeed expects to pay to acquire M2P2 is US\$16 million, subject to adjustment based upon the book value of M2P2's assets, of which 80 percent will be paid in cash and 20 percent in AgFeed common stock.

Mexico seeking start of pork exports to China¹⁷

Mexico's Agricultural Minister Francisco Mayorga Castaneda said that the country is seeking to start pork exports to China. "China-Mexico trade is still very low. There is great interest on both sides, but we have not completely resolved some food and animal health issues," the minister said during an interview with Xinhua News Agency.

During a visit to China in 2008, Mexican President Felipe Calderon signed a deal with his Chinese counterpart Hu Jintao on duty-free export of Mexican pork into the Chinese market. However, no pork has so far been exported because China has not yet sent animal hygiene inspectors to Mexico.

Minister Castaneda said he plans to visit China at the end of this year in hope of reaching an agricultural trade agreement with China. The minister said Mexico is also interested in exporting chicken parts to China and elsewhere in Asia, citing chicken guts, claws and crests as possible exports. He added that Mexico and China have many cooperation opportunities to share knowledge, research, development and technologies in the field of agriculture. "But both nations must start to make efforts to speed up our work so that the animal hygiene and technology sharing mechanisms can be accelerated," the minister said.

USMEF educates Chinese meat industry representatives¹⁸

Forty representatives of the Chinese red meat industry covering retail, foodservice, processors, institutional sales and marketing gathered in Beijing and Shanghai recently to meet with USMEF representatives to receive training on U.S. pork and beef and better understand the quality and safety characteristics that are associated with U.S. red meat.

¹⁷ ThePigSite News July 8, 2010

¹⁸ Pig Progress.net July 29, 2010

Kevin Smith, USMEF's director of export services, provided the meat industry representatives with details on the quality assurance programs utilized throughout the U.S. production chain, background on food safety practices, and fundamentals on the U.S. red meat industry.

Smith led off the program with a thorough review of U.S. pork quality attributes for both table meat and for processing. He explained the relationship of pH, marbling and color to palatability traits such as juiciness, tenderness and water-holding capacity.

The participants also learned how the U.S. pork industry has shaped its production towards achieving optimal levels of pH and marbling using genetics, proper animal handling and technologies such as CO2 stunning and rapid chilling.

Smith noted that there was very strong interest in both U.S. pork and beef from the people USMEF met with in Beijing and Shanghai.

The USMEF team then provided a detailed description of how the U.S. system uses genetics, the use of grain in feed, and a unique evaluation and grading system for beef that optimizes selection of product for greater palatability.

Beef imports jump 30 percent¹⁹

Beef imports jumped 30 percent year-on-year during the five months of 2010 to a record 5,696 tonnes, according to official statistics from the Chinese Customs Bureau.

Driving the increase was the continued strong demand for beef in China, with higher imports of both New Zealand and Uruguayan beef more than offsetting falls from Australia and Brazil.

Impacted by reduced production during the first quarter of 2010, Australia's imported beef market share in China decreased to 26 percent. Australia remained the dominant supplier of chilled loin cuts to China during the period, despite the tighter supplies and high Australian currency pushing chilled prices 46 percent higher on last year, to average A\$21.23 per kilograms.

Imports of Brazilian beef, influenced by reduced supplies and stronger competition from other markets, fell 27 percent year-on-year, to only 261 tonnes, making up five percent of total imports between January and May.

During 2010, Uruguay has emerged as the dominant frozen beef supplier to China. Beef imports from Uruguay for the five months trebled on the same period in 2009, to 2,780 tonnes, making up 49 percent of total imports. China also imported 30 percent more beef from New Zealand during the period (1,155 tonnes).

Yuhe acquires 5 breeder farms in Liaoning²⁰

Yuhe International, Inc., a leading supplier of broilers, in China has announced that the company's wholly owned subsidiary, Weifang Yuhe Poultry Co., Ltd has entered into an asset purchase agreement with Liaoning Haicheng Songsen Stock Farming and Feed Company Limited to purchase five breeder farms in Haicheng City, Liaoning Province for 21.3 million yuan (approximately US\$3.1 million).

¹⁹ TheBeefSite News July 5, 2010

²⁰ ThePoultrySite News July 26, 2010

The acquisition will make Yuhe the largest supplier of day-old broilers in terms of production capacity in China. Day-old broiler output is now forecast at 250 million for 2011, a 67 percent increase over expected 2010 output of 150 million.

The five breeder farms have a total production capacity of 430,000 sets of parent breeders, covering an area of approximately 52 acres with building coverage of approximately 680,000 square feet. The assets to be purchased include the buildings and equipment for the acquired breeder farms, and the land leasing rights, which range from 14 years to 24 years. Upon the closing of the transaction, Yuhe will have a production capacity of 2.23 million sets of parent breeders.

The company plans to spend 1.6 million yuan (approximately US\$0.2 million) to upgrade the facilities and 200,000 yuan (approximately US\$29,400) for employee training. The average cost for the company to acquire these breeder farms (including the expenses for facility upgrades and employee training but excluding land rent and new-issued-share price premium) is approximately 20 to 25 percent lower than the cost of building such farms from scratch. The unit cost of day-old broilers in those farms is expected to decrease by two to three percent compared to the company's current cost structure due to lower depreciation and operating expenses. The company expects to have sufficient cash after the payment for this acquisition to fund the renovations and daily operations of the acquired facilities.

Considering the impact of the five breeder farms the company plans to acquire and assuming the deal closes, the company expects day-old broiler output of 150 million in 2010 and 250 million in 2011, and based on the anticipated production increase and assuming the average selling price for 2009 of 2.74 yuan and a net income margin of 26 percent, the newly acquired breeding farms are expected to contribute an incremental US\$3.1 million in net income in 2011 and US\$4.5 million in 2012.

Melamine tainted milk re-emerges²¹

Food safety authorities have seized 64 tonnes of raw dairy materials contaminated with the toxic chemical melamine in a dairy plant in northwest Qinghai Province.

Test samples of the milk powder showed up to 500 times the maximum allowed level of the chemical, said the quality watchdog in Gansu Province, where the contaminated milk powder was first discovered. Police traced the source of the milk powder to Dongyuan Dairy Factory, in Minhe County in neighboring Qinghai Province. Another 12 tonnes of processed milk powder products, also tainted, were also seized.

Milk powder produced in the plant was mainly sold in Zhejiang and Jiangsu provinces. Only a small amount was sold in Qinghai. Most of the contaminated milk powder was still being processed and had not entered the market.

Meanwhile, in Jilin of northeast Jilin Province, the city's industry and commerce bureau has seized more than 1,000 packages of milk powder, produced in the neighboring Heilongjiang Province, from a store after a random test found one of them had a high melamine content. Jilin's provincial quality control bureau said it would start a general check on dairy products in the province.

Bright Food inks NZ deal²²

²¹ TheCattleSite News July 15, 2010

Shanghai-based Bright Dairy & Food Co has agreed to pay US\$58 million for a 51 percent controlling stake in New Zealand's Synlait Milk Ltd, its first overseas investment.

Synlait Milk, which used to be a stockholder of New Zealand's largest dairy corporation, Fonterra Co-operative Group, now has become one of New Zealand's five key milk processors since it split off from Fonterra in 2008.

According to Bright Dairy's announcement, investment capital will be used to pay Synlait Milk's bank loans and establish a new factory in New Zealand after the deal is completed.

Synlait Milk is planning a public listing within three to five years and Bright Dairy retained the right to buy more shares, according to the statement.

The partnership with Synlait is the first overseas venture by Bright Dairy, but not for its parent company, Bright Food Group, which bid for Australian sugar giant CSR Ltd earlier this year, but was beaten by Wilmar International, the world's largest palm oil trader. The Singapore-listed company won the bid at US\$1.48 billion, US\$80 million higher than Bright Food's offer.

However, Bright Food's spokesperson Chen Chunshan said that the company is still keen on exploring overseas acquisitions despite its failed bid for CSR Ltd, as they believe there will be a lot more attractive deals ahead thanks to the financial crisis.

Bright Dairy is not the only company that is focusing on China's premium infant formula market. Hangzhou Wahaha Group Co Ltd, one of China's largest beverage manufacturers, announced earlier this year that it planned to launch a premium infant formula, branded as "Aidisheng" - Chinese pronunciation for "Edison" - and hopes to produce some 100,000 tons per year, according to Zong Qinghou, chairman of Wahaha Group.

At present, global players such as Dumex, Mead Johnson, Wyeth, and Abbott are market leaders in China's premium infant formula sales, accounting for more than 85 percent of China's premium milk powder market.

Feed output growth may slow²³

Feed production may grow more slowly in 2010, the China National Grain & Oils Information Center said.

Livestock feed output may increase 3.9 percent to 154 million metric tons from 148 million tons last year. Production expanded 8.4 percent in 2009, the State-backed center said.

Fishmeal market analysis²⁴

From late June some ports have shown fishmeal shipments improving, but the overall domestic market has still not entered the peak season, reports Himfr.com, one of China's leading B2B search platforms.

²² China Daily July 20, 2010

²³ Xinhua News July 13, 2010

²⁴ TheFishSite News July 6, 2010

As the temperature in China's northern areas register a significant increase, the demand for fish feed has gradually picked up, while with the continuous rains in southern China, aquaculture's peak season will continue to be delayed.

Recently China's domestic fishmeal market has been light, with prices remaining relatively stable. At southern domestic ports, normal levels of fishmeal are offered at 11,800 to 12,000 yuan per ton, while mainstream super steam fishmeal is offered at 12,300 to 12,500 yuan per ton. Shipments of fishmeal in north China have also improved.

Since June, with rising temperatures in northern regions, aquaculture has gradually come into season, converting to distinctive growth in fish feed orders. The fishmeal market has been more active in May, where standard carp's price is about 4.3 to 4.4 yuan per kg. Local carp seed separation is now over, and fish feed is gradually coming into season. Fish feed inquiries on himfr.com have also increased, and fishmeal shipments are improving.

Freshwater fish farming is relatively smooth. Crucian carp price is 5.5 yuan per kg, carp price is about 4.6 yuan per kg. Although market demand is currently quite light and local fish market prices have fallen slightly, it is expected that prices and orders will quickly rebound.

In late May South China experienced strong rain, especially in central and southern Zhejiang, southern Jiangxi, south-eastern Hunan, western and northern Fujian, northern and western Guangdong, eastern Guangxi and south-western Yunnan. The heavy rain has hampered the usually robust aquaculture market in these areas. Feed demand is expected to be delayed, as the current season for shrimp farming in these areas is not expected to show great numbers or be busy.

All in all, with south China sustaining heavy rainfall in almost all of June, aquaculture recovery has been significantly impeded. Feed companies usually like to consume the existing stock, and are not in the process of stockpiling more. If the weather gets better, domestic market demand for fish feed will continue to grow.

DSM opens fourth plant in China²⁵

DSM Nutritional Products has opened its fourth premix plant in ChangChun city, capital of Jilin province. The plant in northeast China, with an operating capacity of 15,000 metric tons, is the company's fourth in the country.

DSM also signed an agreement to open its fifth plant in Sichuan. Construction on that facility, expected to have the capacity to produce 18,000 metric tons of vitamin and vitamin-mineral blends, will begin in the third quarter this year and be operational by the third quarter next year.

Carlyle takes share of CP feed interest²⁶

Thailand's largest agribusiness conglomerate, Charoen Pokphand Group (CP Group), and global alternative asset manager, The Carlyle Group (Carlyle), have announced that Carlyle Asia Partners III L.P., a US\$2.55 billion pan-Asian investment fund, will acquire from CP Group US\$175 million of convertible preference shares and options in C.P. Pokphand Co. Ltd. (CPP), one of China's largest livestock and aqua feed producers. CP Group is the single largest shareholder of CPP. The investment is subject to certain conditions and is expected to close by

²⁵ Feed E-News July 1, 2010

²⁶ TheCattleSite News July 13, 2010

22 July 2010.

Carlyle Asia Partners III L.P. has agreed to purchase approximately 2.271 billion convertible preference shares, and is entitled to additional convertible preference shares in certain circumstances, for an aggregate price of US\$175 million and CP Group will grant approximately 324 million options each carrying the right to acquire one convertible preference share in CPP at HK\$0.6 per share to Carlyle. Following the acquisition, Carlyle will own approximately 11.3 per cent of CPP on a fully diluted basis, assuming Carlyle does not receive further shares or exercise its options.

CP Group plans to use part of the proceeds from this transaction to prepay before the end of 2010 approximately US\$150 million of the intercompany debt of approximately US\$288 million which is outstanding to CPP.

Stable and growing meat consumption is driving demand for livestock feed, and China's per-capita animal protein consumption is still below most developed countries. It is expected that as meat consumption in China grows along with its rate of disposal income, the demand for animal and aqua feed products will also increase. The feed industry is also undergoing consolidation as the Chinese government strives to improve food safety standards through tougher licensing standards and monitoring systems, and as a result increases control over the whole food chain, which starts at the feed level.

CP announced multi-billion dollar investment in China unit²⁷

Thailand's Charoen Pokphand Group has announced a multi-billion dollar investment plan for its Chinese unit, the Chia Tai Group.

This is part of its planned expansion into China, with major retail, real estate projects and hypermarkets, focused on CP Group's food products.

The Chia Tai Group's planned new investments in retail operations would see the increase of its Lotus Supercenters, expanding from the present 73 to over 1,000 over the next decade, with targeted sales of 12 billion yuan, up from 11 billion yuan last year, focused on promoting its CP brand ready-to-eat foods in China.

Animal waste a threat to clean water supply²⁸

The massive increase of animal waste coming from the livestock industry has become a main source of water pollution in the country, environmental researchers have warned.

Zhang Qingfeng, a leading water resources management expert at Asian Development Bank, said agriculture is responsible for up to 67 percent of the 423,200 tons of phosphorus discharged and 57 percent of the 4.7 million tons of nitrogen discharged into water.

Livestock and poultry are major sources of agricultural pollution and have caused a series of water pollution incidents in the country, Mr. Zhang said.

In mid-2007, Taihu Lake suffered a serious blue-green algae outbreak, threatening the water supply of more than 1 million residents in the lakeside city of Wuxi, Jiangsu province. In 2008,

²⁷ Pig Progress.net July 9, 2010

²⁸ TheCattleSite News July 15, 2010

the Qingdao Olympic sailing venue was also hit by blue-green algae and hundreds of volunteers and citizens went to great lengths to clear it before the Beijing Olympics started.

"The overgrowth of blue-green algae was mainly caused by excessive amounts of phosphorus and nitrogen in water as currently a lot of animal waste is disposed of improperly into ponds, channels and sewers, or left in fields and polluted waterways," Mr. Zhang said.

According to statistics from the Ministry of Agriculture, the volume of livestock and poultry manure increased from 3.8 billion tons in 2000 to 4.8 billion tons in 2008.

About 35 million of the 140 million rural households were using biogas digesters - equipment that converts animal wastes into energy - by the end of 2008, ministry statistics show. But less than one percent of the 4.2 million large-scale farms for pigs, cattle and chicken use biogas digesters to dispose of livestock waste, Mr. Zhang said.

China plans to construct 80 million household methane digesters and 10,000 large-scale biogas plants by 2020.

China leads in patenting and commercialization of bioethanol²⁹

Chemical Abstracts Service (CAS) reports that in 2009, China surpassed all other countries in the production of bioethanol patents, emerging as the global leader in the commercialization of bioethanol research.

CAS examines 40 years of scientific research into biofuel development. The key finding is that although U.S. researchers continue to publish more scientific research about bioethanol than other countries, China now produces more bioethanol-related patents than anyone.

The U.S. published 105 journal articles related to first- and second-generation bioethanol research in 2009, more than any other country. In the same year, China's State Intellectual Property Office issued 156 bioethanol-related patent documents.

From 2000 to 2009, global research literature on second-generation bioethanol (derived from non-food sources, such as wheat stalks) grew 586 percent, including patenting activity that skyrocketed 2,341 percent. Research into second-generation bioethanol significantly outpaced examination of first-generation (derived from edible feedstocks) and third-generation (derived from algae) bioethanol.

²⁹ Bio Fuel Daily June 30, 2010

Statistics

Agricultural produce average prices from 200 major production counties July 1-10, 2010³⁰

Product	Grade/Unit	Price (CNY)	Percentage changes as compared to last period (% , June 20-30, 2010)
Corn	Unprocessed / kg	2.12	0.44
Soybean	Unprocessed / kg	5.09	-0.05
Hsien rice	Unprocessed / kg	2.19	0.45
Japonica rice	Unprocessed / kg	2.68	-0.34
Wheat	Unprocessed / kg	2.06	0.43
Rapeseed	kg	4.08	-0.03
Peanut	Shelled / kg	9.73	0.00
Hog	Finisher / kg	10.29	5.26
	Piglet / kg	14.10	2.94
Broiler	Ready for slaughter / kg	11.71	0.31
Live cattle	Ready for slaughter / kg	16.57	0.12
Live sheep	Ready for slaughter / kg	17.42	-0.03

³⁰ National Bureau of Statistics

Major meat retail price July 2010³¹

Pork (Lean):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
A. 07/11/10-07/20/10	B. 07/01/10-07/10/10	C. 06/11/10-06/20/10	D. 07/11/09-07/20/09	(A-B)/B	(A-C)/C	(A-D)/D
22.02	21.14	20.44	20.88	4.16%	7.73%	5.46%

Egg:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
E. 07/11/10-07/20/10	F. 07/01/10-07/10/10	G. 06/11/10-06/20/10	H. 07/11/09-07/20/09	(E-F)/F	(E-G)/G	(E-H)/H
7.84	7.78	7.70	7.26	0.77%	1.82%	7.99%

Chicken:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
I. 07/11/10-07/20/10	J. 07/01/10-07/10/10	K. 06/11/10-06/20/10	L. 07/11/09-07/20/09	(I-J)/J	(I-K)/K	(I-L)/L
14.68	14.54	14.72	14.04	0.96%	-0.27%	4.56 %

Beef (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
M. 07/11/10-07/20/10	N. 07/01/10-07/10/10	O. 06/11/10-06/20/10	P. 07/11/09-07/20/09	(M-N)/N	(M-O)/O	(M-P)/P
33.96	33.92	34.10	33.54	0.12%	-0.41%	1.25%

³¹ China Animal Agriculture Association