



## China Agricultural Newsletter – July 2011

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## Laws, Regulations and Policies

### **Fiscal support to stabilize pig supplies<sup>1</sup>**

The Chinese government announced a new fiscal support policy that will increase the country's supply of live pigs, which is expected to drive down pork prices and ease inflation worries, according to a meeting of the State Council.

Efforts should be made to ensure adequate supplies of live pigs and stabilize prices in the short-term, the statement said, adding that the policy will also help to avoid price fluctuations in the long-term.

The central government will invest RMB 2.5 billion yuan (USD384 million) in large-scale pig farms this year. Farmers will be able to receive a RMB 100-yuan (USD15) subsidy for each of the pigs they raise, according to the statement. They will also be eligible for RMB 800 yuan (USD123) in compensation for every pig they raise that dies from disease or other external factors, the statement said.

The price of pork has become a major driver for rising consumer prices. Pork prices surged 57.1 percent year-on-year in June.

### **Pork reserves to be released<sup>2</sup>**

China will release pork reserves onto the market at the "appropriate time" to help stabilize prices as the country struggles to contain inflation that is rising at the fastest pace in three years.

The government has 200,000 tons of pork in reserve and may increase its stocks, said the Ministry of Commerce spokesman Yao Jian at a regular briefing. Some provinces, including Liaoning, have already released reserves, he said.

Spot wholesale prices of pork reached a record RMB 25.51 yuan (USD3.95) a kilogram on July 1, according to a weekly index compiled by the Ministry of Commerce.

<sup>1</sup> Xinhua News July 14, 2011

<sup>2</sup> Bloomberg News July 16, 2011

### **Credit files built for food companies, additive makers<sup>3</sup>**

China's top quality watchdog General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) said that it will strive to build credit files for all the food companies and food-additive producers in the country before the end of the year.

The AQSIQ said the mechanism will better supervise companies for the quality of their products as food safety becomes a growing public concern in China.

In the first five months of the year, quality regulators across the country found a total of 3,312 companies which illegally used food additives, according to figures released by the government agency at a meeting.

The agency said authorities also revoked the production licenses of 24 food companies and 3 other food-additive companies.

Further, authorities established credit files for 82,387 businesses during the period.

### **Pesticide use rules to be revised<sup>4</sup>**

China plans to set up strict regulations on pesticide use in response to nationwide concern about the safety of agricultural products.

A draft of the revised regulation was posted on the website of the Legislative Affairs Office of the State Council for public comment by the end of August.

According to a statement on the website, the revised draft improves the current regulation, which was issued in 1997, in areas of a production register, quality control, marketing, and the use and administrative management of pesticides.

The draft requires pesticide manufacturers to set up systems to record the raw materials and quality of products to ensure that every process in the production conforms to quality standards.

The draft also requires local authorities to conduct reviews of the registered pesticide products and to ban or limit their use in cases where there are risks to product safety, people's health or the environment.

China is the world's largest pesticide producer and consumer, with pesticide production hitting 2.26 million tons in 2009, according to the National Bureau of Statistics. At present, annual usage of pesticides in the country remained at 1.3 million tons, 2.5 times the global average, official figures showed. The number of registered pesticide products in China has reached 27,000, a sharp increase from 9,747 in 1999. More than 2,000 companies are producing the chemicals, Ministry of Agriculture figures showed.

However, in recent years, incidents involving pesticide misuse have attracted growing concern among the public about food safety. In February 2010, many provinces banned the sale of cowpeas that had been grown in Hainan province because high levels of the toxic pesticide

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<sup>3</sup> People's Daily July 24, 2011

<sup>4</sup> China Daily July 25, 2011

isocarbophos were detected. In April 2010, nine residents in Qingdao city were poisoned after eating toxic garlic that had been polluted with organic phosphorus.

### **10 varieties of toxic pesticide banned<sup>5</sup>**

China is banning 10 types of highly toxic pesticide in response to growing concern about the safety of agricultural products because of the misuse of such chemicals.

The withdrawal of registration certificates and production licenses connected to the 10 pesticides - including fenamiphos and fonofos - will take effect on Oct 31, 2011 and the sale and use of the chemicals will be outlawed from Oct 31, 2013, according to an announcement from the Ministry of Agriculture.

The announcement was based on a plan for the elimination of highly toxic pesticides jointly drafted by the ministry and four other departments. The plan had been submitted to the State Council for approval, said Zhou Puguo, deputy director of the crop production department under the ministry. The government will conduct further research and evaluation related to the economic impacts of the ban on the use of a further 12 insecticides, as currently there are no suitable substitutes for them.

The country launched a campaign to manage the use of highly toxic pesticides in the 1980s. So far, 23 types of highly toxic pesticide have been banned and 19 others must not be used on fruit and vegetables, statistics from the Ministry of Agriculture show.

China currently has 22 types of highly toxic pesticide registered, of which 50,000 tons are produced each year, accounting for 2.5 percent of the country's annual total pesticide production, official figures showed. According to Zhou, more than 400 companies have registered about 900 products related to the 22 types of high toxic insecticides, which are mainly used on rice and cotton crops.

## **Industry and Business Watch**

### **7.34 mln hectares of reserve farmland able to be developed<sup>6</sup>**

China has 7.34 million hectares of "reserve land" that can be developed into arable land, the Ministry of Land and Resources said, which mainly lies in dry areas in the northern and western parts of the country.

However, Yan Zhiyao, head of the arable land protection department of the ministry, said it would be a mistake for China to rely on large-scale development of the reserve land. China should improve the quality of arable land rather than increase the quantity, he said.

To ensure grain security, China has set a "red line" to guarantee its arable land never falls below 1.8 billion mu (120 million hectares). China is edging close to the "red line," with just 1.826 billion mu available, government data showed this February.

### **Summer grain output up 2.5 percent<sup>7</sup>**

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<sup>5</sup> China Daily July 8, 2011

<sup>6</sup> Xinhua News July 5, 2011

<sup>7</sup> China Daily July 11, 2011

Despite unfavorable weather, China has had a successful summer harvest this year, with summer grain output up 2.5 percent year-on-year, according to the National Bureau of Statistics (NBS).

The NBS said that this year's summer grain output currently stands at 126.27 million metric tons, up 2.5 percent, or 3.12 million metric tons, from a year ago. The increased output was the result of expanded harvesting areas and higher yields.

Farmers planted a total of 27.56 million hectares of grain this year, a year-on-year increase of 0.4 percent. Grain yield per hectare climbed 2.1 percent year-on-year to reach 4,582 kg per hectare.

China's summer grain output declined 0.3 percent year-on-year to hit 123.1 million metric tons last year after rising for six straight years. In 2010, grain output rose 2.9 percent year-on-year to 546.41 million metric tons.

### **Corn imports may more than double<sup>8</sup>**

China's corn imports may reach 5 million metric tons by the end of 2011, more than doubling the 2 million metric tons the country imported in 2010, according to Abdolreza Abbassian, senior economist with the United Nations' Food & Agriculture Organization.

China is attempting to boost stockpiles and slow the fastest inflation in three years, which sits at 6.4 percent in June, according to reports. China bought 540,000 metric tons of U.S. corn for delivery in the year starting September 1 and an additional 300,000 metric tons was sold to unknown destinations. This brings the amount of corn sold by exporters without declaring a destination to about 2.5 million metric tons, initiating speculation that the product was bought by China and suggesting that the country is already at roughly 3 million metric tons of imported corn for the year.

### **Rice cost and price index launched<sup>9</sup>**

Hunan province, a major rice grower in the country, has established an index on the production cost and sales price of rice, the first of its kind in China.

The index gives a detailed calculation of the production cost as well as wholesale and retail prices of rice in the province since January 2010, according to the Hunan Commodity Price Bureau, which manages the index.

Experts say the rice index will help China, as one of the world's major rice producers, setting rice prices on the international market.

The index data will be released on the 10th day of each month, said Gong Xiusong, head of the Hunan Commodity Price Bureau, noting that it might be released every five days during the peak season or if the price of rice fluctuates dramatically.

Hunan ranks first in rice production in China, contributing about one fifth to the country's rice output.

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<sup>8</sup> WattAgNet.com July 13, 2011

<sup>9</sup> Xinhua News July 21, 2011

## **Locally-grown soy continues to drop<sup>10</sup>**

China's soybean plant area continues to fall, shrinking by 10 million mu (666,666 hectares) from 2010 and 20 million mu from 2009, according to the National Development and Reform Commission (NDRC).

With a withering plant area, soybean output in 2011 is set to fall from the 2010 production of 14.5 million tons, while demand for the crop is to reach 55 million tons this year.

As much as 80 percent of soybeans on the Chinese market are imported, according to Fang Yan, vice-director of the rural economy department at the NDRC.

Soy bean imports are expected to drop to 51 million tons this year, down 6.9 percent from 2010, according to the China National Grain and Oils Information Center. It would be the first time for soybean imports to fall since 2004. The Center projects the import volume to rise to 54 million tons in 2012.

China imported 54.8 million tons of soybeans in 2010, up 28.8 percent year-on-year, according to Customs.

## **June soybean imports fall as crushers postpone shipments<sup>11</sup>**

China's soybean imports fell in June from May after processors delayed some shipments because of lower profit margins.

Inbound shipments were 4.3 million metric tons last month, the customs office said in a statement. That compared with 4.6 million tons of shipments in May, and is a 31 percent plunge from June 2010.

China's imports of soybeans have slowed this year as a reduction in hog inventory led to a decline in feed demand, forcing crushing plants to reduce operations. The slowdown in shipments to China has helped drive a 3.9 percent decline in price of the commodity traded in Chicago this year.

"This confirms the market's belief that still more shipments have been delayed possibly until next year," Chen Baomin, a manager at Jilin Grain Group Co., said by phone from Dalian. "The market was expecting a slight gain, so this may help ease the supply pressure a bit," he said.

Inventory at China's major ports is still about 6.5 million tons, near the record 7 million tons, Chen said. The country is forecast to import 54 million tons of the oilseed in the year through Sept. 30, according to the U.S. Department of Agriculture.

China's soybean inbound shipments in July may be about 4.8 million tons, the Ministry of Commerce said.

## **Edible oil brands apply for price hikes<sup>12</sup>**

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<sup>10</sup> National Business Daily July 20, 2011

<sup>11</sup> Bloomberg News July 10, 2011

<sup>12</sup> 21 Century Business Herald July 21, 2011

Two of China's largest edible oil producers have applied for a price-hike after the price control policy expired in June, because of surging the raw material costs.

Yihai Kerry's edible oil brand Arawana and COFCO's Fortune cooking oil reportedly applied to the National Development and Reform Commission (NDRC) to raise its prices by 5 percent, but the NDRC hasn't replied yet.

The NDRC, China's major economy planning body, began a two-month-long price control of edible oil in April to calm inflation.

The report cited a top management of the industry saying small edible oil producers, which produces 100 tons edible oil per day, has limited market space and some shut down before the price control policy expired.

Industry insiders told the reporter that the edible oil industry faces reshuffle this year and some small edible oil producers, which produces 100 tons or less edible oil per day may close down.

### **7 GM crops ratified<sup>13</sup>**

China has issued biological safety certificates to 7 GM crops including cotton and papaya. Aside from GM cotton, other GM crops have been planted in small-scales in China such as delayed-ripening tomatoes, phytase corn, pest-resistant rice, and disease-resistant peppers.

More than 5,000 mu (or 330 hectare) of pest-resistant cotton was grown in China last year. There had been relatively smaller growing papayas and small-scale cultivation of other GM crops, including long-storage tomatoes, changed-color petunias, disease-resistant peppers, pest-resistant rice and genetically-modified phytase corn.

The national agricultural GM biosafety evaluation authority ratified imports of genetically modified cotton, soybean, corn, and rape. China only allows imported cotton to be used for planting, and the other three imports can only be used as materials for processing. Most GM imports of China come from the U. S., Canada, Brazil, and Argentina.

China has not ratified a single type of GM crop seed to be imported to the country for growing.

### **National lab for super grain established<sup>14</sup>**

China established a national laboratory for hybrid rice research in central Hunan Province, aiming to cultivate rice that will bring yields of 15 tonnes per hectare.

The lab was established in Changsha City, capital of Hunan, with the support of Hunan Hybrid Rice Research Center and Wuhan University. Yuan Longping, Zhu Yingguo and Xie Hua'an, top scientists in cultivating hybrid grains, will lead researches in the lab.

The goal of the lab is to cultivate a super grain that can yield more than one tonne of rice per mu of farmland, or 15 tonnes per hectare, said Yuan Longping, academician of Chinese Academy of Engineering and head of the lab's researches.

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<sup>13</sup> China Radio International July 1, 2011

<sup>14</sup> Xinhua News July 1, 2011

China has cultivated a rice variety that can yield about 900 kg per mu. "To reach a higher level, researchers will have to combine conventional hybrid techniques with molecular technologies," Yuan said.

Another goal of the lab is to promote super grain to other parts of the world to benefit more people, he added.

Hybrid rice on average produce 7.2 tonnes of rice per hectare, 1.4 tonnes more than traditional varieties. Around 600 million hectares of paddy fields in China are planted with hybrid rice, or about 57 percent of the total.

"The productivity of one tonne per mu is not our ultimate goal. We believe hybrid rice can yield 1.5 tonnes of rice per mu in the fertile land of Changsha," he said.

The lab also has a transgenic research facility. "We cannot simply give up scientific research for some safety concerns. Researches into transgenic grain must be continued," Yuan said.

### **Use of chemicals threaten grain output<sup>15</sup>**

The heavy use of agrochemicals has led to a severe deterioration of arable soil and poses a serious threat to domestic grain output. The situation has led to some leading ecologists calling on authorities to reduce the use of pesticides and chemical fertilizers.

The average level of organic matter in soil, which is crucial in determining crop output, is now 1 to 5 percent for northeast China's arable land, compared with 8 to 10 percent in the 1950s, according to figures from the academy's institute of soil sciences. Statistics from the Chinese Academy of Agricultural Sciences (CAAS) also show that more than one-third of land now has harder and thinner tillage layers, which mean crops cannot be planted as deep.

Jiang Gaoming, a leading researcher at the Chinese Academy of Sciences, said the problems have been caused by the massive overuse of chemical fertilizers over the past 30 years, following China's pledge to realize grain self-sufficiency.

Annual grain output increased from 320.56 million tons in 1980 to 546.4 million tons in 2010, according to the National Bureau of Statistics. However, since 2007 China has been the world's largest consumer of chemical fertilizers, using more than 50 million tons every year, four times the amount in the 1980s.

Experts also argue that an increase in plant disease and the deterioration of the environment have been triggered, partly, by years of chemical fertilizer use.

China uses 1.3 million tons of pesticides annually, with usage per unit area 2.5 times the global average, Zhang Weili, a CAAS professor on soil and fertilizer, said.

Also, the country's surface water pollution is grave while its seven major rivers and coastal waters are also polluted, a report by the Ministry of Environmental Protection said in June.

Of the 26 lakes and reservoirs under monitoring, 42.3 percent are "eutrophicated", a process that can lead to a proliferation of plant life caused by excessive levels of phosphorous and nitrogen, the report adds.

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<sup>15</sup> Global Times July 18, 2011

"China can no longer boost grain production by relying on agrochemicals," Zhang said. "More cultivated land will face risks of greater yield decreases in the next few years since the soil is too fragile to withstand natural disasters, which will become more severe and longer due to climate change," she said.

### **Stable pork prices as stocks rise<sup>16</sup>**

A senior government official in charge of animal husbandry with the Ministry of Agriculture predicted that pork prices will gradually stabilize in July or August as farmers increase their live pig stocks.

Wang Zhicai, director of animal husbandry under the ministry, said the high pork price was primarily due to the surging cost of raising pigs. "Feed-stuff and corn prices reached RMB 2.18 yuan per kilo on average in the first half of the year, that's up 10.7 percent from a year ago," Wang said. "To raise a pig until it grows to 100 kilos, the cost is RMB 1,350 yuan, and that's 23.3 percent more than last year," he said.

"More farmers are choosing to work in cities, meaning the number of individual breeders of live pigs is also going down, which has an effect on market supplies," Wang said.

According to data collected from 420 trade markets, pork prices in June shot up 57.1 percent year on year, while the price of live pigs surged 81.9 percent to reach RMB 17.54 yuan per kilo.

Wang predicted the rise in pig prices will gradually ease but as pig-raising costs are high, prices will remain high.

In order to stabilize the meat market, local governments should implement the central government's guidelines in rewarding major pig-raising counties and stepping up support for the construction of standardized pig farms, he said.

### **Pork prices drop for first time in three months<sup>17</sup>**

According to China's Ministry of Commerce, pork prices dropped 0.2 percent. It is the first weekly price drop since May. The drop occurred the week ending July 24.

Zhou Wanjun, from the National Development and Reform Commission, expects pig prices to stabilize by the Spring Festival next year.

China has recently seen a major increase in food prices, also increased pork prices have been an issue. It was revealed that pork prices in June this year climbed 57.1 year-on-year.

### **Surging China demand buoys US pork<sup>18</sup>**

US pork exports will jump 23 percent or more this year because of surging demand and prices in China, the world's top consumer, according to Brett Stuart, the co-founder of farm-industry researcher Global AgriTrends.

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<sup>16</sup> Shanghai Daily July 11, 2011

<sup>17</sup> PigProgress.net July 27, 2011

<sup>18</sup> China Daily July 22, 2011

"The tinder is set," Stuart said during a conference call organized by AgStar Financial Services Inc, an industry lender in Mankato, Minnesota. "All we need is a spark, and we could see some massive volumes going to China. There's really no reason we're not going to see a massive rush of US pork shipped to China."

US pork shipments to all countries, including China, may rise to 2.35 million tons this year from an estimated 1.92 million tons last year, Stuart said.

The US is exporting about 24 percent of its pork output this year, with the "potential to see that grow through the summer", Stuart said. About 19 percent was exported last year, up from 18 percent in 2009, government data show.

In the first five months of this year, shipments to Hong Kong and the Chinese mainland were a combined 23,482.48 tons, up 37 percent from a year earlier, US Department of Agriculture data show.

### **6 UK plants approved exporting pork to China<sup>19</sup>**

The Chinese market has opened for British pig meat after years of delicate negotiations, with 6 UK plants approved to export "fifth quarter" as well as other quality pork cuts to the country.

Both product and export health certificates have been approved and a formal announcement was made during a UK-China summit in London on June 28, during the Chinese premier's visit to the UK. "This is wonderful news and something we have been working towards for several years," said British Pig Executive Chairman Stewart Houston.

According to Houston, pork and pork product prices are currently at record levels in China. "We have a fantastic opportunity to improve returns from selling all parts of the pig," he said. "This is much needed as pig prices in this country still lag behind the cost of production caused by continuing high feed costs and other rising input prices."

China is both the biggest producer and consumer of pig meat in the world, producing 46 million metric tons a year, but consuming still more. Depending on how the trade develops, BPEX International Manager Peter Hardwick said the market could soon be worth as much as £40 million a year.

### **Poultry prices up 32.3 percent from 2010<sup>20</sup>**

China's poultry prices have increased by 32.3 percent over 2010 numbers, according to the National Bureau of Statistics, contributing 1.94 percentage points to the country's overall price inflation, which hit a three-year high in June.

Egg prices were up 23.3 percent, contributing 0.16 percentage points to the overall growth of the consumer price index, which has increased 6.4 percent since June 2010. Compared to May numbers, the prices of poultry and related products rose 6.3 percent.

### **Delegation spends time understanding DDGS sector<sup>21</sup>**

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<sup>19</sup> WattAgNet July 1, 2011

<sup>20</sup> WattAgNet July 11, 2011

<sup>21</sup> ThePoultrySite News July 15, 2011

To gain a more thorough understanding of the production and use of US distillers dried grains with solubles (DDGS), the US Grains Council organized a mission from China to visit the United States.

The delegation included representatives from China's DDGS regulatory team, including those involved in the DDGS registration process within China. Senior-level representatives from some largest livestock and feed companies, such as Haid Group and Shandong Liuhe Group, were also in attendance, as were delegates from the China Agriculture University and the Ocean University of China.

Alvaro Cordero, USGC manager of international operations for DDGS, who accompanied the group, said: "The goal was to give them a thorough background on DDGS and ethanol production from a regulatory perspective to the process itself to methods of shipping DDGS around the world."

To help give such a view, the delegation spent time in Washington, D.C., with the Foreign Agricultural Service, Food and Drug Administration and others. While in Washington, the group covered everything from shipping standards and requirements and the Renewable Fuels Standard and how it impacts ethanol production within the United States. Questions on the use of antibiotics in ethanol production were also addressed, as antibiotics are sometimes used by ethanol producers to keep bacteria from negatively impacting yeast used to convert corn starch to ethanol.

Time was also spent, of course, in several ethanol plants in the Midwest, where the delegation got a firsthand look at the ethanol and distiller's grains production process. Stops at CME Group in Chicago and in the offices of DDGS marketers demonstrated how corn and other products are traded, while a tour of container load-out facilities gave a firsthand look at DDGS shipping.

Additional visits to livestock farms gave insight into how US producers use distiller's grains in rations before the group finished up at the International Grains Programme at Kansas State University.

### **Raw milk industry cleaned up<sup>22</sup>**

China has acted to clean up its raw milk industry to ensure safety at the source of the industrial chain.

Gu Jicheng, secretary-general of the Dairy Association of China, said agricultural departments have eliminated a total of 6,890 disqualified raw milk stations during a three-year campaign that began in 2008.

In the wake of the campaign, a total of 13,503 raw milk stations and 7,980 raw milk transportation vehicles throughout the country are subject to the monitoring of local authorities, Gu said.

"All the stations are now either run by dairy companies, cow farms, or cooperatives established by dairy farmers," said Gu, who used the rise of machinery-milking to 87 percent from 51 percent nearly three years ago as an example of improved hygiene standards.

Despite that, Guo Benheng, president of Bright Dairy & Food, said that China's raw milk standard was nearly the world's lowest. The country's raw milk standards of protein content and

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<sup>22</sup> People's Daily July 4, 2011

colony-forming unit (CFU) are much lower than those from the United States and the European Union.

"International standards for the dairy industry also require checks of antibiotics and nitrites in raw milk, but China does not even make such requirements," Guo said.

Since 2009, agricultural departments have paid great attention to the safety and supervision of raw milk, and strictly cracked down upon illegally adding substances such as melamine to raw milk.

Additionally, the nation's top quality regulator in January ordered that dairy product makers must obtain new production certificates this year, and those with weak quality guarantees will be shut down. By the end of March, only 643 dairy firms among a total of 1,176 companies had passed the examinations, said Ren Fazheng, a professor with the China Agricultural University.

Ren said this overhaul promoted restructuring in the dairy industry and was beneficial to the improvement of quality and safety of the country's dairy products, as both dairy output and consumption surged last year.

According to figures provided by Ren, dairy output reached 21.59 million metric tonnes last year, up 48 percent compared to 2006; meanwhile, per capita spending on dairy products by residents in 36 large and medium-sized cities reached RMB 277 yuan (USD43), up 40 percent compared to 2006.

### **Fonterra inks farm deal to milk from demand<sup>23</sup>**

New Zealand milk giant Fonterra Co-operative Group Ltd will invest RMB 260 million yuan (USD40 million) in its third dairy farm in China, part of the company's strategy to enhance the quality of fresh milk supply to the Chinese customers.

Fonterra had signed an agreement with the Yutian county government of North China's Hebei province to develop a 40-hectare farm, which is expected to increase Fonterra's overall milk production in China to around 90 million liters, or 360 million cups of fresh milk every year, the company said.

The new farm, which will house around 3,200 milking cows, will begin construction in November 2011 and is slated for completion by late 2012. The company's first farm was established in 2007 and the second farm, also in Hebei province, is still under construction.

"Our pilot farm project, established in 2007, demonstrated we can successfully produce high-quality local milk profitably. The construction of our second farm is also progressing well. Today's announcement of our third farm investment agreement is the next step in our plans to build a hub of farms in Hebei province in the next five years," said Peter Moore, chief operating officer of Fonterra International Farming Ventures.

Fonterra, which produces about a third of the world's traded dairy products, generates about USD14.4 billion of revenue and supplies milk, cheese and yogurt to over 100 markets worldwide every year. Fonterra is owned by 10,500 farmer shareholders, and was formed in 2001 through the merger of the New Zealand Dairy Board, New Zealand Dairy Group and Kiwi Co-Operative Dairies.

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<sup>23</sup> Global Times July 22, 2011

Turner said China has huge growth potential and forecast the country's dairy market is on track to triple in value from around USD22 billion in 2009 to USD70 billion by 2020.

### **Asahi eyes food market amid safety scare<sup>24</sup>**

Asahi, a China-registered Japanese farm, plans to tap into China's high-end food market with its quality and safe products amid the country's rising food safety concerns.

In 2006, Shandong Asahi Green Source High-Tech Farm Co Ltd rented 1,500 mu (100 hectare) of farmland in Laiyang, Shandong province to produce certain kinds of vegetables and dairy products.

The company invested USD21.9 million initially, adding USD2.2 million each year, according to Gao Fengtao, an official at Muyudian county of Laiyang.

Asahi Green Source hasn't seen profits yet, but the manager of the company said they are not after profits, but want to set up an example for the sector, by supplying high-end products.

Although it sells milk only in Beijing, Shanghai and Shandong at RMB 22 yuan per liter, 1.5 times higher than average Chinese milk, sales are rising 20 percent each month, said the manager.

### **Water facilities construction to be stepped up<sup>25</sup>**

The Chinese government has pledged to intensify construction of water facilities, an urgent effort to enhance grain safety and fight drought and floods.

China will prioritize water projects in its infrastructure construction and take irrigation and water conservancy as a major task in rural infrastructure improvement, President Hu Jintao stressed at a meeting.

Hu said water has exerted more evident impact on China's economic security, ecological security and national security as the economic and social development and improved livelihoods are facing water strains.

Hu said accelerating development facilities is an urgent need for the nation to guarantee grain safety, restructure its economy, build an energy-saving and environment-friendly society, promote social stability and combat natural disasters.

Hu said China will establish a water system that can shield the nation from the impact of floods and drought, utilize water efficiently and protect water resources by 2020.

Central and local governments will take a leading role in water projects, he said. He called for greater efforts to strengthen irrigation and water conservancy projects in rural areas and improve facilities for mitigating floods.

Further, more efforts should be made to enhance water resources allocation to ensure water supplies for rural and urban households and promote water protection, treatment and management, he said.

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<sup>24</sup> Beijing Times July 13, 2011

<sup>25</sup> Xinhua News July 11, 2011

## **COFCO owns 99 percent of Tully Sugar<sup>26</sup>**

COFCO increased its share holdings in Australia sugar producer Tully Sugar from 61.25 percent to 99 percent. Tully Sugar's second biggest shareholder, Mackay Sugar, which had a 31.5 percent stake in Tully Sugar, announced it had sold all its shares to COFCO.

Mackay Sugar issued an announcement on July 18, 2011, saying that it was the company's intention to take control of Tully Sugar and operate it as part of the Mackay Sugar business. As it had been unsuccessful in securing a controlling stake in Tully Sugar the company believe that it is best for Mackay Sugar shareholders and Tully Sugar to sell its shares.

COFCO began the deal with Tully Sugar on April 16. It costs the company RMB 938 million yuan (USD145.15 million) to finally acquire the 99 percent share in Tully Sugar.

Analysts said this deal will expand the planting area of sugar cane and the processing capacity of sugar and lower the cost of China's import of sugar.

## **Nestle agrees to buy Hsu Fu Chi<sup>27</sup>**

Nestle SA, the world's largest food company, has agreed to buy 60 percent of Hsu Fu Chi International Ltd, a Chinese snack and candy maker, for S\$2.07 billion (USD1.7 billion) to tap rising demand for sweets in the world's most populous nation.

Nestle offered S\$4.35 in cash for each share of Singapore-listed Hsu Fu Chi, an 8.8 percent premium over the stock's closing price on July 8. The controlling Hsu family will own 40 percent of the confectioner after the acquisition, according to a joint statement by the companies.

The purchase would be Nestle's largest acquisition in China, where Hsu Fu Chi's sales last fiscal year grew more than three times faster than Nestle's worldwide sales. In addition to Hsu Fu Chi's cakes and traditional sweets, Nestle aims to use its distribution system for its own brands.

"Hsu Fu Chi has an extensive network and quite a large number of outlets in China, that's definitely what Nestle will be looking for," said Eugene Ng, a Singapore-based analyst with UOB Kay Hian Pte Ltd. "It seems a good deal for Nestle, given the valuation comparison with its major peers, such as Tingyi and Want Want."

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<sup>26</sup> China Economic Net July 20, 2011

<sup>27</sup> People's Daily July 12, 2011

## Statistics

### Average food prices in 50 cities July 11-20, 2011<sup>28</sup>

Item	Specification/Unit	Current price (RMB)	Percentage changes as compared to last period (% , July 1-10, 2011)
Rice	Japonica rice / kg	5.44	0.2
Flour	Strong flour / kg	5.03	0.4
Flour	Standard wheat / kg	4.09	0.0
Soy products	Bean curd / kg	3.76	0.0
Peanut oil	5 Lin barrel bulk / litre	22.19	0.7
Soyabean oil	5 Lin barrel bulk / litre	11.59	-0.1
Rape seed oil	Grade 1 in bulk / kg	12.52	-0.2
Pork	Rump / kg	31.28	0.1
Pork	Belly meat / kg	30.31	0.2
Beef	Leg / kg	39.12	0.6
Mutton	Leg / kg	44.70	0.5
Chicken	Frozen fresh chicken / kg	18.57	0.9
Chicken	Breast / kg	20.38	0.9
Ducks	Frozen fresh duck / kg	17.07	0.7
Eggs	Fresh eggs in bulk / kg	9.99	1.8

<sup>28</sup> National Bureau of Statistics

## Major meat retail price July 2011<sup>29</sup>

### Pork (Lean):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
A. 07/11/11-07/20/11	B. 07/01/11-07/10/11	C. 06/11/11-06/20/11	D. 07/11/10-07/20/10	(A-B)/B	(A-C)/C	(A-D)/D
34.30	33.86	30.66	22.02	1.30%	11.87%	55.77%

### Egg:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
E. 07/11/11-07/20/11	F. 07/01/11-07/10/11	G. 06/11/11-06/20/11	H. 07/11/10-07/20/10	(E-F)/F	(E-G)/G	(E-H)/H
9.90	9.80	10.02	7.84	1.02%	-1.20%	26.28%

### Chicken:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
I. 07/11/11-07/20/11	J. 07/01/11-07/10/11	K. 06/11/11-06/20/11	L. 07/11/10-07/20/10	(I-J)/J	(I-K)/K	(I-L)/L
17.88	17.80	17.40	14.68	0.45%	2.76%	21.80%

### Beef (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
M. 07/01/11-07/10/11	N. 06/21/11-06/30/11	O. 06/01/11-06/10/11	P. 07/01/10-07/10/10	(M-N)/N	(M-O)/O	(M-P)/P
37.76	36.90	36.94	33.92	2.33%	2.22%	11.32%

### Mutton (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
Q. 07/11/11-07/20/11	R. 07/01/11-07/10/11	S. 06/11/11-06/20/11	T. 07/11/10-07/20/10	(Q-R)/R	(Q-S)/S	(Q-T)/T
45.56	45.52	44.76	38.10	0.09%	1.79%	19.58%

<sup>29</sup> China Animal Agriculture Association