



## China Agricultural Newsletter – August 2011

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## Laws, Regulations and Policies

### Implementation of rural land contract law to be checked<sup>1</sup>

China's top legislature will send a team to find out how a law on rural land contract has been implemented in order to prevent farmers' land rights from being infringed.

The team, organized by the Standing Committee of the National People's Congress (NPC), will go in six separate groups to the provinces of Hebei, Jilin, Anhui, Shandong, Hunan and Gansu from August to October.

The top legislature also ordered local legislatures of other provinces and regions to check the enforcement of laws concerning rural land contract and the mediation and arbitration of rural land contract disputes.

Wu Bangguo, chairman of the NPC Standing Committee, said that the inspections are aimed at helping protect farmers' rights in land contract system, maintain the stability of the system, and strengthen the management and services regarding the transfer of farmers' land contract management rights. Wu said the inspections also aim to prevent the country's arable land from being illegally occupied, and better address the disputes stemming from rural land contract management.

Under China's existing land ownership structure, rural collectives own rural land. The collective, often a village committee, distributes land-use rights to households on 30-year contracts. Farmers are allowed to contract, rent, and exchange or transfer their land use rights.

### Food-tracking project extended<sup>2</sup>

China's Ministry of Commerce has expanded a pilot meat and vegetable tracking system to 10 more cities, aiming to improve food safety.

Officials from the ministry signed cooperative agreements with senior government officials from 10 cities including Tianjin, Shijiazhuang, Harbin, Hefei, Nanchang, Jinan, Haikou, Lanzhou,

<sup>1</sup> Xinhua News Aug. 27, 2011

<sup>2</sup> ThePigSite News Aug. 1, 2011

Yinchuang and Urumqi, to start the second phase of a pilot project for a meat and vegetable tracking system.

According to an official source, the ministry started the first-phase pilot of the system in October 2010 in 10 cities, including Shanghai, Nanjing and Dalian, etc. The system can allow consumers to check the provenance of meat and vegetables by the use of bar codes on the products once the system is in place.

The system will standardize the transportation of meat and vegetables, two key agricultural products, and will lead to changes in the current system to provide a higher standard of food safety.

"By the end of the year, the tracking system piloted in the first 10 cities will be put into full use. By the end of the 12th Five-year Plan (2011-2015), the tracking system should cover the transportation of meat and vegetables across the country and will be expanded to other areas such as fruit and marine products on a step-by-step basis," Jiang Zengwei, vice-minister of commerce, said.

Approximately 80 percent of meat and vegetables in the larger cities are produced in rural areas, while more than 80 percent of the transportation is done through wholesale markets. The first-phase of the system now covers 176 slaughterhouses, 100 large wholesale markets, more than 3,000 food markets, 1,400 supermarkets and more than 4,400 bulk buyers in the 10 pilot cities.

### **Funding risen to boost grain security<sup>3</sup>**

The Ministry of Finance (MOF) said that it has added RMB 4.4 billion yuan (US\$688 million) in subsidies to the Grain Risk Fund to boost the country's grain security.

With the additional subsidies, the capital of the Grain Risk Fund has reached RMB 38.2 billion yuan, including RMB 27.7 billion yuan, or 72.5 percent, earmarked for the 13 major grain-producing regions. All of the money for the 13 regions has been appropriated by the central government.

The MOF said it believes the funding will ensure necessary spending by local governments to subsidize grain production and the establishment of cereal and cooking oil reserves.

Established in 1994, the Grain Risk Fund is used to hand direct subsidies to grain growers as well as general subsidies for purchasing agricultural supplies and machinery.

### **Campaigns launched against illegal slaughterhouses, swill-fed pigs<sup>4</sup>**

The Chinese government has launched a campaign in order to stop the increase of illegal slaughterhouses, and in relation to this it is also stopping swill-fed pigs from making its way to the market.

The Beijing Animal Health Inspection Institute had discovered some farms in Beijing's districts of Tongzhou, Shunyi and Fangshan using swill which is a combination of liquid and solid food scraps to feed their pigs. Chinese law states that it is prohibited to use swill as pig feed.

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<sup>3</sup> Xinhua News Aug. 26, 2011

<sup>4</sup> PigProgress.net Aug. 10, 2011

It has been reported that Beijing's animal health watchdog has stopped approximately 15,000 swill-fed pigs from entering the market between the months of June and August this year.

### **More reserve sugar released to curb price hikes<sup>5</sup>**

China's National Development and Reform Commission (NDRC) said it has auctioned 450,000 tons of reserve sugar to replenish the nation's supply in a bid to tame rising prices.

NDRC said two batches of reserve sugar were auctioned on July 6 and Aug 5 and it would auction some 200,000 tons of sugar on Aug 22.

By August 12, sugar's spot prices in most parts of the country exceeded RMB 8,000 yuan per ton, almost double that two years ago. Reserve sugar's auction prices also hit a record high.

The steep price hike is due to shrinking production in the nation's major sugar-growing areas such as southern Guangxi Zhuang autonomous region, and also in the major sugar exporters such as Brazil, whose production has been disrupted by extreme weather.

It is estimated China needs 13 million tons of sugar this year, leaving a shortage of more than 2 million tons.

### **Seed market considering open<sup>6</sup>**

China might further open up its seed market to foreign companies, with the Ministry of Commerce and the Ministry of Agriculture studying the market shares and development of these companies, said an official close to the matter.

The possible opening means that foreign seed companies may be allowed to hold controlling interests in joint ventures, compared with the current 49 percent ceiling, a commerce ministry official said.

The current policy is holding back the development of China's seed industry, the source added. Under current regulations, foreign participants in the business for field-crop seeds, such as soybeans and rice, must establish joint ventures with domestic companies. The foreign partner is limited to 49 percent of a joint venture, according to the Ministry of Commerce.

Many Chinese agribusiness experts say the limits are intended to prevent foreign companies from controlling the country's seed industry. China's seed market, which is estimated at RMB 50 billion yuan (US\$7.7 billion) annually, is the world's second-largest behind the United States. But the industry is highly fragmented, with more than 8,000 small and medium-sized companies vying for market share.

### **Anti-subsidy probe on EU potato starch extended<sup>7</sup>**

China will prolong its anti-subsidy probe by one month on potato starch imported from the European Union, said the Ministry of Commerce (MOFCOM).

The investigation will be completed before Sept 30, 2011, one month after the previous deadline, since the case was "special" and "complicated," according to MOFCOM.

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<sup>5</sup> Shanghai Daily Aug. 16, 2011

<sup>6</sup> China Daily Aug. 25, 2011

<sup>7</sup> China Daily Aug. 15, 2011

China launched an anti-subsidy investigation on the imports of EU-made potato starch on Aug 30, 2010 at the request of the China Starch Industry Association. The probe focused on whether the EU members subsidized exports of potato starch to China, and if so to what extent the subsidies had harmed domestic industries.

### **Grassland ecology protection to be strengthened<sup>8</sup>**

A circular issued by the State Council has called for more efforts, increased investment and intensified supervision for the country's grassland ecology protection.

The circular told government departments to set up and implement a subsidy and reward program for grassland protection and to combine the ecology protection with the efforts to increase herdsmen's income.

Under the program, China will prohibit herdsmen from allowing their cattle to graze on severely damaged grasslands, but the central budget will instead give them an annual subsidy of RMB 6 yuan (US\$0.93) for every mu (0.07 hectare) of prohibited grassland.

The budget will also reward herdsmen if they make efforts to preserve grasslands that are still available for grazing.

From this year on, the program will be carried out in the country's eight major grassland regions. The government authorities should work to ensure that the herdsmen will not suffer losses from their efforts of cattle grazing reduction and grassland protection, the circular said.

90 percent of China's 400 million hectares of grassland are deteriorated to some degree, Gao Hongbin, vice minister of agriculture, said at a national work conference on the protection of pasturing area. China's total amount of pasturing area stands at more than 4 million square km, or more than 40 percent of the country's total area.

## **Industry and Business Watch**

### **Huge tracts of arable land neglected<sup>9</sup>**

Millions of hectares of arable land in central, eastern and southern parts of China are lying unattended in winter as villagers shun agricultural life, experts said. Rural residents are leaving the land amid rapid urbanization, according to official data.

More than 46.6 percent of arable land in 16 provinces in southern parts of China - 21.5 million hectares - lies untilled in winter, according to statistics from the Ministry of Agriculture. The land used to be planted with rice.

"Rice-planting areas in southern provinces have shrunk considerably in recent years," said researcher Lu Bu at the Chinese Academy of Agricultural Sciences' agricultural resources and regional planning institute. "On top of this, most rice varieties that can be harvested twice a year have been replaced by single-harvest rice, as farmers are not willing to spend time on the land and want to work in the cities for more money," he said.

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<sup>8</sup> Xinhua News Aug. 10, 2011

<sup>9</sup> People's Daily Aug. 8, 2011

At present, only 6 of the 31 provinces, municipalities and autonomous regions produce enough grain to support other provinces.

### **Lengthy drought leaves 4m in need of more water<sup>10</sup>**

A lingering drought has caused water shortages for 4.28 million people in China, the country's drought relief authority said.

The high temperatures and lack of rain that persisted throughout July have resulted in drought in the Inner Mongolia autonomous region, the Ningxia Hui autonomous region and the provinces of Gansu, Guizhou and Hunan, the State Flood Control and Drought Relief Headquarters said.

4.22 million hectares of arable land had been affected by the drought. Some 3.88 million head of livestock suffered from water shortages.

### **Soy crushing capacity to be about 100m tons<sup>11</sup>**

China will add 12.3 million tons of soy crushing capacity in 2011 to lift the country's total soy processing capacity to around 100 million tons, according to the China National Grain and Oils Information Centre.

The centre also estimated China will process 55 million tons of soybeans this year, which would represent an operation ratio of about 55 percent, down from last year's 64.9 percent and 61.9 percent in 2009.

### **Soybean imports set to maintain increase<sup>12</sup>**

China will maintain an upward trend in soybean imports with the rise being driven by the widening profit margins of soybean oil crushers and the recovery of the hog production industry.

In July, the soybean imports hit 5.35 million tons, an eight-month high and a rise of 24.4 percent from the previous month, according to data released by the General Administration of Customs.

Total imports in the first seven months of 2011 declined by 5.5 percent to 29 million tons year-on-year. "Soybean oil producers will purchase more imported beans because they have been able to raise prices and increase their profit margins," said Zhang Xingchao, an analyst at Jingyi Futures Co.

The government has recently relaxed pricing regulations, which were imposed on a number of key producers of edible oil from last November. They were ordered to keep prices unchanged to ease inflationary pressure.

At the same time, the rising shipments showed the recovery of hog production has bolstered demand for soybean meal, Zhang said.

After two years of low production, hog farmers have become more enthusiastic about raising pigs because of the rising price of pork and government efforts to boost the supply of live pigs. Pork prices increased by 56.7 percent in July from the previous month, a factor mainly

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<sup>10</sup> China Daily Aug. 2, 2011

<sup>11</sup> Reuters Aug. 12, 2011

<sup>12</sup> China Daily Aug. 11, 2011

contributed to China's highest inflation 6.5 percent in July during three years, driven mainly by soaring food prices, according to the National Bureau of Statistics.

The Ministry of Commerce said it will invest RMB 2.5 billion yuan (US\$390 million) in large-scale pig farms in 2011 to boost livestock numbers and will pay subsidies to farmers.

### **Corn output likely to hit 183m tons<sup>13</sup>**

China is likely to reap a bumper corn harvest this year, with the output being expected to hit 182.5 million tons, up 2.96 percent from a year earlier, according to an official with the State Administration of Grain.

Shang Qiangmin, head of the China National Grain and Oils Information Center under the State Administration of Grain, made the projection at a forum on corn industry development.

With the increasing output, there is a bigger market demand for corn in the production of feeds, starch sugar and corn ethanol, Shang said.

The China National Grain and Oils Information Centre said 2011 soybean output was expected to fall 10.5 percent from last year to 13.5 million tons.

### **China corn demand surpasses US estimates<sup>14</sup>**

China ordered 21 million bushels of U.S. corn in July, more than the U.S. allotted for exports to China in all of 2011, as the country's pork market and middle class both grow.

China has bought another 2.2 million bushels of corn from the U.S. so far in August, and the country became a net importer of corn for the first time in 15 years in 2010. Some U.S. economists believe that China might become the biggest foreign buyer of U.S. corn within 5 to 10 years, taking the spot from Japan, which bought 610 million bushels of U.S. corn in 2010.

Current U.S. Department of Agriculture estimates suggest that China will import 79 million bushels of corn from all sources in the 2011-2012 crop year.

### **Edible oil prices set to increase<sup>15</sup>**

Price hikes for bottled edible oil are inevitable and an increase of about 5 percent could be accepted by the market, said an official of a State-supported think tank, the China National Grain and Oils Information Center (CNGOIC).

To ease inflation pressure, the National Development and Reform Commission (NDRC) ordered a few key edible-oil producers to keep prices unchanged last November.

Since the cap was imposed in November, bulk prices have risen by some 8.5 percent to 9.5 percent, to the current level of RMB 10,200 yuan (US\$1,570) to RMB 10,300 yuan a ton.

The NDRC approved Yihai Kerry Investment Co Ltd's and COFCO's applications for a rise of about 5 percent early August. It will spark a new round of price hikes among other cooking-oil manufacturers, especially small companies that have been harder hit by the price controls.

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<sup>13</sup> Xinhua News Aug. 13, 2011

<sup>14</sup> WATTAgNet.com Aug. 16, 2011

<sup>15</sup> 21 Century Business Herald Aug. 4, 2011

Yihai, owned by Singapore Wilmar International Ltd, is the biggest edible-oil producer in China, accounting for about 50 percent to 60 percent of the market, while State-owned COFCO Group holds about 10 percent.

Soybean oil is the major cooking oil consumed in China and its price is expected to rise due to tight domestic and international supplies. Other edible-oil prices are also increasing, analysts noted. Domestic peanut prices have approximately doubled since October to nearly RMB 12 yuan a kilogram, reflecting commodity price inflation and reduced output in primary growing areas such as Shandong province, which have been hit by prolonged heavy rain.

### **Grain and cooking oil processing center opened<sup>16</sup>**

China's largest grain and cooking oil processing center went into operation in Tianjin as a first stage of the grain and oil development project initiated by the China Oil and Foodstuffs Corporation (COFCO).

Covering 300,000 square meters, the center will serve 260 million citizens in north China. The center will process 2.3 million metric tons of vegetable protein and 900,000 metric tons of cooking oil products every year.

It is estimated that by 2015, the 4.6-square-kilometer industrial park in Tianjin Binhai New Area will produce a yearly output of pressed oil and essential oil that will reach 10 million tons and 4 million tons respectively, while over 10,000 tons of cooking oil will be produced each day.

The development project was initiated on April 28, 2009 with a total investment of RMB 4 billion yuan (US\$620.2 million), RMB 2.6 billion yuan of which was spent to build the center.

Ning Gaoning, president of COFCO, said the launch of the project in Tianjin marks a "breakthrough" for the company, as it will allow COFCO to be ranked among the world's largest cooking oil processors.

### **More pork to import<sup>17</sup>**

China is expected to import more pork in the future if the domestic price of the country's staple meat continues to rise, experts said.

"The central government may consider importing more pork in the future, especially when the country has been harmed by long-term increases in pork prices," said Wang Jimin, deputy director of the Chinese Academy of Agricultural Sciences' agricultural economics and development institute.

Wang said foreign meat suppliers will enjoy a heyday in China when domestic pork costs more than imported pork.

Statistics from the US Department of Agriculture showed that US exporters sent 192,500 tons of pork and pork-related products to the Chinese mainland in the eight months leading up to February 2011. Those had a total value of US\$169 million. During the same period, another 63,600 tons of the products were exported to Hong Kong, and most of that was then re-exported to the Chinese mainland, according to the US Department of Agriculture.

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<sup>16</sup> China.org.cn Aug. 13, 2011

<sup>17</sup> Global Times Aug. 18, 2011

The amount of pork from the United States is expected to increase throughout the summer and possibly into next year, the agricultural department said.

### **Shuanghui to expand pig breeding business<sup>18</sup>**

China's largest meat processor Shuanghui has stated that it will expand its pig breeding business. The company plans to build pig breeding farms with annual capacity of 500,000 pigs. In addition, feed processing plants will be built with the capacity of 200,000 tonnes.

According to reports, each farm and plant will be positioned next to a slaughterhouse, with a 2 million head annual capacity.

The company confirmed that the expansion is to ensure meat quality, following the clenbuterol scandal which occurred in March concerning the firm.

### **Wen's Group expands with boar-breeding base<sup>19</sup>**

Guangdong Wen's Group established a boar-breeding base in the middle part of Hebei Province, in partnership with China Agriculture University.

The project occupies 23.33 hectares of land, including a 16.67-hectare breed-raising base, a 3.33-hectare industrialization center and a 3.33-hectare office area. The investment totals RMB 320 million yuan and phase 1 of the project, which costs RMB 60 million yuan, will be completed before the end of 2012.

The annual plan of the base is to produce 2 to 3 new pig breeds and to put 1 to 2 new products on the market. The annual production value is expected to reach RMB 150 million yuan in five years.

### **Extreme seasonal jump in egg prices<sup>20</sup>**

After pork prices, it is now egg prices that have seen a drastic increase, triggering market concerns over the declining purchasing power and persistent inflation problem in China.

The egg prices were 7.3 percent higher than on July 1, the highest level since 2008.

Geographically, all provinces and municipalities have witnessed egg price hikes, with the prices reaching above RMB 10 yuan (US\$1.56) per kilogram in majority of the areas. Xinjiang Uyghur Autonomous Region, Jilin Province and Chongqing Municipality saw the biggest increases of 12 to 15 percent.

The prices of eggs have been rising since the second half of 2010, said Guo Huiyong, an agriculture analyst at Beijing Orient Agribusiness Consultant Ltd. Persistent rainfall since last year has led to reduced poultry farming and a drop in the egg supply, pushing the prices up, he said.

The increasing inventory demand for festival season and rising feed costs are other factors behind the egg price hike, he added, saying that the soaring prices of pork also partially led to increased consumption of eggs.

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<sup>18</sup> Business China Aug. 8, 2011

<sup>19</sup> WATTAgNet.com Aug. 16, 2011

<sup>20</sup> ThePoultrySite News Aug. 15, 2011

As mid- and late August is the traditional off-season for egg production, egg prices are expected to rise further in the next few days, according to Qian Minghuo, president of the Hangzhou Poultry Trade Industry Association.

### **Seed industry updates<sup>21</sup>**

An estimated 8,700 seed companies are operating in the Chinese market, but fewer than 100 have their own intellectual property rights.

More than 90 percent of the companies are small- and medium-sized enterprises (SMEs) and have lower levels of research and technology. Around 30 percent of them are engaged in producing and selling counterfeit seeds every year, according to industry reports.

China's vast seed market has long been in need of greater regulation, and there's every sign that the government will push for consolidation in the industry to improve the situation.

In October 2010, the Ministry of Agriculture raised the registration threshold for seed-producing SMEs in a draft revision of the present regulations. Once the new rules take effect, "no more than 200 companies will meet the new requirements and stay in the market", Xia Jingyuan, director of the National Agro-Technical Extension and Service Center affiliated with the ministry, said.

In April, the State Council issued guidance on the development of the industry, which "encourages mergers and acquisitions between seed companies", and aims to "foster companies with international competitiveness".

Despite the deluge of fake seeds on the market, international giants such as Pioneer are still expanding at a rate that is alarming to many Chinese observers.

Recent years have seen a steady increase in the number of cornfields planted with Pioneer's seeds. One of the company's major varieties, Pioneer 335, is China's third-most-popular corn seed, with more than 2 million hectares under cultivation by 2010. The area devoted to growing Pioneer's corn seeds is estimated to be 4 million hectares, accounting for nearly 13 percent of the total area sown with corn, according to industry data.

Syngenta is the leader in China's vegetable-seed market, especially in varieties such as tomatoes and sweet peppers. In 2010, its sales in China saw "a high single-digit increase for vegetable seeds", according to the company.

Monsanto has set up three joint ventures and also owns three companies in China and its seed business focuses on hybrid corn, GM cotton and conventional vegetable seeds. Its hybrid corn seeds, sold under the name of Dekalb, are mainly grown in provinces in the southwest of the country. In 2010, Monsanto's global sales declined 10.4 percent year-on-year to US\$10.5 billion, the Chinese market contributed less than 1 percent to the global total, according to the company. "We currently have a very limited market share in China," Kevin Eblen, regional leader of Monsanto North Asia, says, "but our business is growing steadily and we obviously see great prospects for the future here."

### **Long Ping grows larger<sup>22</sup>**

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<sup>21</sup> China Daily Aug. 5, 2011

<sup>22</sup> China.org.cn Aug. 23, 2011

Yuan Long Ping High-Tech Agriculture Co Ltd, one of China's major players in the agriculture sector, will invest in a number of processing facilities for corn and rice seeds and pepper products this year, said the company's Chief Executive Officer Liu Shi.

The corn seed processing facility is located in Zhangye in northwestern Gansu province. Investment in the first phase of the project stands at RMB 80 million yuan (US\$12 million). Total investment in all four phases of the corn processing plant will be RMB 200 million yuan.

The company is also developing facilities dedicated to drying rice seeds - a process that currently poses a challenge to the entire industry.

The company intends to raise its red pepper drying capacity next year to 10,000 tons annually from 3,000 tons at present.

During the first half of this year, the company's income surged by 26.6 percent year-on-year to RMB 753 million yuan. Profit jumped by a staggering 171 percent compared with the same period last year to RMB 105 million yuan, according to a statement from the company.

### **Key scientist promotes 3-line hybrid Bt cotton<sup>23</sup>**

Professor Sandui Guo, chief scientist of the Breeding and Cultivation of New GM Varieties Project (cotton sub-project) launched by China's Ministry of Agriculture, oriented seed companies on the field trial of GM three-line hybrid Bt cotton.

Guo used genetic engineering and heterosis to develop the three-line hybrid Bt cotton breeding system in 2005. Hybrid Bt cotton can outyield regular Bt cotton by at least 25 percent, and reduce cost by 50 percent because detasselling by hand is not required. By strengthening the hybrid Bt cotton breeding collaboration network within China, Guo is optimistic that the technology can contribute to increased planting and production by as much as 80 percent. Even with decreased planting area, Guo believes that the technology will still enable China to meet 70 percent of its cotton requirements.

### **New Hope launched an animal feed mill in Cambodia<sup>24</sup>**

The 1<sup>st</sup> Chinese animal feed mill officially inaugurated in Phnom Penh Special Economic Zone, some 18 kilometers west of the central Phnom Penh, which is invested by Sichuan New Hope Agribusiness (Cambodia), a joint-venture between China's New Hope Group holding 90 percent stake and Japan's animal feed Sojitz Corporation owning the remaining stake. It brings the number of the same kind of factories in the country to five, said Cambodian Minister of Agriculture Chan Sarun.

Currently the demand of animal feed in Cambodia is about 700,000 tons per year, but the four full-functioning factories can produce only 170,000 tons a year, so the rest is imported. The Sichuan New Hope Agribusiness (Cambodia) would be capable to produce about 57,000 tons a year, it would increase the supply of animal food locally and can reduce the reliance on the imports.

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<sup>23</sup> Crop Biotech Update Aug. 26, 2011

<sup>24</sup> Xinhua News Aug. 28, 2011

The construction of the Sichuan New Hope Agribusiness (Cambodia) mill had been started early this year on the land of 33,500 square meters and completed last month, costing US\$ 6 million. The factory employs about 100 Cambodian workers.

### **COFCO Tunhe, Unilever seek sustainable growth<sup>25</sup>**

China Oil & Foodstuffs Corp (COFCO) Tunhe Co Ltd said it is working with Unilever (China) Co Ltd to improve irrigation systems in its tomato fields in Xinjiang Uygur autonomous region, a major Chinese agricultural base. It has invested RMB 168 million yuan (US\$26 million) in water-saving irrigation systems in the region.

For its part, Unilever has sent scientists to train farmers in the efficient use of fertilizers, which has helped increase crop output. To meet Unilever's purchasing standards, COFCO Tunhe adopted drip irrigation methods in 80 to 90 percent of its tomato farmland in Xinjiang, which cost RMB 300 yuan a mu (0.067 hectare), according to the company.

The next step for Unilever and COFCO Tunhe is to expand sustainable farming into more fields to improve food quality and safety and provide the ability to trace 100 percent of the food products.

COFCO Tunhe has 30,000 hectares of tomato farmland in Xinjiang, accounting for 75 percent of the company's tomato fields in China. Unilever China is one of the biggest purchasers of COFCO Tunhe's produce.

Unilever bought 20,000 tons of tomatoes last year from COFCO Tunhe.

Xinjiang has total tomato farmland of 666,670 hectares, producing 90 percent of the country's tomatoes. China became the third-largest tomato producer after the US and Italy in 2009, when the tomato crop in Xinjiang reached 1.02 million tons.

### **Feihe International to sell dairy farms<sup>26</sup>**

Feihe International, Inc. (formerly American Dairy, Inc.), one of the leading producers and distributors of premium infant formula, milk powder and soybean, rice and walnut products in China, has announced that it has entered into an Equity Purchase Agreement with Harbin City Ruixinda Investment Company Ltd.

Pursuant to the agreement, the company agreed to sell to the purchaser all of its equity interests of Heilongjiang Feihe Kedong Feedlots Co, Ltd and Heilongjiang Feihe Gannan Feedlots Co., Ltd for an aggregate purchase price of approximately US\$131.8 million, comprised of approximately US\$17.8 million in cash and six equal quarterly deliveries of raw milk in an aggregate value of approximately US\$114.0 million.

Until the purchaser has met its milk delivery obligations to the company, the purchaser must exclusively supply raw milk to the company and thereafter must prioritize any company requirements for extra raw milk.

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<sup>25</sup> China Daily Aug. 17, 2011

<sup>26</sup> TheCattleSite News Aug. 3, 2011

The company will specify the feeding forage and feeding method and the quality of raw milk that the purchaser provides. The exclusive supply period for the company will be an unlimited time period.

## Statistics

### Average food prices in 50 cities August 11-20, 2011<sup>27</sup>

Item	Specification/Unit	Current price (RMB)	Percentage changes as compared to last period (% , August 1-10, 2011)
Rice	Japonica rice / kg	5.45	0.2
Flour	Strong flour / kg	5.05	0.4
Flour	Standard wheat / kg	4.12	0.2
Soy products	Bean curd / kg	3.77	0.0
Peanut oil	5 Lin barrel bulk / litre	23.62	2.3
Soyabean oil	5 Lin barrel bulk / litre	11.81	1.0
Rape seed oil	Grade 1 in bulk / kg	12.36	0.4
Pork	Rump / kg	31.18	0.3
Pork	Belly meat / kg	30.22	0.4
Beef	Leg / kg	39.54	0.3
Mutton	Leg / kg	45.59	0.6
Chicken	Frozen fresh chicken / kg	19.03	0.8
Chicken	Breast / kg	20.90	0.5
Ducks	Frozen fresh duck / kg	17.19	0.2
Eggs	Fresh eggs in bulk / kg	10.56	1.4

<sup>27</sup> National Bureau of Statistics

## Major meat retail price August 2011<sup>28</sup>

### Pork (Lean):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
A. 08/11/11-08/20/11	B. 08/01/11-08/10/11	C. 07/11/11-07/20/11	D. 08/11/10-08/20/10	(A-B)/B	(A-C)/C	(A-D)/D
34.28	34.12	33.86	24.08	0.47%	1.24%	42.36%

### Egg:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
E. 08/11/11-08/20/11	F. 08/01/11-08/10/11	G. 07/11/11-07/20/11	H. 08/11/10-08/20/10	(E-F)/F	(E-G)/G	(E-H)/H
10.50	10.26	9.80	8.90	2.34%	7.14%	17.98%

### Chicken:

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
I. 08/11/11-08/20/11	J. 08/01/11-08/10/11	K. 07/11/11-07/20/11	L. 08/11/10-08/20/10	(I-J)/J	(I-K)/K	(I-L)/L
18.36	18.14	17.80	15.40	1.21%	3.15%	19.22%

### Beef (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
M. 08/11/11-08/20/11	N. 08/01/11-08/10/11	O. 07/11/11-07/20/11	P. 08/11/10-08/20/10	(M-N)/N	(M-O)/O	(M-P)/P
38.58	38.28	37.76	34.30	0.78%	2.17%	12.48%

### Mutton (Fresh Boneless):

RMB1.00 yuan/kg

Average Sales Price (Street markets & Supermarkets)				Var. Percent		
Q. 08/11/11-08/20/11	R. 08/01/11-08/10/11	S. 07/11/11-07/20/11	T. 08/11/10-08/20/10	(Q-R)/R	(Q-S)/S	(Q-T)/T
46.14	45.98	45.52	38.48	0.35%	1.36%	19.91%

<sup>28</sup> China Animal Agriculture Association