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## **China - Peoples Republic of**

### **Poultry and Products Annual**

#### **Avian Influenza Continues to Affect Trade**

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**Report Highlights:**

In Post's 2016 annual and 2017 semi-annual poultry reports, Post forecast that poultry production would decrease significantly in 2017 due to avian-influenza related factors. While production has decreased, it was not the sharp decrease Post had anticipated. This is for two reasons: first, China's foray into building its domestic poultry genetics industry has been successful so far, and two, China has continued to use induced molting to increase the productive life of its laying flocks. In CY 2018, Post forecasts that broiler production will continue to decline down to 11.0 million metric tons (MMT). In addition, Post forecasts consumer demand will also decline, roughly keeping pace with the drop in production, resulting in only a slight increase to imports at 500,000 metric tons, with Brazil continuing to account for the lion's share.

## Production:

### The production decrease in 2017 was less significant than previously forecast

Post previously forecast that Chinese broiler meat production would drop significantly in 2017. The rationale behind this drop was two-fold: first, because outbreaks of highly pathogenic avian influenza (HPAI) in major supplier markets (e.g., the EU and North America) resulted in China banning the importation of live birds to replenish breeding flocks; second, China saw its largest outbreak of H7N9 avian influenza (H7N9 is generally low pathogenic avian influenza) in the winter of 2017, which resulted in lower consumer demand for live, yellow-bird poultry. Combined, these two factors should have significantly cut broiler production, resulting in large poultry meat imports and an increase in poultry meat prices.

However, the broiler production decrease was only 6 percent, down to 11.6 MMT, far below what was anticipated. The primary reasons for this phenomenon are two-fold: (1) In the last few years, China has begun investing in building its own genetic supplies. In recent years, a large Chinese company (Shandong Yisheng Livestock & Poultry Breeding Company Ltd.) signed a \$10 million agreement with French genetics firm Hubbard to import great grandparent stock (originally from France, then from other sources after HPAI was detected in France). Production from this new venture came online in 2017 and Post estimates that roughly 100,000 chicks were supplied as great grandparent stock to the Chinese broiler industry from this source, offsetting the supply gap created by AI-bans. (2) Second, China's broiler industry has continued to substitute new genetic stock through the use of forced molting (also known as induced molting) of the grandparent and parent generations. However, this is generally not considered a long-term solution for the lack of new genetic stock because sustained use of this practice usually causes the mortality rate to decrease, raising overall production costs.

### Production will likely continue to decrease in 2018, but may depend on AI situation

Post forecasts production will continue to decrease in 2018 by 5.2 percent to 11.0 million tons. For white feather broilers, the production decrease is mainly a result of the lack of imported breeding stock. At the moment, only New Zealand and Canada are able to supply grandparent stock to China (all white feather broilers). Although New Zealand's live bird exports to China have increased significantly over the last couple years, it has been unable to fully replace the supply lost as a result of China's various AI bans. As a result, in 2017, breeder imports were estimated at 480,000 units, the lowest point in recent years.

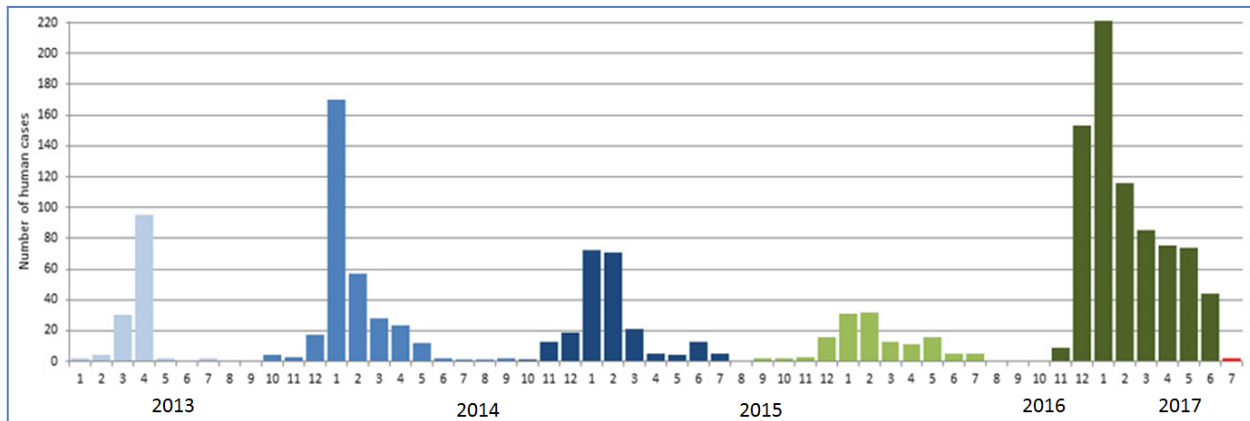
China Broiler Breeder Imports	
2014	1.7 million units
2015	694,000 units
2016	580,000 units
2017	480,000 units (estimate)
2018	600,000 units (estimate)

China's current bans against major genetic importing countries (Spain, United Kingdom, Poland, the United States, and France), and current unwillingness to regionalize will continue to constrain white-feather broiler production going into 2018. Even if a major exporting market is able to demonstrate that it has taken appropriate measures and concluded the appropriate waiting period to restore OIE-negligible risk status, China does not regularly follow OIE guidelines when implementing HPAI bans. Furthermore, China has not heretofore regionalized markets with detections of HPAI and instead continues to ban the entire country. Based on these current practices, it is likely that AI detections around the world will continue and that major exporting countries will continue to be blocked. However,

if China acts decisively to restore access to countries in accordance with their OIE risk status and changes its policy to recognize regionalization practices, then the rebuilding of China’s flocks may occur sooner than later.

Another factor that will influence poultry production levels in 2018 is weakened Chinese consumer confidence in the safety of domestic poultry. As noted above, from the fall of 2016 to the spring of 2017 (this time period is known as the “fifth wave”), China experienced its worst-ever outbreak of H7N9 bird flu (see graphic below).

**Number of officially reported human cases of H7N9 in China by month/year:**

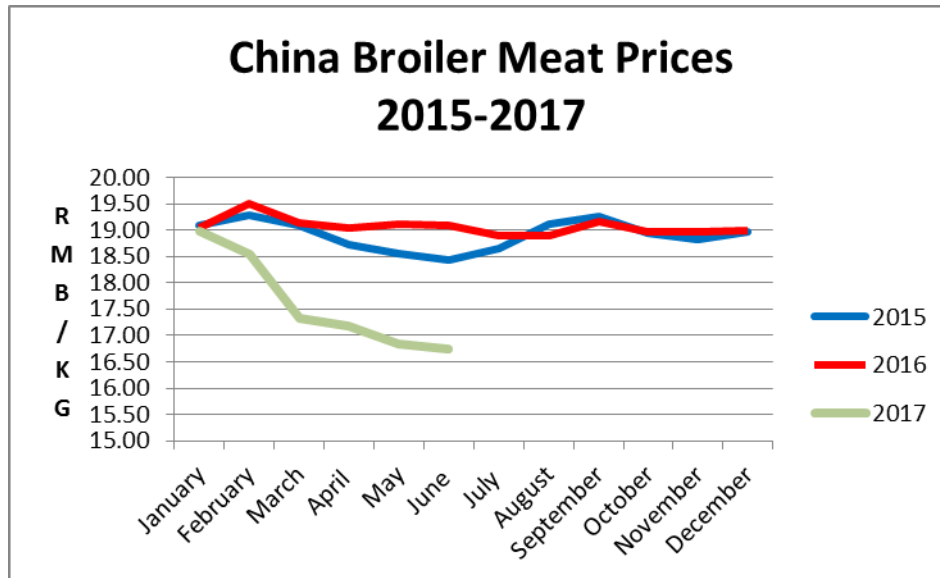


Source: FAO

Since the outbreak was primarily LPAI, the direct effect on poultry populations was minimal (HPAI outbreaks tend to have a greater impact on bird population due to disease-related mortalities and large-scale culling of flocks).<sup>1</sup> But with over 700 reported human infections, a mortality rate of roughly 40 percent, an unprecedented geographic distribution, and reports of mutations to HPAI, this most recent outbreak has caused a noticeable drop in consumer demand for poultry meat, especially yellow-bird poultry. Yellow bird poultry is primarily sold at live-bird markets, which are identified as being the primary avenue for human infections of H7N9.

Post expects consumer confidence will recover in 2018 if the next wave of H7N9 is controlled. Since yellow-bird production has been most affected by H7N9, Post expects that growth due to strengthening consumer demand will manifest itself in increased yellow-bird production. But rebuilding consumer confidence will take time and in the meantime, the overall broiler meat production will continue to decrease. The table below tracks yearly poultry prices and shows how poultry prices have so far dropped roughly 10 percent in 2017, despite tighter supplies and increasingly expensive competing animal proteins.

<sup>1</sup> Note, the Food and Agricultural Organization of the United Nations (FAO) reports there were 25 confirmed cases of highly pathogenic H7N9 avian influenza in China during the 5<sup>th</sup> Wave.  
[http://www.fao.org/ag/againfo/programmes/en/empres/h7n9/situation\\_update.html](http://www.fao.org/ag/againfo/programmes/en/empres/h7n9/situation_update.html).



Source: China's Ministry of Agriculture

In addition to avian influenza concerns, the strict environmental rules implemented in China will affect poultry production as well. Although China has had strict environmental rules in place for years, recently, it has begun enforcing these rules more strictly. One of the primary enforcement mechanisms is the creation of “forbidden zones.” Within each province, the provincial government designates certain forbidden zones near environmentally-sensitive areas, such as highly populated areas or watersheds. Farms within forbidden zones are supposed to relocate or shutdown. For example, Shandong Province is the largest producing region for white broiler meat in China; in Shouguang City, there are in total 1,875 scaled broiler farms, of which 1,334 of are located in a forbidden zone. According to the Shandong provincial government plan, all the farms located in the forbidden zone must be relocated or shut down by the end of 2017. The largest broiler companies are more likely to be able to survive this structural shift, but smaller operations are more likely to be shut down or absorbed into a larger operation. During this shift, Post anticipates that production will be interrupted for a number of facilities currently located in the forbidden zones.

Lastly, Post anticipates that feed costs will remain stable in 2018 as China continues to draw down large government stockpiles of corn. As for soybeans, China recently announced that it will reduce the value added tax on soybeans from 13 percent to 11 percent, beginning on July 1<sup>st</sup>, 2017. This tax reduction, plus the increased production of soybeans worldwide, will help food prices remain stable.

#### **Consumption:**

#### **Consumption will decrease 5 percent in 2018 primarily due to H7N9 concerns**

Post forecasts consumption in 2018 will shrink by 5 percent year-on-year to 11.1 million tons. Furthermore, Post adjusted its 2017 consumption estimate to 11.68 million tons. These adjustments mirror the continuing decline in domestic poultry production. Similar to the decline in production, H7N9 has adversely affected poultry consumption in 2017, especially for yellow-feathered broilers. This latest outbreak of H7N9 caused many cities to put restrictions on live bird markets—the primary marketing

outlet for yellow-birds. In addition, overall consumer confidence regarding the safety of poultry in China has flagged, weakening demand.

However, Post also forecasts that yellow broiler meat consumption will recover sooner than white broiler meat. Chinese consumers, especially in southern South, have a strong culinary preference for yellow-bird poultry. Not only does yellow-feather poultry lend itself to traditional cooking techniques such as boiling whole birds, but consumers prefer to purchase yellow-bird broilers live at local markets, claiming the fresh taste is superior to pre-cut chicken meat. Assuming that China's health and agricultural agencies can control the spread of H7N9 during this upcoming winter season, it is likely that consumer demand for yellow-bird chicken will grow.

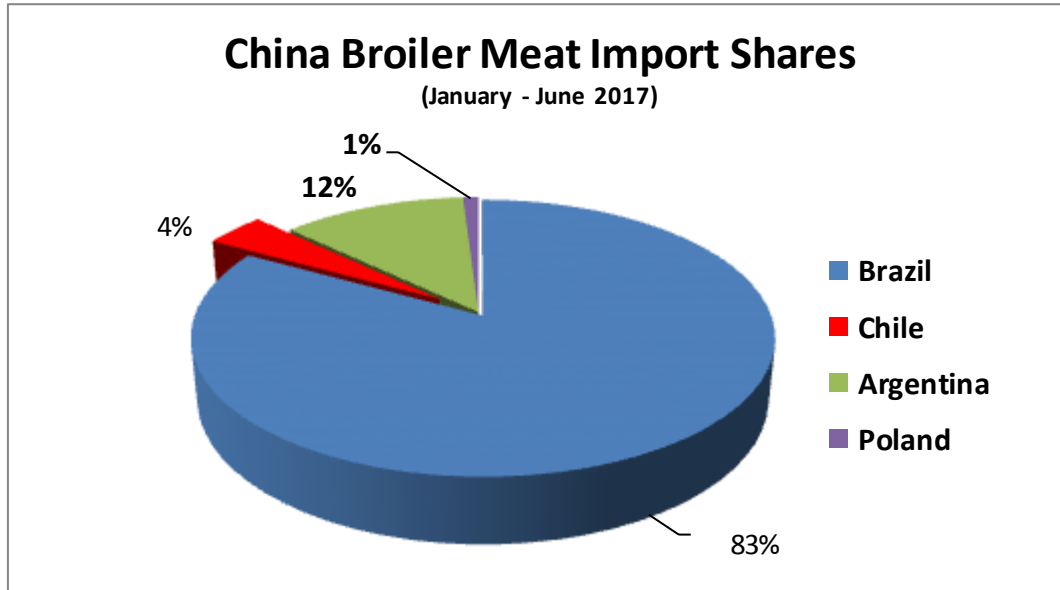
Another reason for decreasing poultry consumption is due to changes in China's economy. As China's domestic economy slows and incomes rise, many large companies have left China in search of lower labor costs. Many of these large companies had onsite company cafeterias that were major consumers of white-bird poultry. As these companies relocate, these cafeterias are closed down. A similar phenomenon is happening in the Chinese real-estate sector. As construction slows, the large cafeterias that cater to these construction sites no longer need such large supplies of low-cost, white-bird poultry.

On the other hand, white broiler meat consumption in the middle class segment of the retail market has picked up. The urbanization process and fast food chains are penetrating further into third-tier cities in China, creating new consumers for prepared broiler meat consumption. Both KFC and McDonald reported increased sales in 2017. The urbanization process is also changing Chinese consumers' dining habits. Aspiring middle class consumers who used to cook at home have now started to eat out or order home delivery meals. However, this trend has not fully offset the factors mentioned above.

## **Imports:**

### **Imports will slightly increase in 2018**

Post forecasts imports will slightly increase by 4 percent to reach 500,000 tons in 2018. Post also adjusted its 2017 import forecast to 480,000 tons. Although China's imports from its largest supplier Brazil are down 22 percent in the first half of 2017 due to fallout from corruption allegations involving Brazilian officials and the poultry industry, Post anticipates that in the long run, imports from Brazil will continue to dominate the import market in China. In addition to Brazil, other South American countries have benefited from the AI spread in Europe and North America and are increasing their market share in China.



Source: Global Trade Atlas

#### **Exports:**

Post forecasts exports will decrease by 4 percent in 2018. China mainly exports to Japan and Hong Kong, but this year, exports will be constrained by reduced exportable supplies. Post also adjusted 2017 exports up to 400,000 tons, due to new markets being opened and low domestic prices.

**PSD Table for Poultry Broiler Meat – FY 2017**

<b>Poultry, Meat, Broiler</b>	<b>2016</b>		<b>2017</b>		<b>2018</b>	
	<b>Jan 2016</b>		<b>Jan 2017</b>		<b>Jan 2018</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Market Begin Year</b>						
<b>China</b>						
<b>Inventory (Reference)</b>	0	0	0	0	0	0
<b>Slaughter (Reference)</b>	9800	9800	8800	9300	0	8800
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	12300	12300	11000	11600	0	11000
<b>Total Imports</b>	430	440	600	480	0	500
<b>Total Supply</b>	12730	12740	11600	12080	0	11500
<b>Total Exports</b>	386	385	350	400	0	385
<b>Human Consumption</b>	12344	12355	11250	11680	0	11115
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	12344	12355	11250	11680	0	11115
<b>Total Use</b>	12730	12740	11600	12080	0	11500
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	12730	12740	11600	12080	0	11500

(MIL HEAD) ,(1000 MT)

<b>China Retail Broiler Meat Prices on Average, 2013-2017 (Year to Date)</b>						
<b>(RMB /KG)</b>	<b>20 13</b>	<b>20 14</b>	<b>20 15</b>	<b>20 16</b>	<b>20 17</b>	<b>% Chan ge 2016/ 2017</b>
<b>January</b>	17. 92	17. 55	19. 09	19. 05	18. 97	-0.4%
<b>February</b>	18. 41	17. 15	19. 28	19. 50	18. 54	-4.9%
<b>March</b>	17. 90	16. 83	19. 08	19. 13	17. 33	-9.4%
<b>April</b>	16. 39	17. 15	18. 73	19. 05	17. 17	-9.9%
<b>May</b>	15. 32	17. 93	18. 56	19. 11	16. 85	- 11.8%
<b>June</b>	16. 00	18. 22	18. 43	19. 09	16. 74	- 12.3%
<b>July</b>	16. 40	18. 32	18. 65	18. 90		
<b>August</b>	16. 89	18. 78	19. 10	18. 90		
<b>September</b>	17. 33	19. 16	19. 25	19. 15		
<b>October</b>	17. 45	19. 22	18. 95	18. 96		
<b>November</b>	17. 40	19. 14	18. 82	18. 96		
<b>December</b>	17. 51	19. 06	18. 96	19. 00		

Source: The Ministry of Agriculture collected from over 400 markets of farm produce.