

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **China - Peoples Republic of**

### **Livestock and Products Annual**

## **2016**

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**Report Highlights:**

China lifted the longstanding bovine spongiform encephalopathy (BSE)-based ban on U.S. beef imports on September 22, 2016, removing a major obstacle to resuming U.S. beef imports. However, the United States and China must first negotiate the export protocol conditions before exports can resume. Overall, Post forecasts China's 2017 beef imports higher at 950,000 metric tons (MT) as demand continues to grow. Brazil became the top exporting country to China after China lifted a BSE-based ban on Brazilian imports. For swine, China remains the world's largest pork producer and consumer. A rise in hog and pork prices will stimulate domestic herd recovery and expansion will be initiated in 2017, depressing the import demand. Pork imports are forecast at 2.2 million tons, an 8-percent decrease compared to 2016.

## **Commodities**

Animal Numbers, Cattle

### **Production**

#### **Dairy cattle stocks forecast to decrease over 10 percent in 2017**

As China's fluid milk prices continue to decrease, small dairy farmers are retreating from the market and large producers are decreasing inventory levels. Post forecasts dairy cow inventories to decrease over 10 percent from 2016's beginning stocks. The reduction of nearly 1.6 million dairy cattle will decrease beginning stocks to 14 million head in 2017.

The decline in dairy cattle stocks will not be offset by an increase in beef cattle and an increase in the cattle productions (i.e., calf crop) in 2017. Post forecasts China's 2017 calf crop to increase 1 percent from 2016. The increase is a reflection of relatively stable beef prices and government support. Similarly, the beef cattle stock is expected to increase 2 percent from 2016 beginning stocks levels.

China's beef cattle industry is still dominated by small backyard farms. The small backyard farms are inefficient and lack the expertise and experience of the large-scale operations found in Brazil and the United States. According to industry sources, the average slaughter weight for large-scale farms in China is 500-600 kilograms per carcass while the slaughter weight for small backyard farms is on average much lower and varies greatly across farms. In addition, industry has reported different feed conversion ratios in different parts of China. For example, in 2016 feed conversion ratios in Chongqing (located in western China) were 8.3 kilograms of feed to 1 kilogram in cattle weight gain and in Inner Mongolia, average cattle feed conversion ratios were 6.4 to 7.1 kilograms to 1 kilogram.

### **Trade**

#### *Import*

#### **Live cattle imports will continue to rise but at a slower pace**

Post forecasts 2017 live cattle imports to be approximately 160,000 head, which is a 7-percent increase over 2016 imports. China's import demand is driven by the need for quality genetics and consumer's growing demand for beef. Australia continues to supply China with the dominant share of live cattle imports, but Australian imports have shifted from being nearly 100 percent pure-bred breeding dairy cattle in 2015 to 50 percent in 2016. The change is the result of China greatly increasing the amount of live pure-bred breeding beef cattle in 2016.

Currently, seven importers have established large-scale (more than 10,000 head) slaughtering, feeding, and quarantine facilities near sea ports or airports to reduce transportation cost. While the development of such establishments is positive for the industry, Post forecasts imports to be constrained in 2017 by a reduced cattle herd in Australia.

Australia and New Zealand are currently the only countries that export live cattle to China. In the past, Uruguay, Chile, and Mexico recorded exports but have not done so in 2016. The rising live cattle imports from Australia are directly related to recent investments in Australian cattle farms by Chinese investors. Recent purchases include the following:

1. Zhejiang Hailiang Group acquired a beef cattle farm in Queensland for AU\$40 million;
2. Dashang group acquired 30,000 acres of the Glenrock beef cattle farm for AU\$45 million in 2015;
3. Tianma Bearings acquired two farms in Wollongorant and Wentworth for AU\$47 million (2015), in addition to an earlier acquisition of Balfour Downs; and
4. Yiang Xiang acquired Elizabeth Downs cattle farm for AU\$15 million (2014).

### Exports

Even though China is one of the world's largest biggest cattle producers, China's exports of live cattle are very small. In 2015 and 2016, China's exports of live cattle were shipped to only Hong Kong and Macau. Post forecasts exports to remain constant in 2017 at 10,000 head.

### Production, Supply and Demand Data Statistics

Table 1: Animal Numbers, Cattle

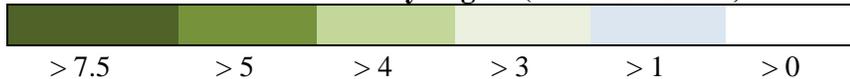
Animal Numbers, Cattle Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
<b>Total Cattle Beg. Stks</b>	100450	100450	100275	100275	0	100085
<b>Dairy Cows Beg. Stocks</b>	15500	15500	15600	15600	0	14000
<b>Beef Cows Beg. Stocks</b>	50700	50700	50800	52000	0	53000
<b>Production (Calf Crop)</b>	49000	49000	49050	50000	0	50500
<b>Total Imports</b>	125	129	150	150	0	160
<b>Total Supply</b>	149575	149579	149475	150425	0	150745
<b>Total Exports</b>	20	12	20	10	0	10
<b>Cow Slaughter</b>	0	0	0	0	0	0
<b>Calf Slaughter</b>	0	0	0	0	0	0
<b>Other Slaughter</b>	48000	48000	48175	49125	0	49500
<b>Total Slaughter</b>	48000	48000	48175	49125	0	49500
<b>Loss</b>	1280	1292	1280	1205	0	1235
<b>Ending Inventories</b>	100275	100275	100000	100085	0	100000
<b>Total Distribution</b>	149575	149579	149475	150425	0	150745
*Note: Forecast not official USDA numbers						
**Note: Units are in 1,000 Head						

Graphic 1: Cattle Inventories Largely Present in Western and Northern Regions



Region	Cattle Head (M)
Sichuan	9.839
Henan	9.182
Yunnan	7.508
Inner Mongolia	6.306
Tibet	6.131
Heilongjiang	5.022
Guizhou	4.959
Shandong	4.954
Hunan	4.568
Gansu	4.546

China Cattle Numbers by Region (includes Buffalo)



\*Note: Numbers in Million Head

\*\*Note: China's 2014 Official Numbers, the most recent Official numbers available

### Commodities:

Meat, Beef and Veal

### Production:

#### Beef production up slightly in 2017

Post adjusted its 2016 beef production forecast to 6.9 million tons, from an original forecast of 6.8 million tons, and further forecast 2017 production at 7.0 million tons. The production increase is driven by the demand for beef by a growing middle class in China as well as higher prices of competing meats this year (e.g., poultry and pork). The increase in beef production will largely be a result of more dairy cattle being slaughtered in 2017, as small-scale dairy farmers exit the market.

Henan and Shandong Provinces continue to be the largest beef producing regions, accounting for approximately 22 percent of total beef production in China. Beef production is highly fragmented, with the top four producers in China comprising approximately 1 percent of total market share, a drastic contrast to the United States where the top four producers make up approximately 75 percent of total market share.

The leading industry Chinese companies are Changchun Haoyue Islamic Meat Company, Inner Mongolia Kerchin Cattle Industry, Fortune Ng Fung Food (Hebei) Company, Chongqing Hondo Agricultural Development Group, and Henan Yisai Beef Company.

**Consumption:**

**Demand to remain firm in 2017**

Post revised China’s estimated 2016 beef consumption to 7.6 million tons, up from its original forecast of 7.5 million tons. For 2017, Post forecasts a continuing increase to 7.9 million tons, or about a 1 percent increase from 2016. On the demand side, China’s continued urbanization, growing middle class, and changing consumption preferences continue to drive demand. On the supply side, the availability of beef and beef products to Chinese consumers has been greatly improved by improving supply chain logistics from farm to retail, particularly in terms of increased cold chain capacity.

Graph 1: Beef Prices through the First 6 Months of 2016



\*Source: China’s Ministry of Agriculture (Survey of over 400 Markets)

**Trade:**

*Imports*

Post adjusted 2016’s estimated imports to 800,000 tons and further forecasts 2017 imports at 950,000 tons, a 19-percent year-on-year increase. In the first six months of 2016, Brazil was the largest exporter of beef to China, continuing to regain market share since resuming beef trade with China in 2015. Post expects Brazil to continue increasing its market share in 2017. For the previous five years, Australia has been the largest exporter of beef and beef products to China.

In 2016, imports of beef from South America (primarily Brazil, Uruguay, and Argentina) represented approximately two-thirds of China’s total beef imports. While Australian and New Zealand beef and beef products enjoy a favorable brand advantage in China, the price competitiveness of South American imports has drastically shaped market share. For example, in 2015, Australia and New Zealand

accounted for about half of all imports, a number that has since shrunk to under 30 percent in 2016. Canada is also expected to increase its market share in the coming years.

**Brazil:** China and Brazil agreed to resume beef trade after China lifted its BSE-related ban in 2015. Since June, 2015, eight plants have started exporting to China.

**United States:** U.S. beef has been banned from the Chinese market since the December 2003 discovery of BSE in the United States. In 2013, the OIE restored the U.S. risk-status to “negligible,” the highest status available. Then, on September 22, 2016, China’s Ministry of Agriculture and General Administration of Quality Supervision, Inspection and Quarantine jointly announced the lifting of the ban. The lifting of this ban is the first step in a multi-step process to restore U.S. beef exports to China.

Based on Post’s current understanding, the next step in this process is for the relevant U.S. agencies (including USDA’s FSIS, AMS, and FAS) to negotiate a mutually acceptable import protocol with China’s relevant agencies (led by AQSIQ). This import protocol will specify the conditions that U.S. beef exporters must meet when exporting to China. It is anticipated that in addition to veterinary health conditions (generally inspection and quarantine concerns), the protocol will include also traceability conditions.

After the import protocol is finalized and goes into effect, Post expects trade to resume. If China resumes imports of U.S. beef in 2017, Post expects that initial import numbers will be modest, mainly due to the relatively higher prices of U.S. beef. However, as beef prices continue to fall in the United States and inventories continue to grow, the reopened China market should absorb some of the growing supply.

<b>Major Exporters</b>	<b>Current situation</b>
Australia	Exports mainly grass fed with small quantities of grain fed. Although prices are rising, generally cheaper than North American beef. It started to export chilled beef to China market
Uruguay	Lower priced beef offers a value choice in the market.
New Zealand	Mainly grass fed and generally cheaper than Australian beef.
Argentina	Mid-priced compared to other imports. Exports mainly grass fed beef.
Canada	Price is relatively expensive, limiting export quantities.
Brazil	The largest beef supplier to China after China lifted its 2012 BSE-related ban in 2015.

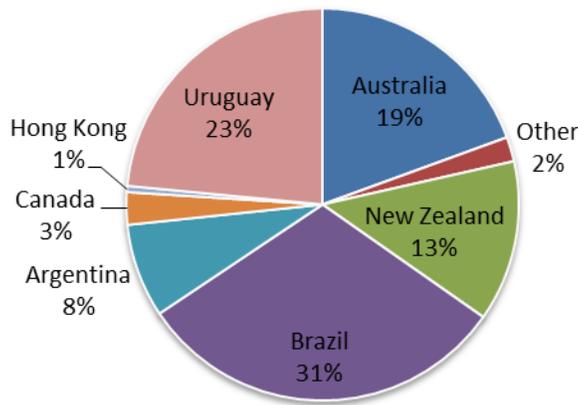
**Production, Supply and Demand Data Statistics:**

Table 2: Meat, Beef, and Veal Production, Supply, and Demand (PS&D) Table

Meat, Beef and Veal Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Slaughter (Reference)	48000	48000	48175	49125	0	49500
Beginning Stocks	0	0	0	0	0	30
Production	6700	6700	6785	6900	0	6950
Total Imports	663	663	825	800	0	950
Total Supply	7363	7363	7610	7700	0	7930
Total Exports	24	24	20	25	0	20
Human Dom. Consumption	7339	7339	7590	7645	0	7890
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7339	7339	7590	7645	0	7890
Ending Stocks	0	0	0	30	0	20
Total Distribution	7363	7363	7610	7700	0	7930

\*Note: Forecast not Official USDA Numbers  
 \*\*Note: Units are in 1,000 Metric Tons (MT) Carcass Weight Equivalent (CWE); Slaughter in 1,000 Head

**Import Beef Market Share 2016 Jan till Jun  
(Carcass Weight)**



**Commodities:**

Animal Numbers, Swine

**China’s Hog Inventories to Increase in 2017...**

The positive impact of China’s recent elevated hog and pork prices will stimulate herd recovery and initiate expansion in 2017. Led by large-scale producers utilizing recent profits, sow stocks began expansion in late 2016 and are expected to continue grow next year. This rise in the breeding stock will spur a more robust pig crop, enabling increased slaughter (up 3 percent) and herd expansion (up 1 percent) during 2017. Stronger growth is dampened by environmental laws, the PEDv outbreak in February, and recent flooding in South China.

**...Spurring a Decline in Pork Imports**

Increased supplies will eventually result in pork prices declining by mid-to-late 2017 which will encourage producers to rush to slaughter. The increase in pork production (4 percent) will exceed consumption growth (3 percent), triggering a drastic reduction in imports. Thus imports are expected to remain firm in early 2017 but then slow down dramatically later in the year. The net result is that 2017 imports are forecast to decline significantly (8 percent).

**Production:**

Post forecasts 2017 sow beginning stocks at 42 million head and swine ending inventories at approximately 425.2 million head, reflecting a 1 percent herd expansion during the year. Earlier this year, Post reported that farmers lacked the capital necessary to expand operations. However, the recent unexpected increase in prices and relatively high prices have enabled greater profits, spurring farmers to expand in late 2016 and early next year.

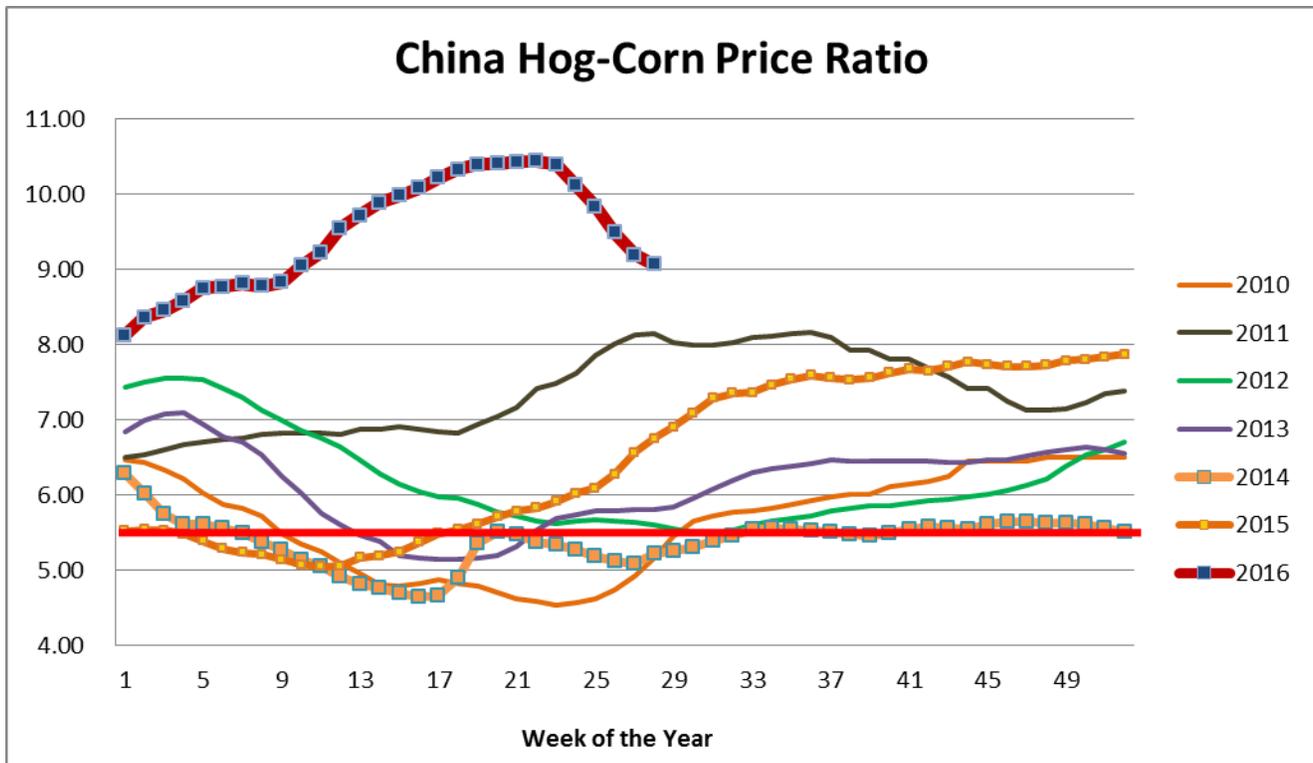
In addition to these higher profits available for reinvestment, large-scale farms also have increased access to capital. According to industry sources, these farms are leading the restocking effort, especially publicly traded firms. The table below lists publicly traded firms’ plans to expand slaughter in the short and medium term.

Company Name	Annual Slaughter Number (Unit in million head)	Goal Target Year
Wen	50	2025
ZhengBang	50	N/A
TianBang	30	2025
CP Group	20	2024
New Hope	10	2020
ChuYing	10	2020
TangRenShen	60	2025
MuYuan	60	2018
HaiDa	20	2018

\*Source: Public documents released by companies

Mid- and small-sized farms’ expansion plans are not as aggressive when compared to their larger counterparts since their access to capital is limited. Many of these small to mid-size producers will have to use their own profits to re-invest.

Low feed prices will also buoy expansion, especially low corn prices. The price adjustment of RMB 0.1/KG on corn could result in a swine feeding cost increase or decrease of up to RMB 20 per head. The table below shows the hog-corn price ratio in recent months, demonstrating how the price relationships impact profitability. Post forecasts the corn price will continue to be low in 2017 as the excess corn stocks will be put into the market by the government (see China’s Grain and Feed Annual for more information).



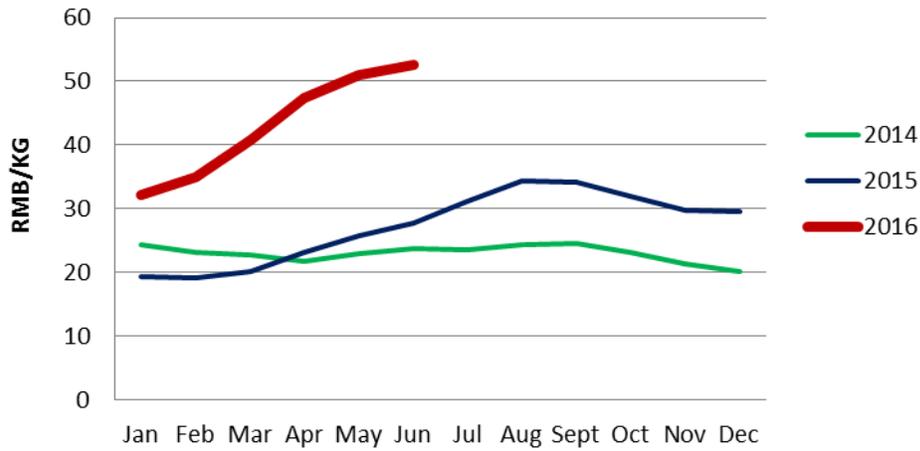
\*Note: Hog to corn price ratio has remained above the profitability breakeven indicator of 6:1 or 5.5:1 since mid-2015.

The aforementioned speed of expansion will be mildly constrained by three primary factors:

- First, the PEDv (porcine epidemic diarrhea virus) outbreak in February 2016 led to high mortality rate of piglets, depressing the year's overall pig crop;
- Secondly, summer flooding in south China in 2016 temporarily suspended herd restocking in those areas; and
- Thirdly, China's strict environmental laws continue to impact the swine industry and further squeeze out small farms. Small farms with herds less than 100 head are particularly vulnerable regulatory compliance problems.

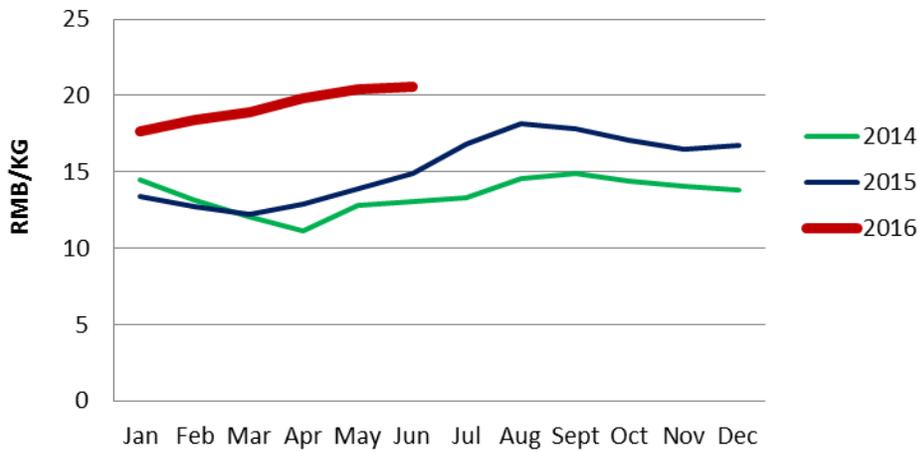
Looking even further into the future, China's swine production in the Northeast may also be affected by increased corn production as larger companies seek to expand. Similarly, Southwest China is also a region with major expansion potential. Nevertheless, Post estimates that these constraints on production will be offset by increased productivity, increased piglets per sow numbers, and increasing consolidation of farms with better equipment, technology, facilities, and staff.

### Piglet Prices



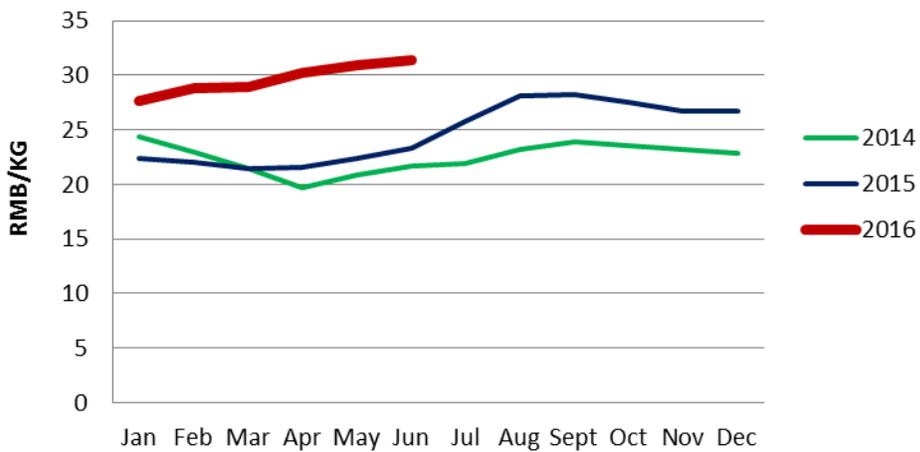
Source: Ministry of Agriculture

### Live Hog Prices



Source: Ministry of Agriculture

### Retail Pork Prices



Source: Ministry of Agriculture

**Imports:**

Post forecasts live swine imports will double in 2017 to 10,000 head as breeding stocks are needed for genetic improvement. As a result of increased profits, farmers are more than willing to make investments in high quality swine genetics. Canada and Denmark remain the leading suppliers. When importing live swine for genetic improvement, Chinese companies prefer high PSY (pigs per sow per year) pigs as they are seeking to improve productivity (piglets born). In contrast, U.S. swine genetics focus more on meat growth rate and thus are not as attractive to Chinese importers.

**Exports:**

Live swine exports are forecast to remain stable as China mainly exports to Hong Kong and Macau and maintains long-term commercial trading relationships.

**Production, Supply and Demand Data Statistics:**

Animal Numbers, Swine Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Total Beginning Stocks</b>	465830	465830	451130	451130	0	420300
<b>Sow Beginning Stocks</b>	47000	47000	45000	41000	0	43250
<b>Production (Pig Crop)</b>	696600	696600	680000	620000	0	672500
<b>Total Imports</b>	4	4	5	5	0	10
<b>Total Supply</b>	1162434	1162434	1131135	1071135	0	1092810
<b>Total Exports</b>	1696	1696	1500	1500	0	1500
<b>Sow Slaughter</b>	0	0	0	0	0	0
<b>Other Slaughter</b>	708250	708250	683500	648200	0	665000
<b>Total Slaughter</b>	708250	708250	683500	648200	0	665000
<b>Loss</b>	1358	1358	1135	1135	0	1110
<b>Ending Inventories</b>	451130	451130	445000	420300	0	425200
<b>Total Distribution</b>	1162434	1162434	1131135	1071135	0	1092810

(1000 HEAD)

**Commodities:**

Meat, Swine

**Production:**

Post forecasts 2017 production at nearly 53.8 million tons, a 4-percent increase from the adjusted 2016 production of nearly 51.9 million tons. Swine breeders have profited from the increased piglet prices while slaughtering companies have seen their profits erode. As a result, slaughtering companies are adjusting capacity to be match consumer demand rather than placing excess supplies in stocks. In 2017, live hog prices are expected to soften following the Chinese New Year (January 28, 2017). With lower hog prices, slaughtering companies will seek to improve margins, potentially leading to increased pork production in 2017.

## Consumption:

Post forecasts 2017 consumption at 55.8 million tons, a 3 percent increase from 2016. Post anticipates that high pork prices will remain during the beginning of 2017. However, following the Chinese New Year, Post forecasts pork prices will start to decline, spurring marginal growth in consumption. The consumption growth is supported by a rising Chinese population as well as a slight rebound in per capita consumption following two years of decline. In addition, China's poultry meat prices are expected to rise as a result of tight supplies (due to HPAI) and trade restrictions on high-quality genetics, pushing price sensitive consumers towards alternative protein sources such as pork. With changing consumer preferences, traditional wet markets will start to be replaced with supermarkets and specialty meat stores as retailers seek to attract new consumers.

## Trade:

### Imports

Post forecasts 2017 pork imports at 2.2 million tons, a 8 percent decrease from 2016 as herd rebuilding weakens domestic pork prices, reducing import demand. Currently, imports from the EU account for approximately 70 percent of the market, led by Germany, Spain, and Denmark. Despite anticipated lower U.S. pork prices, U.S. shipments to China will continue to be constrained by China's zero tolerance policy for ractopamine, China's requirement that U.S. facilities enroll in China specific, ractopamine-free programs, and the relatively strong U.S. dollar. Imported frozen pork cuts are mainly used for food processing, as Chinese consumers still prefer fresh cuts or chilled meat in the retail sector.

### Exports

Post forecasts 2017 exports will remain stable at 180,000 tons with Hong Kong and Japan as the main destinations.

## Production, Supply and Demand Data Statistics:

Meat, Swine Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Slaughter (Reference)</b>	708250	708250	683500	648200	0	665000
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	54870	54870	53500	51850	0	53750
<b>Total Imports</b>	1029	1029	1300	2400	0	2200
<b>Total Supply</b>	55899	55899	54800	54250	0	55950
<b>Total Exports</b>	231	231	230	180	0	180
<b>Human Dom. Consumption</b>	55668	55668	54570	54070	0	55770
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	55668	55668	54570	54070	0	55770
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	55899	55899	54800	54250	0	55950

(1000 HEAD) ,(1000 MT CWE)

## Price Tables:

China National Retail Beef Prices on Average, 2012-2016						
(RMB /KG)	2012	2013	2014	2015	2016	% Change 2015/16
January	41.38	55.26	63.87	63.99	63.38	-1.0%
February	42.03	57.89	64.39	64.75	64.36	-0.6%
March	42.00	57.27	63.32	63.97	63.31	-1.0%
April	42.26	56.99	62.59	63.02	62.85	-0.3%
May	42.79	57.48	62.57	62.61	62.55	-0.1%
June	43.68	58.09	62.56	62.44	62.43	0.0%
July	44.34	58.56	62.64	62.44		
August	45.34	59.17	62.94	62.78		
September	46.87	60.07	63.35	63.02		
October	48.50	60.78	63.56	63.20		
November	50.23	61.56	63.76	63.29		
December	53.29	62.63	63.97	63.46		

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

China Live Hog Prices on Average, 2012-2016									
(RMB /KG)	2008	2010	2011	2012	2013	2014	2015	2016	% Change 2015/16
January	16.50	12.05	13.88	17.65	17.04	14.46	13.38	17.62	31.7%
February	16.70	11.14	14.35	17.10	16.09	13.11	12.71	18.37	44.5%
March	16.83	10.06	14.78	15.83	14.07	12.05	12.27	18.90	54.0%
April	16.87	9.53	15.05	14.80	12.80	11.12	12.91	19.84	53.7%
May	15.77	9.62	15.53	14.25	12.48	12.79	13.92	20.45	46.9%
June	15.35	9.64	17.54	14.05	14.10	13.06	14.87	20.58	38.4%
July	14.82	11.14	18.98	14.00	14.61	13.34	16.86		
August	14.47	12.19	19.33	14.28	15.70	14.56	18.15		
September	13.86	12.55	19.68	14.89	16.04	14.88	17.86		
October	12.50	12.78	18.93	14.85	15.86	14.42	17.10		
November	11.90	13.55	17.35	14.83	15.77	14.09	16.45		
December	12.91	13.79	17.15	15.83	15.92	13.81	16.71		

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

<b>China Piglet Prices on Average, 2012-2016 (Year to Date)</b>						
<b>(RMB /KG)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>% Change 2015/16</b>
<b>January</b>	30.21	27.41	24.36	19.29	32.18	66.8%
<b>February</b>	31.50	27.79	23.22	19.21	35.05	82.5%
<b>March</b>	32.66	26.90	22.76	20.09	40.77	102.9%
<b>April</b>	32.24	25.26	21.84	23.07	47.30	105.0%
<b>May</b>	31.56	24.89	22.99	25.75	51.01	98.1%
<b>June</b>	30.55	27.09	23.79	27.78	52.66	89.6%
<b>July</b>	29.69	28.44	23.55	31.13		
<b>August</b>	28.74	29.71	24.29	34.33		
<b>September</b>	28.82	29.87	24.53	34.16		
<b>October</b>	27.72	28.30	23.20	31.99		
<b>November</b>	25.86	26.43	21.38	29.73		
<b>December</b>	26.06	25.72	20.14	29.62		

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