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## China, Peoples Republic of

### Agricultural Situation

### New Oilseed Industrial Policy

### 2008

**Approved by:**

William Westman  
AgBeijing

**Prepared by:**

Mark Petry and Josh O'Rear

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**Report Highlights:**

On August 22, China's National Development and Reform Commission (NDRC) issued a directive on the promotion and direction of the domestic soybean industry. The directive gives guidance to Chinese ministries about regulating the soybean industry and marketplace. While many of the components aim to support domestic production and maintain consistent supply, several concerning sections suggest a deepening government involvement in the market.

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**Executive Summary:** On August 22, China's National Development and Reform Commission issued a directive on the promotion of the domestic soybean industry. The directive gives guidance to Chinese ministries about regulating the oilseed industry and marketplace. The main message is that vegetable oil supply is a food security issue and that NDRC supports steady growth of domestic production at a reasonable price. This type of directive is not direct policy, but is used and interpreted by various ministries as they regulate this industry. While many of these initiatives mirror various policy suggestions put forth by the Chinese oilseed industry over the past several years, an NDRC directive carries much more weight because regulatory and policy actions can be taken using this framework. Thus, some of the guidance in the directive causes serious concern about possible limitations on the freedom of the marketplace. However, it is important to note that ministries and local authorities have significant leeway in interpreting the policy recommendations of this directive.

While most of the directive aims to support domestic production and maintain consistent supply, certain sections suggest a deepening government involvement in the market and others clearly contradict each other or current grains policy. These include references to building or encouraging national champions in the crushing industry, limiting foreign companies involvement in crushing, managing certain commercial import transactions and additional government information dissemination about the quality and quantity of imports. While these policies have not been implemented, future policies in the oilseed sector warrant monitoring and study to determine if they are within China's WTO market access or national treatment obligations.

Thanks to American Soybean Association – International Marketing for providing this translation.

## **BEGIN TRANSLATION**

### **NDRC Press Release**

#### **State Development and Reform Commission issues guidance notice on the healthy development and promotion of the soybean processing industry**

For various provinces, autonomous regions, municipalities, cities, the National Development and Reform Commission, State Council relevant departments, and agencies: The State Council reports for implementation a guide for healthy industrial development and ensuring national food security, "Directive on Promoting the Healthy Development of the Soybean Processing Industry." This has been formulated under relevant laws and regulations from a macroeconomic viewpoint for the unified planning of the soybean processing industry.

Soybeans are an important oil crop, which have broad and important usage for protein foods, edible oil raw materials, protein feeds, and general food security. The soybean planting and processing industries, aquaculture industry, food and feed industries, and other industries are closely related. In recent years, China's soybean processing industry grew rapidly to meet the needs of urban and rural residents, the aquaculture feed industry, promote agricultural restructuring, increase rural income, and to play other positive roles. However, excess oil processing capacity and high dependence on foreign raw materials are serious problems affecting the healthy development of the soybean industry. All localities and relevant departments should use this directive to guide the soybean processing industry's healthy and orderly development by strengthening macroeconomic regulation and control.

By-laws: [soybean processing industry to promote the healthy development of guidance](#)

State Development and Reform Commission: August 22, 2008

## **Directive on Promoting the Healthy Development of the Soybean Processing Industry**

National Development and Reform Commission

August 2008

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## Introduction

Soybeans play an important role in national food security as it is not only a major raw material for edible oil and protein foods, but also a main source of protein feedstuff. Now China is the world's fourth largest soybean producer, the second largest soybean processor and consumer, and the largest soybean importer. Soy oil is the leading edible oil in China, accounting for 40 percent of domestic total edible consumption. Soymeal is an important protein source of feed, accounting for about 60 percent of the protein raw materials used in the domestic feedstuff industry. Soy products are a main traditional vegetable protein for human consumption. Soybean processing is an important sector that heavily influences the national economy as it is closely related to many other sectors, such as crop and animal farming, food processing and feed processing.

In recent years, there has been rapid growth of China's soybean processing industry, which helped meet the domestic demands for foods and feed, drive agricultural restructuring and increase farmers' income. However, some problems occurred at the same time, such as the overcapacity of oil processing, low domestically owned capacity versus foreign capacity and excess reliance on imported raw materials. These problems are impairing the healthy development of soybean industry.

In order to make a macro plan, scientifically lead the soybean processing industry to a healthy development track and ensure national food safety, the Directive on Promoting the Healthy Development of Soybean Processing Industry is formulated as a part of the attempt to improve socialist market system reform.

### 1. Current Situation and Existing Problems

#### (3) Current Situation

Soy oil and soymeal are being rapidly consumed in China as the rising living standard has resulted in higher demands for vegetable oil and meats. This trend is driving the development of soybean processing industry. First, more and more soybeans are being crushed, as evidenced by a 72.0 percent increase in crushing from 19.77 million tons in 2000 to 34 million tons in 2007, which means an annual average increase of 8.1 percent. In 2007, 78.7 percent of the soybean production was crushed as compared with 73.1 percent in 2000. From 2000 to 2007, soymilk production rose by 80.8 percent from 3.49 millions to 6.31 million tons, representing an average year-on-year increase of 8.8 percent; soy-meal production rose by 69.8 percent from 15.69 million tons to 26.64 million tons, representing an average year-on-year increase of 7.9 percent. Soybean food and its deep processing industries are also developing rapidly.

Second, soy oil processors are expanding. The soy oil processing industry, traditionally composed of small enterprises, now has been dominated by large enterprises and groups. In 2007, China's soy oil processors with the daily capacity above 5 million tons totaled 117 as compared with 57 in 2000. Moreover, 91 of the 117 processors have a daily capacity of over 20 million tons, as compared to only 6 processors with such capacity. Six processors have a capacity of over 60 million tons, accounting for 50 percent of the world's processors with such capacity. The top 10 processors' capacity accounts for 57.5 percent of the industry's total capacity, up from the 35.4 percent in 2000.

Third, most soy oil processors are now located not only in major soybean producing areas, but more significantly in coastal areas, while in the past they were located mainly in producing areas. Soybean deep processing capacity is distributed mainly in Shangdong and Helongjiang and partly in northern China, eastern China and central-China.

Fourth, soybean processing technologies and equipment are improving rapidly. The rapid development of soybean processing industry rise has improved soybean processing technologies and equipment. At present, preliminary crushing technologies adopted by most domestic large processors have reached the international level.

#### (4) Existing Problems

First, overcapacity is a serious problem. The excessive expansion of production capacity has led to lower operating rate, as evidenced by the decrease from over 90 percent in 2,000 to 44.2 percent in 2007. The operating rate of the processor with daily capacity over 2,000 tons is only 52 percent and more than half of the small processors with daily capacity below 1,000 tons go bankrupt or stop production.

Second, the crushing capacity and actual output of domestic processors is decreasing. In 2007, the production capacity of domestic soy oil processors was 49.20 million tons, accounting for 63.9 percent of the country's total capacity, down from 90.3 percent recorded in 2000; actual crushing is 17.68 million tons, accounting for 52.0 percent, down from the 91.0 percent recorded in 2000. During the same period, however, the percentage of foreign-invested processors' actual percentage of crushing jumped from 9.0 percent to 48.0 percent.

Third, reliance on imported soybeans is too heavy. Since 1996, China has changed from a net soybean exporter to a net soybean importer. In 2007, China imported 30.82 million tons of soybeans, which is 1.95 times higher than the 10.42 million tons imported in 2000, representing an annual average growth of 16.7 percent. In 2007, China imported 40.9 percent of the world's total volume of soybean trade, up 22.0 percent from 2000. The rate of reliance on imported soybean increased from 48.1 percent in 2000 to 78.7 percent in 2007. Foreign invested processors have reliable supply sources from the US and South America, complete storage and transportation chains, and worldwide distribution of production capacity, so they can enter the oil processing market effectively with low costs.

Fourth, the production-processing-sale chain is short. Most foreign soybean processors strengthen their risk capacity and competitive force by integrating the whole industrial train and diversifying products. China's soy oil processors have a short industrial chain as they seldom set foot in the upstream and downstream sectors, such as oil collection, storage, logistics, trade and deep processing. As a result, they don't have a reasonable product structure and enough ability to guard against risks and remain competitive.

Fifth, independent innovation ability is weak. At present, key equipment, such as DTDC, large centrifuges, meal desolventizer, refining divider, filtering and decelerating machines, are supplied through import. Domestic deep processing technologies are backward. Traditional soybean product processing is far from being industrialized.

## 2. Future Trend

Looking forward, China's demand for soybeans will not weaken, the gap between supply and demand will widen further, soybean imports will increase and competition confronting soybean processors will become keener.

#### (1) Demand for soybean will keep rising

With the expansion of the population, the change of urban/rural population structure and the rise of living standard, domestic demand for vegetable oil and soymeal will continue to grow

and accordingly, the demand for soybean will be driven upward. But the upward movement will slow down as the oil products become more and more diversified.

(2) Domestic soybean production is unlikely to rise significantly

The low return from soybean planting in recent years has made farmers less interested in soybean. As a result, soybean acreage went down and soybean production fell from the record 17.40 million tons in 2004 to 15 million tons in 2006. As the downward trend continues through 2007, the gap of demand for soybeans is widening. Soybean acreage and yield will grow stably after relevant expansion initiatives are implemented. It is expected that by 2010, 2012 and 2015, China's soybean production will reach 17 million tons, 17.96 million tons and 19.50 million tons respectively, which means a large year-on-year increase is unlikely.

(3) Increased import of soybean will lead to higher potential risks

The soybean supply shortage will need to be solved through imports. In the near future, the global demand for soybean oil and meal will rise rigidly but it is uncertain about the increase of global soybean production, which is subject to acreage, yield and weather. As the global biodiesel industry expands rapidly, some countries such as Argentina, Brazil and the US are accelerating their soybean-based biodiesel production. The world's potential demand for soybeans may rise sharply, which will lead to a remarkable change in global soybean supply/demand relationship. China, the largest soybean importer in the world, will face higher market risks.

(4) Competition among soy oil processors will intensify

At present, more than half of the small soy oil processors with daily capacity below 1000 tons are on the brink of bankruptcy, so it is inevitable that these small processors will be eliminated or merged. Despite serious overcapacity, domestic processors do not stop their expansion. In order to realize economies of scale, some processors are building or plan to build large soybean crushing mills. This will bring about further overcapacity and intensify the competition.

### 3. Guidelines, Principles and Objectives

(1) Guidelines

Greater efforts should be made to expand domestic soybean production. Soy oil processors should be encouraged to diversify their sources of raw materials. Production of other oilseed crops such as rapeseed, peanut, cottonseed, sunflower seed and camellia should be enhanced to make the raw material supply more independent. Soy oil processors' capacity expansion should be controlled. Soybean processing technologies and independent innovation capacity should be improved. Soy oil processing equipment manufacturers should be consolidated to promote industrial restructuring and upgrade. Market regulation should be strengthened to ensure fair competition. Leading enterprises should be supported so that they can have stronger competitive force and gain more market share. The soybean deep-processing industry should be promoted to extend the industrial chain and raise the level of comprehensive use of soybean.

(2) Principles

First, control scale and ensure market order. Prevent soy oil processors from blind expansion and repeated construction; control the production capacity within a reasonable scope.

Second, adjust industrial structure and upgrade the industry. Accelerate soybean industrial structure adjustment. Guide the industrial integration by merger and reorganization to raise the capacity of the whole industry.

Third, insist on reform and opening up. Insist on the opening up to the outside world and strengthen the regulation and management of foreign investments. Encourage domestic enterprises to strengthen technological development and enhance competitive force.

Fourth, optimize the industrial deployment and ensure coordinated development. Optimize the deployment of soy oil, soybean product and deep-processing sectors to ensure the coordination between major producing areas and major markets as well as the coordination between preliminary processing and deep processing.

Fifth, raise domestic production and diversify the oilseed crops. Provide more supports to domestic soybean production. Increase soy oil import while reduce reliance on imported soybean. Diversify the supply of raw materials by increasing the production of rapeseed, peanut, cottonseed, sunflower seed and camellia.

Sixth, develop recycling and comprehensive use. Try to make better use of resources, reduce energy consumption, material consumption and waste emission to create an environmentally friendly society.

### (3) Objective

Raise independent innovation capacity and improve industrial technologies and equipment. Accelerate industrial upgrade, adjust product structure and optimize enterprise distribution to create a highly competitive soybean processing system.

- Compress the total soy oil processing capacity to a reasonable level. Maintain soy oil processing capacity to within 75 million tons per year until 2010 and within 65 million tons per year by 2012.
- Optimize industrial structure. Encourage the merger and reorganization of domestic enterprises to facilitate industrial consolidation. Foster a group of competitive soy oil processors with daily capacity above 2000 tons, which combine production, processing and sale into a whole. Ensure that a certain number of processors draw upon rapeseed, peanut, cottonseed, sunflower seed and camellia.
- Distribute the soybean processors reasonably across the country. Reasonably deploy the soybean producing across areas Northeast China, Huang-Huai-Hai Plain and coastal areas, with each area having its own focus.
- Extend the deep processing chain. Deep process meal- and soy oil-based products to extend the industrial chain, upgrade products and enrich the type of products.
- Bring the energy-saving and waste-release capacity to international levels. Reduce energy consumption per unit of output value by 15 percent, water consumed per unit industry increased value by 30 percent and control the release of major pollutants within the relevant standards of the state by 2012.

Column 1: Main objectives of the soybean processing industry for 2012		
Item	Index	Remark
Soybean processing capacity	≤ 65 million tons/year	Controllable
Energy consumption per unit of output value	Down by 15 percent	Controllable
Water consumed per unit industry increased value	Down by 30 percent	Controllable

#### 4. Industry Access

Based on soybean production prospects in China and in the world for the next five years, a threshold for access to the soy oil processing industry will be set in terms of production scale, industrial monopoly, foreign investment management, energy saving, environmental requirement and recycling.

##### (1) Project verification

To be implemented as per the regulations of the State Council on fixed asset investment.

##### (3) Enterprises' qualification

Enterprises that engage in soy oil processing must have adequate economic capacity and risk-resisting ability. Their net assets shall not be less than two times the funds for proposed project, total assets shall not be less than 2.5 times the funds for proposed project and asset-liability ratio shall be no more than 60 percent. Their project capital shall be in conformity with relevant regulations of the state and the credit rating, if given by a financial agency at province level, shall be not lower than grade AA.

##### (3) Competition

Enterprises shall comply with relevant laws and regulations, and shall not disturb the market order by abusing their dominant status in the market or entering into a monopoly agreement.

##### (4) Foreign investment management

Soy oil processing projects shall be carried out in accordance with Catalogue for the Guidance of Foreign Investment Industries. Merger and reorganization of domestic oil processors by foreign enterprises shall comply strictly with relevant laws and regulations of the state on foreign investment and industrial policies for foreign investment industries.

##### (5) Energy saving and environmental protection

Energy and water consumption of green-field projects and expansion projects shall meet the requirements as specified in the following Column 2 and 3. Release of soot, wastewater and other wastes shall meet state or local relevant standards.

Column 2: Criteria for the energy consumption of soybean and soy oil processing			
	Item	Index (consumption/ton)	Unit
Preliminary crushing	Water	≤ 0.35	Ton (recycling water)
	Electricity	≤ 30.00	Kilowatt-hour
	Coal (standard)	≤ 90.00	Kg
	Solution (industrial ethane)	≤ 1.4	Kg
Refining of grease	Water	≤ 0.80	Ton (recycling water)
	Electricity	≤ 21.00	Kilowatt-hour
	Coal (standard)	≤ 46	Kg



	White earth	≤ 18.00	Kg
	Diesel	≤ 4.00	Kg
Isolation of soybean protein	Electricity	≤ 1400	Kilowatt-hour/ton
	Coal	≤ 2500	Kg/ton
Column 3: Criteria for pollutants from soybean processing			
	Release index		Unit
COD	≤ 100		mg/liter
BOD	≤ 20		mg/liter
pH	7-8		
NH3-N	≤ 15		mg/liter
Vegetable oil and animal fat	≤ 10		mg/liter
Suspended solids	≤ 150		mg/liter
Fuse	≤ 190		mg/sqm
Soot density			
Note: data in this column are from GB13271-2001, BG16297-1996 and BG8978-1996			

## 5. Industrial layout

In the future, the geographic structure and product structure of soybean processing industry should be laid out in such a manner as to ensure that processing mills are near to soybean producing areas or markets and the transportation to and from the mills shall be convenient.

Northeast China and Inner Mongolia. Encourage the merger and reorganization among domestic enterprises to form several highly competitive enterprises or groups. Eliminate some technologically backward and poorly operating enterprises. Make Northeast China and Inner Mongolia one of China's key soy oil processing bases by technologically upgrading the traditional oil processing industry and optimizing the product structure. Develop soybean deep-processing industry, encourage and support soybean deep-processing enterprises to introduce advanced technologies or carry out independent R&D, strengthen R&D in soybean powder, soybean milk and soybean protein, promote the mass-production of soybean phospholipids, soybean isoflavones, oligosaccharides and vitamin E, improve the technological contents of products, extend the industrial chain, and enhance the proportion of high value added products.

North China. Rely on the existing leading enterprises and foster some large soy oil processors by encouraging the merger and reorganization of poorly operated enterprises by capable ones. Support the soybean deep processing in the soybean producing areas of Hebei, Shandong and Henan. Encourage the industrialization of protein products and traditional soybean products used for milk, meat and flour products. Require environmentally unqualified soybean protein processors to transform themselves. Shut down those enterprises which consume lots of energy and release lots of waste and encourage those leading enterprises, which need small investment, consume little energy and water and expand the production scale of functional milk protein and other deep processed products.

Coastal areas. Encourage mergers, acquisitions and restructuring among domestic enterprises. Foster soybean and feed processors that have the complete industrial chain. Have poorly operated oil processors closed down, suspended, merged with other plants or transformed so as to reduce idle capacity and enhance production efficiency. Encourage those technologically and financially advanced enterprises to develop the deep processing of by-products. Build some coastal areas into the production bases and export bases of feed protein, fatty acid and phospholipids.

Other areas. Develop peanut, rapeseed, cottonseed and soybean processing projects and soybean food processing industry to meet the demand from local demand and animal farming.

## 6. Policy Measures

Soybean processing is a key point along the soybean industrial train, so macro control and industrial guidance must be put to the strategic height to ensure the healthy development of soybean processing industry.

(1) Make a scientific plan and strengthen the policy-based guidance

Particularly in the major soybean producing areas and coastal soybean processing areas, policy-based guidance and plan should be strengthened to prevent soy oil processors from blindly expanding and chaotically competing. When a soy oil processing enterprise's (group's) soybean production reaches 15 percent of China's total production, then, in principle, such enterprise shall not newly build or expand any soy oil processing project.

(2) Accelerate structural adjustment and promote industrial upgrade

Strictly implement the *Regulations on the Promotion of Industrial Structure Adjustment* and the *Catalogue for the Guidance of Foreign Investment Industries*. By means of consolidation, merger and reorganization, give supports to some trans-regional soy oil processing enterprises (groups) which have a capacity of over 2000 tons per day and combine production, processing and sale into a whole. Encourage enterprises to purchase domestic soybeans.

(3) Promote technological progress and strengthen independent innovation capacity

Invest more in soybean processing technologies and strengthen technological research and development to promote independent innovation capacity and industrial upgrade.

Improve soybean processing technologies. The soy oil processing industry should eliminate normal pressure evaporation technology and some small soy oil processing plants that are technologically backward, energy-consuming, pollution-creating, not in conformity with the fire-control requirement and without sewage treatment facilities; encourage the use of soybean dehulling technology and soybean puffing extraction technology to raise oil yield and produce high-protein meal; encourage the combination of crushing and refining and strengthen the development of new products based on soy oil and meal (yeasted meal, healthy nutritious oil, etc.); encourage the use of PLC control automated production technology; and research deep into and extend the use of waster water recycling technologies.

The soybean deep-processing industry should focus on the development of waster water recycling technologies, soybean protein enzymatic hydrolysis technology, technology of extracting soybean fiber from soybean residues, technology of extracting oligosaccharide and isoflavone from waste soy water, soybean peptide production and debitterness technologies, soybean protein surface modifying technology, milk protein production technology, the technologies of improving protein yield, protein gelatin, separateness and dissolution and the technologies of reducing soybean protein odor and viscosity; promote the use of soybean protein in foods; promote the industrialization of traditional soybean processing craftwork; eliminate energy consuming, water consuming, pollution-creating, costly and low-return soybean protein production lines.

Develop soybean processing equipment, with focus on advanced facilities such as high-efficiency oil extractor, large-scale protein drier, etc. Consolidate some grain and oil processing equipment manufacturers to pool together their power and raise the R & D capacity and equipment manufacturing capacity.

(4) Encourage and guide enterprises to “go out” and develop international resources

Encourage domestic enterprises to establish a stable soybean import system. The proposal is to: target soybean-export countries to purchase soybean locally, and then rent port terminal, establish warehouse and transportation system, or purchase stakes of local agricultural enterprises and rent land to grow crops. Encourage domestic enterprises to build soybean processing plants in foreign countries.

(5) Establish a security system to ensure orderly soybean import

Scientifically evaluate domestic total demand and total supply and establish an early warning system regarding soybean import volume, price and quality to ensure orderly soybean import. When the gap between the soybean import and expected demand is higher or lower than the monthly crush, the government will release warning information through authoritative departments; when monthly soybean wholesale prices rise by more than 10 percent, price warnings will be released; and when serious soybean quality problems occur, quality warnings will be released.

Guide, arrange, organize and coordinate external purchases, while gradually improving domestic enterprises’ international influence and bargaining power and reduce the cost of purchasing.

(6) Establish a soybean reserve system for commercial circulation

In accordance with the Opinions of the State Council on the Promotion of Oilseed Crop Production (Guo Ban Fa [ 2007] No. 59), encourage large state-owned grain and oil processors to raise the commercial reserves of soybean.

(7) Establish a soybean information release system

Establish and improve a complete, systematic and accurate soybean industry information reporting regime and release platform, including a system of monitoring and evaluating the soybean production situations of China and other major soybean-producing countries, a system of monitoring and evaluating domestic soybean consumption and import, and a system of monitoring the production and sales activities of domestic oil processors with capacity above 5 million tons. The findings will be made public through authoritative grain and oil information agency of the state.

(8) Develop and improve the soybean futures market

Establish effective futures information channels and encourage and guide soybean producers, traders and processors to hedge themselves in the futures market. Formulate policies on the hedging trade of state-owned grain enterprises to provide them with a fair competitive environment. Support the development of soybean futures. Adjust the regulations on the circulation and consumption of genetically modified soybeans. Enhance and promote the liquidity of imported GM soybeans.

(9) Take various measures to stably develop soybean, peanut and other oilseed crops

Strictly implement the Opinions of the State Council on the Promotion of Oilseed Crop Production (Guo Ban Fa [ 2007] No. 59) and strengthen the construction of soybean production bases. Cultivate a quality soybean belt in north China and Inner Mongolia. Expand soybean acreage. Modernize the soybean production Industry and improve soybean yield to enhance soybean production and quality.

(10) Strengthen product-labeling management and give rise to the advantages of domestic soybean

Strengthen the education regarding GM food, non-GM soybean and GM soybean. Allow people the right to information and choice. Strictly implement the Regulations on GM Crop Management, the Regulations on Labeling of GM Crops and the Measures on GM Crop Label Management. Guide and encourage soybean processors to use domestic soybean.

(11) Formulate, amend and promulgate the relevant standards regarding soybean processing

Formulate standards on deep-processed soybean products such soybean protein, soybean fiber, oligosaccharide, isoflavone, etc.; formulate standards on the design, energy consumption and waste release of oil processing plants; and create standards on edible oil and meal testing methods.

(12) Strengthen education and advocate healthy oil consumption

Inhibit unreasonable rise of domestic edible oil consumption. Educate people to consume edible oil in a scientific way. Guide restaurants to develop a scientific oil-consumption practices.