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Report Highlights:

On June 30, 2006, China unilaterally announced lifting the import ban on U.S. boneless beef from cattle 30 months of age or younger, then released a list of inspection and quarantine requirements on U.S. beef exported to China. Because these announcements are not based on a bilateral protocol, beef trade cannot be resumed without additional technical discussions. China's beef production in 2007 is forecast to increase 6 percent to 7.9 MMT due to strong demand. Beef imports are forecast to increase 33 percent to 4,000 MT during 2007, and could be an additional 3,000 MT in the first year if China resumes imports of U.S. beef. Pork production during 2007 is forecast to increase 6 percent to 55.8 MMT driven by consumers' shift away from poultry due to highly pathogenic avian influenza in China. Pork imports in 2007 are forecast to fall 6 percent to 340,000 MT due to abundant supplies, while exports are forecast to increase slightly.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Situation and Outlook

China has only agreed to open its market to U.S. boneless beef from cattle of 30 months of age or younger. The import ban was lifted on June 30, 2006, followed by China's announcement of import inspection and quarantine requirements on U.S. beef. Because these were unilateral announcements, trade cannot resume until China and the United States reach a consensus on a trading protocol. The U.S. position remains that China resume trade for the full range of beef products, per the OIE guidelines that state all beef products are tradable regardless of the BSE status of a country.

Despite the presence of foot and mouth disease (FMD) in China, FAS Beijing forecasts China's beef production in 2007 to increase 6 percent to 7.9 MMT due to strong consumer demand driven by the shift from poultry to other meats due to consumer concerns from highly pathogenic avian influenza (HPAI) in China. Additionally, beef imports in 2007 are forecast to increase 33 percent to 4,000 MT as domestic supplies cannot meet the high-end market demand. Strong demand, lagging supply and a stronger Chinese currency will drive beef imports in 2007. Live cattle imports in 2007 are forecast to decrease 12 percent to 22,000 head due to import policy changes. Beef exports are forecast to decrease 5 percent to 85,000 MT. The eventual return of U.S. beef to China's export markets will increase competition and likely limit China's exports.

Post forecasts China's pork production in 2007 to increase 5 percent to 55.8 MMT due to consumers' shift from poultry to other meats. The pace of growth for 2007 is forecast slightly smaller than 2006 due to an increase in swine production and abundant domestic supplies that deflated pork prices in 2006. As a result, swine production was below the critical profit point in the first half of 2006. China's pork imports are expected to decrease 12 percent to 36,000 MT in 2006 and 6 percent to 34,000 MT in 2007 respectively. The return of U.S. beef to Japan may result in a decrease in Chinese pork exports to Japan, as Japan is one of China's top three export markets.

U.S. Market Access—China unilaterally announces ban lifting on boneless U.S. beef from cattle 30 months of age and younger, followed by a list of inspection and quarantine requirements for U.S. beef exports to China

On June 30, 2006, the Chinese Ministry of Agriculture (MOA) and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) jointly released Announcement 678 allowing the conditional resumption of boneless beef imports from the United States. This announcement requires that U.S. beef from cattle 30 months of age and younger be completely free of spinal column, skull, brains, eyes, spinal cord, tonsils and distal ileum. This announcement was followed by AQSIQ's Announcement 89, on June 31, which listed detailed inspection and quarantine requirements. Both were unilateral announcements by China without an agreed-upon export protocol.

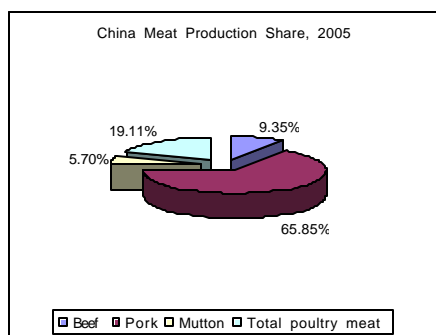
During the 17th meeting of the Joint Commission on Commerce and Trade (JCCT) last April in Washington D.C., China agreed to reopen its market to U.S. beef by June 30 based on a science-based trading protocol consistent with the guidelines of the World Organization for Animal Health (OIE). Since April, the United States sent three delegations to China to negotiate the terms of this trade agreement. Although the United States provided a detailed explanation of safeguards in the U.S. system and answered numerous questions regarding China's concerns about beef imports, the two sides were not able to reach an agreement on resumption of trade. The U.S. position remains that China resume imports of all bovine products, including boneless, bone-in, variety beef and offal. According to the OIE guidelines, beef products from cattle 30 months of age or younger are safe regardless of a country's BSE

situation. However, China states it will only consider a wider range of products after the OIE announces BSE risk levels in 2007.

Cattle and Beef

China beef production in 2007 forecast to increase 6 percent to 7.9 MMT

FAS Beijing forecasts China's beef production in 2007 will increase by 6 percent to a record 7.9 MMT from estimated 7.5 MMT in 2006. Post revised the beef production number for 2005 slightly down to 7.11 MMT from the last forecast in the semi-annual report CH6002 based on new official beef production data. Post forecasts China's beef production to increase about 5 percent in both 2006 and 2007, beef production numbers in the current beef PS&D table has been adjusted accordingly. The current estimated pace of growth is 1 percent smaller compared with that of the average increase in the 2002-2004 period due to foot and mouth disease (FMD) outbreaks in China. However, FAS Beijing believes that despite FMD outbreaks, beef production will continue to increase steadily at a 5 percent yearly rate in the next three years due to strong consumer demand.



The beef share of total Chinese meat production changed from 8 percent in 2001 to 9 percent in 2005. This trend will continue into the next year as consumers shift from poultry to other meat in fear of highly pathogenic avian influenza (HPAI). Although beef prices are the highest among red meats, an increase in incomes allows consumers the luxury of purchasing high-priced beef.

According to MOA's 11th Five-Year-Plan for Agriculture (2006-2010), the share of livestock output value is targeted to increase from 35 to 50 percent of China's

total agricultural output value. Post believes China will level pork and poultry production, while increasing beef, sheep and goat meat production, due to strong demand and less feed grain constraints.

Currently, the seven provinces of Henan, Hebei, Shandong, Anhui, Jilin, Liaoning and Heilongjiang are the center of China's beef production. Cattle slaughter in these 7 areas accounted for 62 percent of China's total cattle slaughter in the first quarter of 2006. China also has five major grassland provinces for cattle production including Inner Mongolia, Xinjiang, Gansu, Qinghai and Ningxia. It is projected that China will invest more in the grassland areas for beef production because of land limitations in inland provinces.

Despite the beef industry's desire to rapidly expand, there are several factors that constrain beef production. In recent years, beef production has mainly been a result of animal number increases, not carcass weight increases. In China, beef carcass weight on average is far below that of developed countries. According to the Chinese cattle industry, only 5 percent of the total beef cattle are high quality beef cattle, including both domestic and imported breeds. As a result, the high-end beef market demand has been met by imports. Although Chinese beef cattle are in need of genetic improvement, the Government did not implement support programs as those similarly used in dairy cattle



production due to large beef animal sizes and lower priority than milk. For example, since 2005, the Ministry of Agriculture (MOA) has been subsidizing RMB 20 (\$2.5) to purchase two straws of frozen semen from high quality Holstein bulls for artificial insemination of a Holstein cow in 4 major milk producing provinces. This kind of subsidy is not applied for beef cattle industry. Land, feed grain and forage resource constraints, combined with a newly developed ethanol industry, may lead to a short supply of green corn silage. These factors will limit beef cattle herd expansion in 2006 and 2007.

Selected summary of animal disease in China

Selected Summary of Animal and Poultry Disease in China, 2004-2005 (Number of Head or Bird)						
	2004			2005		
Disease	Infected	Death	Culled	Infected	Death	Culled
FMD	n/a	n/a	n/a	612	0	4,744
HPAI	144,900	129,100	9,045,000	158,200	151,200	22,225,800
N.C. Disease	455,868	186,981	217,096	1,682,139	697,744	305,368
Class. SF	41,154	18,363	6,752	94,479	50,465	9,568
Br Abortus	1,186	4	1,894	2,100	80	1,544
Source: MOA						

Animal diseases will limit China's raw meat exports in 2006 and 2007. FMD is a major concern for cattle production. China had a total of 10 FMD outbreaks in 2005, and from January to late August 2006, 12 FMD outbreaks have been reported. Most outbreaks this year occurred in remote areas in western China, decreasing the threat to beef production in heavy cattle areas like Shandong and Hebei provinces. China is considering several measures to curb the spread of animal diseases. As backyard production accounts for 80 percent of China's total cattle production, the first step in this process is educating farmers about disease prevention and control methods. Farmers are the first line of defense in preventing animal diseases. Improved veterinary service in rural areas can also lead to a decrease in the outbreak of infectious livestock diseases.

China's 11th Five-Year-Plan for agriculture, in reference to livestock production

Selected agricultural targets for:

Index	Unit	2005	2010	% Annual Growth, Average	Status
Total grain planted area	1,000 HA	104,280	103,330	-0.18	Restricted
General grain production capacity	1,000 MT	484,000	500,000	0.65	Restricted
Total meat production	1,000 MT	77,430	84,000	1.64	Forecast
Total poultry egg production	1,000 MT	28,790	30,000	0.82	Forecast
Total milk production	1,000 MT	28,650	42,000	7.95	Forecast
Source: MOA					

The Government is forecasting no grain production increases, a factor that could impact swine and poultry production. This table also indicates that China will focus more on quality rather than on accelerated expansion. Beef production will likely exceed the targeted pace of growth for all meats due to strong demand and less feed grain constraints. An increase in dairy cattle numbers is expected, however, dairy cow slaughter for the low-end domestic market will absorb the increase.

Beef consumption for 2007 forecast to increase 6 percent to 7.8 MMT

Post forecasts China's beef consumption in 2007 to reach a record high 7.8 MMT.

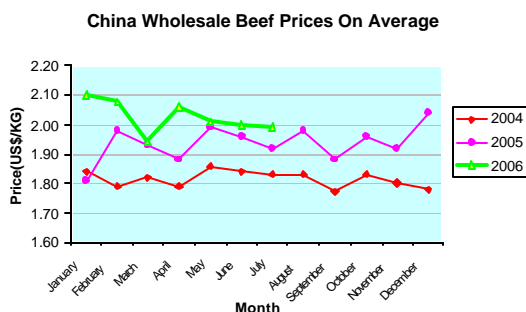
Beef consumption will continue to benefit from the consumption shift from poultry to red meats in fear of avian influenza (AI). Post revised the consumption numbers for 2005 and 2006 slightly down from the previous forecast in the last semi-annual report CH6002 to current forecast of 7 MMT and 7.5 MMT respectively based on new official data of 2005.

Beef consumption in 2006 has mainly been in the low-end market, since higher international beef prices constrained imports for high-end cuts. However, the situation may change as Asian markets reopen to U.S. beef. Traders believe U.S. market access will help lower beef prices and lead to increased Chinese imports in 2007.

China's high-end beef consumers prefer U.S. grain-fed beef because of its tenderness. There are about 200 five-star hotels in various regions throughout China. High-end restaurants have also blossomed in large cities, and more are expected in anticipation of the Olympic Games in 2008. Increased incomes make beef affordable for more consumers to dine out, and a prosperous tourism industry provides a growing market for imported high quality beef.

Although U.S. beef has been banned since December 25, 2003 due to BSE, trade resources report that it has been channeled into China from South China and subsequently smuggled and repacked as beef from other eligible exporting countries. Local newspapers reported in May and June that AQSIQ intercepted smuggled beef from the United States in Shanghai, Dalian and Shenzhen. When U.S. beef is allowed to re-enter China, U.S. market share is expected to rapidly increase.

Domestic beef prices forecast to remain high



Post estimates that China's wholesale beef prices in 2007 will remain high. Traditionally, beef prices increase during the Spring Festival in January-February and during the public holidays in May and October. Although domestic beef prices on average have fluctuated since 2005, the price trend as a whole has increased due to consumers' shift from poultry to other meat. China's per capita beef is only about 6 kg. Beef prices will remain high due to strong demand and lagging supply, in addition to higher labor, energy, water

and transportation costs involved in production.

Beef imports in 2007 forecast to increase 33 percent to 4,000 MT and would be significantly higher if China resumes U.S. beef imports

Post forecasts China's beef imports for 2007 to increase 33 percent to 4,000 MT due to strong consumer demand. This number is still 20 percent below 2004 and 59 percent below average imports during the 2001-2004 period due to higher international prices driven by tight global beef supplies due to BSE and FMD-related trade restrictions. Since China banned U.S. beef in December 2003 and Canadian beef in May 2003, Australia and New Zealand have dominated China's import beef market. However, according to importers, the quality and taste of Australia and New Zealand beef does not compare to U.S. beef. The opening of U.S. beef export markets world wide, the 2006 beef production increase in New Zealand, the end of the Argentine Government's ban on beef exports, stronger Chinese currency and lagging domestic supplies for high-end beef are all factors that will increase the demand for imported beef and lead to increased beef imports in 2007.

According to trade forecasts, U.S. boneless beef shipments alone could reach 3,000 MT (approximately \$10 million FOB value) in the first year, driving China's total beef imports up another 75 percent to 7,000 MT. If U.S. and China could agree on market access and an export protocol for the full range of U.S. beef products (boneless, bone-in, variety beef and offal), U.S. beef exports to China would be boosted another 5,000 MT in the first year. These estimates are only direct shipments to China; if indirect shipments via Hong Kong are included, the figures would be even larger. These estimates are based on trade trends before December 2003 and current market conditions.

Live cattle imports in 2007 forecast to decrease 12 percent due to policy change

Post forecasts China's live cattle imports in 2007 to decrease 12 percent to 22,000 head. Almost all imported live cattle are dairy cattle for breeding. A few years back, China started the program of "Developing the West Region". As a means to eradicate poverty, dairy producers enjoyed government subsidies that allowed them to import breeding cows for local genetics improvement. However, most cows cannot be used for breeding due to their low quality breed. As a result, the Government stopped providing subsidies to dairy producers. In 2005, China started another trial program to provide subsidies for high quality frozen Holstein semen to be used in dairy genetic improvement. This policy provides a good opportunity for U.S. companies exporting frozen bovine semen now that China has reopened its market to bovine genetic materials.

Market access constraints for U.S. beef and bovine products

On June 31, 2006, AQSIQ announced 22 requirements for U.S. boneless beef exports to China in Announcement #89, though USDA has not agreed to any of these requirements. AQSIQ requests that before resumption of trade, it must inspect U.S. beef plants. Upon completion of the inspection, AQSIQ will publish a list of eligible exporting plants on their website (www.aqsiq.gov.cn). A wider range of beef products is critical for the U.S. industry because China's market size for beef offal was about \$39 million in 2003.

The ban on live cattle imports from the United States also remains in place. China considers North America (Canada, Mexico and the United States) one market because of free trade agreements and animal movement across borders. The recent Canadian BSE case was discovered in an animal that was 50 months old and was born several years after the feed ban in North America forbid the use of ruminant meat and bone meal (MBM) contained in ruminant feed.

Additionally, bovine tallow and grease is not permitted entry into China. According to traders, the international standard for rendered bovine tallow's impurity does not exceed 0.15 percent. This is not a foreseeable problem for the industry. However, China requests not only the 0.15 percent tolerance, but also that it be completely protein free, which is an impossible requirement.

U.S. bovine tallow and grease exports to China were valued at \$23 million before the 2003 BSE-related bans. Pet foods containing bovine tallow will face the same problem.

Beef exports in 2007 forecast to decrease 5 percent to 8,500 MT, while live cattle exports forecast to decrease slightly

Hong Kong, South Korea and Japan are the three top beef export markets accounting for 66 percent of China's total beef exports to the world. The return of U.S. beef to Hong Kong and Japan, and the return of Canadian beef to Hong Kong and Macau, combined with stronger Chinese currency, may result in a smaller Chinese beef export market share in 2007.

FAS Beijing adjusted downwards China's beef export estimate for 2006 from 100,000 MT in the previous semi-annual report CH6002. The current forecast of 90,000 MT is about the same level as 2005. Market access for U.S. beef in Hong Kong and Macau will mainly impact China's frozen beef exports. FMD in China is the main factor impacting live cattle exports, however the Hong Kong and Macau export market has remained unchanged. These markets account for almost the full share of China's live cattle exports. This trend is expected to continue into next year.

PS&D tables for cattle and beef

PSD Table

Country

China, Peoples
Republic of

Commodity

Animal Numbers,
Cattle

(1000 HEAD)

	2005 USDA Official [Old]	Revised Post Estimate[New]	2006 USDA Official [Old]	Estimate Post Estimate[New]	2007 USDA Official [Old]	Forecast Post Estimate[New]	UOM MM/YYYY
Market Year Begin		01/2005		01/2006		01/2007	
Total Cattle Beg. Stks	137818	137818	140718	141575	143411	145349	(1000 HEAD)
Dairy Cows Beg. Stks	11080	11080	13700	12161	0	13400	(1000 HEAD)
Beef Cows Beg. Stocks	65640	65640	68580	68580	0	71800	(1000 HEAD)
Production (Calf Crop)	57020	57020	60100	60100	0	63300	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Total Imports	50	50	46	25	0	22	(1000 HEAD)
TOTAL Imports	50	50	46	25	0	22	(1000 HEAD)
TOTAL SUPPLY	194888	194888	200864	201700	143411	208671	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Total Exports	54	54	51	51	0	51	(1000 HEAD)
TOTAL Exports	54	54	51	51	0	51	(1000 HEAD)
Cow Slaughter	0	0	0	0	0	0	(1000 HEAD)
Calf Slaughter	0	0	0	0	0	0	(1000 HEAD)
Other Slaughter	53618	52876	56900	55800	0	58800	(1000 HEAD)
Total Slaughter	53618	52876	56900	55800	0	58800	(1000 HEAD)
Loss	498	383	502	500	0	350	(1000 HEAD)
Ending Inventories	140718	141575	143411	145349	0	149570	(1000 HEAD)
TOTAL DISTRIBUTION	194888	194888	200864	201700	0	208771	(1000 HEAD)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

PSD Table

Country

China, Peoples
Republic of
Meat, Beef
and Veal

Commodity

(1000 MT CWE)(1000 HEAD)

Market Year Begin	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
		01/2005		01/2006		01/2007	MM/YYYY
Slaughter (Reference)	53618	52876	56900	55800	0	58800	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	7140	7115	7575	7500	0	7910	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	2	3	3	3	0	4	(1000 MT CWE)
TOTAL Imports	2	3	3	3	0	4	(1000 MT CWE)
TOTAL SUPPLY	7142	7118	7578	7503	0	7914	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	91	91	100	90	0	85	(1000 MT CWE)
TOTAL Exports	91	91	100	90	0	85	(1000 MT CWE)
Human Dom. Consumption	7051	7027	7478	7413	0	7829	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	7051	7027	7478	7413	0	7829	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	7142	7118	7578	7503	0	7914	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Cattle and beef trade matrix

China Live Cattle Imports, 2004-2006 (Number of Head)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Origin	2004	2005	2005	2006	2006/05
World	132,446	49,586	35,257	12,606	-64.25
Australia	69,406	35,517	23,418	9,803	-58.14
New Zealand	63,032	14,069	11,839	2,802	-76.33
United States	0	0	0	0	0.00
Canada	0	0	0	0	0.00
Mexico	8	0	0	0	0.00
HS Code: 010210, 010290 Source: WTA China Statistics					

China Beef and Veal Imports, 2004-2006 (Metric Tons)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Origin	2004	2005	2005	2006	2006/05
World	3,451	1,252	601	625	3.99
Australia	2,159	1,132	579	483	-16.58
New Zealand	825	10	10	87	770.00
Uruguay	2	25	11	47	327.27
Brazil	422	0	0	7	0.00
Argentina	-	83	0	0	0.00
United States	41	0	0	0	0.00
Other	2	2	1	1	0.00
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 and 160250 Source: WTA China Statistics					

Hong Kong Re-Exports of Beef and Veal to China, 2004-2006 (Metric Tons)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Origin	2004	2005	2005	2006	2006/05
World	3,718	729	654	96	85.32
Brazil	1,193	138	125	42	-66.40
Canada	194	98	70	26	62.86
New Zealand	1,020	168	168	0	-100.00
Australia	27	144	144	0	-100.00
Argentina	159	109	0	0	0.00
India	309	25	25	0	100.00
Ireland	244	25	0	0	0.00
Austria	0	14	0	0	0.00
United States	263	1	0	0	0.00
Other	309	11	122	28	-77.05
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 and 160250 Source: WTA China Statistics					

China Live Cattle Exports, 2004-2006 (Number of Head)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Destination	2004	2005	2005	2006	2006/05
World	59,009	54,129	26,679	25,843	-3.13
Hong Kong	47,377	48,003	23,601	22,773	-3.51
Macau	5,278	5,746	2,758	3,040	10.22
Korea North	330	380	320	0	-100.00
Jordan	6,000	0	0	0	0.00
Other	24	0	0	30	0.00
HS Code: 010210, 010290 Source: WTA China Statistics					

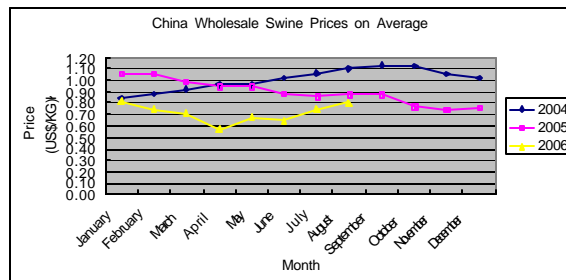
China Beef and Veal Exports, 2004-2006 (Metric Tons)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Destination	2004	2005	2005	2006	2006/05
World	37,171	54,586	22,741	26,635	17.12
Hong Kong	15,876	14,862	6,320	6,960	10.13
Korea South	3,638	12,139	5,282	6,573	24.44
Japan	9,062	14,747	5,113	4,455	-12.87
Jordan	739	4,558	1,947	3,757	92.96
Kuwait	1,657	2,606	1,161	1,574	35.57
Malaysia	1,293	1,186	477	979	105.24
Lebanon	403	571	188	627	233.51
Indonesia	943	1,345	641	608	-5.15
Korea North	492	1,142	765	291	-61.96
Macau	124	193	66	137	107.58
Singapore	172	154	58	53	-8.62
Russia	1,435	219	77	49	-36.36
United Arab Emirates	783	270	251	0	-100.00
Other	554	594	395	572	44.81
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 and 160250 Source: WTA China Statistics					

Swine and Pork

China's pork production in 2007 forecast to increase 5 percent to 55.8 MMT

FAS Beijing forecasts China's pork production in 2007 will reach a record high of 55.8 MMT, a 5 percent increase from the estimated 52 MMT in 2006. Based on new official data, Post revised the pork production number for 2005 slightly higher to 50 MMT from the previous estimation of 49.7 MMT in the last semi-annual report CH6002. As Post forecasts China's pork production increase 6 and 5 percent respectively in 2006 and 2007, pork production numbers for the two years have been adjusted accordingly in the current PS&D table.

The pace of pork production growth in both 2006 and 2007 is forecast to be smaller than that of 2005 due to a smaller crop impacted by decreased profits. According to the Ministry of Agriculture (MOA), in 2006, China's wholesale swine prices from January to July decreased 27



and 26 percent respectively over the same period in 2005 and 2004. The result can be attributed to the impact of high grain wholesale prices. As a result, the conversion rate between feed grain and swine on average dropped to 5.06:1, below the critical point of 5.5:1. As a result, a farmer lost \$10 raising one head of

swine, and some farmers started slaughtering sows.

The main reason for the change in profit was that pork prices appreciated considerably during 2003-2004 driven by consumers' shift from poultry to other meat due to constant outbreaks of highly pathogenic avian influenza (HPAI) in China. As a result, farmers increased swine crop production. The PS&D table demonstrates the rapid pace of growth in sow production, as beginning stocks in 2005 were 2 percent higher than the previous year. The larger crop led to decreasing swine and pork prices. Pork production trend is concurrent with Post's forecast in the last semi-annual report CH6002.

Although the pace of growth in the 2007 sow stock is forecast about 1 and 3 percent smaller respectively than that of 2006 and 2005, the sow stock is still above the rational level (8 percent) out of the total pig stock, indicating China's swine crop production capacity has strengthened. Normally, farmers would alternate between raising swine to raising other livestock or poultry as swine prices depreciated. However, with uncertainty of HPAI and FMD, raising swine is the least problematic in terms of risk to farmers. Despite the drop in pork consumption in the last decade, pork is still the dominant traditional animal protein. In the last couple of years, constant HPAI outbreaks and reports of human death infected by HPAI have pushed consumers to shift from poultry to other meats.

With China's GDP growth at 11 percent, urban income growth at 10 percent and farmers' cash income growth at 12 percent in the first half of 2006, meat protein demand will continue strong throughout 2006 and into 2007. The recent shift in domestic meat consumption is expected to favor pork exports. China's swine and pork production will grow at a steady 5 percent rate in 2007. However, pork share may continue to decrease in China's total meat production due to stronger demand for beef, sheep and goat meat in addition to feed grain constraints.

Swine and pork production will become more concentrated in feed grain producing areas. According to the industry, in the first half of 2006, 8 provinces accounted for 70 percent of China's total slaughtered swine, each slaughtering more than 10 million head. These are the

top swine producing provinces are Sichuan, Hunan, Henan, Shandong, Hebei, Guangxi, Guangdong and Hubei, with the top three accounting for one-third of China's total slaughtered swine.

Pork consumption in 2007 forecast to increase 6 percent to 55.5 MMT

Post forecasts China's pork consumption to reach a record high of 55.5 MMT in 2007. Steady pork consumption is attributed to urbanization and consumers' shift from poultry to other meat due to HPAI outbreaks in the recent years. Pork also continues to be the most inexpensive meat in China. Based on new official data, post adjusted China's pork consumption for 2005 slightly up from the previous estimation in the semi-annual report CH6002 to 49.8 MMT in the current report. Pork prices in the second half of 2006 are forecast to rise slightly due to the slower pace of growth in slaughter.

Pork imports in 2007 forecast to decrease 6 percent to 34,000 MT

The decrease in pork imports is due mainly to domestic pork production increases and low pork prices. Decreased pork imports will be offset by an increase in pork offal imports. In the first half of 2006, pork offal imports increased 13 percent valued at \$58 million due to lower international prices. U.S. export data indicates that U.S. pork export numbers are higher than Chinese customs data indicate. Post suspects it is being smuggled through South China. According to traders, expensive transshipment fee, HK\$5,000 (US\$606) per container for pre-inspection and dock handling, resulted in traders' preference to ship directly to China or smuggle meat into China. As pork is more popular in the northern part of China, direct shipments normally arrive at northern ports. However, direct shipments to the Shenzhen port opposite to Hong Kong increasing. CIQ Shenzhen reported that in 2005, the Shenzhen port handled 72,696 MT of imported frozen meat, 94 percent were U.S. products.

Repeated pathogen and residue issues for U.S. pork exports to China

China requires a zero tolerance the pathogens Salmonella, Listeria and Ecoli (0-157) in 5 samples (total 25 grams) for all kinds of meats. If these pathogens are detected at entry ports, China will destroy or return the goods. One option for poultry and meat products held at ports due to detection of Salmonella pathogens is to treat it with radiation and sell directly to a poultry or meat processing plant.

The United States does not require zero tolerance for raw meats, except for ready-to-eat ground beef. Seven U.S. pork plants were delisted for eligible exports to China at the beginning of 2006. Five of them were re-listed after AQSIQ conducted a field study in some selected plants in March. Two are still suspended because of Ractopamine found in pork. Feed containing Ractopamine is strictly forbidden in China.

Because China's zero tolerance policy on raw meat imports is not a science-based, the United States initiated several bilateral technical talks with China. As a result of this cooperation, the two sides signed a Memorandum of Understanding (MOU) on SPS issues in April 2006 in Washington, D.C. during the bilateral 17th JCCT meeting. Within this MOU framework, USDA and AQSIQ initiated a Memorandum of Cooperation (MOC) last June for a bilateral notification mechanism and coordination on food safety detections on imported meat products. With all these efforts, AQSIQ now gives USDA and the meat plants a 45-60 day corrective period instead of delisting them immediately after food safety detections.

The U.S. Government continues to encourage Chinese authorities to modify the zero tolerance policy on raw meat. The two sides agreed to hold a food safety meeting at least once a year to try to find solutions on food safety issues of mutual concern. The following

chart is a brief summary of China's main requirements for imported meat products. Chinese traders can visit the website of the Ministry of Commerce (MOFCOME) to check food safety requirements of main trading partners, such as the United States, EU, Australia and China. (<http://kjsdrug.mofcom.gov.cn>)

Selected Summary of Pathogen and Residue Requirements for Meat Products in China	
Item for pathogens	Maximum Level
Salmonella	"0" for a 25-gram sample
Listeria	"0" for a 25-gram sample
Ecoli (0-157)	"0" for a 25-gram sample
Items for heavy metals in meat	Maximum Level (MLs)/(mg/kg)
Lead	0.2
Cadmium in animal meat	0.1
Cadmium in animal liver	0.5
Cadmium in animal kidney	1.0
Total mercury (Hg)	0.05
Arsenic	0.05
Chromium (including liver, kidney)	1.0
Selenium for meat	0.5
Selenium for kidney	3.0
Nitrite	3.0
Items for animal drug forbidden to use	"0" Tolerance
Ractopamine	
Clenbuterol	

Portfolios for food safety and animal health among Chinese government agencies

Food safety and animal health mainly fall under the jurisdiction of three Chinese Government Agencies: MOA, AQSIQ and the Ministry of Health (MOH). MOA is responsible for drafting policy and regulations on animal drug standards, foreign animal disease risk assessment, import feed registration including pet food, animal disease control and notification of epidemic animal diseases to the OIE. MOH is responsible for the laws and regulations regarding finished food products for domestic human consumption and reports human infection of epidemic diseases, including human infections of animal diseases, to the World Health Organization (WHO). AQSIQ is an enforcement body of laws and regulations for imports and exports. AQSIQ also negotiates trade protocols with partner countries. Normally, MOA and AQSIQ jointly announce a ban or the lifting of a ban on imported animal and animal products. It will take time for China to change its zero tolerance policy on imported meat products. Trading partners should send letters to China Administration of Standardization (SAC) requesting a standard change. If SAC accepts the request, it will establish a project and then call experts of various agencies to evaluate the request. Note that it takes time to coordinate among the Chinese government agencies.

Pork exports in 2007 forecast to increase 3 percent to 36,000 MT, China exports fresh pork to Hong Kong for the first time in many years

In 2005, Hong Kong, Japan and North Korea accounted for 67 percent of China's total pork exports to the world. Russia dropped from one of the top markets in 2003 to the six largest market due to problems controlling animal disease outbreak in China. The return of U.S. beef to Japan may result in a decrease in Chinese pork and poultry exports to Japan. China successfully delivered fresh pork to Hong Kong for the first time in August 2006. Because transportation between Hong Kong and China is inexpensive and convenient, China's fresh pork exports will be highly competitive in the HK market. China's fresh pork exports may also lead to decreased exports of live swine to Hong Kong.

PS&D tables for swine and pork

PSD Table

Country

China, Peoples
Republic of

Commodity

Animal Numbers,
Swine

(1000 HEAD)

Market Year Begin	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
		01/2005		01/2006		01/2007	MM/YYYY
TOTAL Beginning Stocks	481891	481891	500324	503348	519052	519052	(1000 HEAD)
Sow Beginning Stocks	42200	42900	43800	44900	0	46600	(1000 HEAD)
Production (Pig Crop)	675000	685399	700000	720000	0	750000	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Total Imports	3	3	3	3	0	3	(1000 HEAD)
TOTAL Imports	3	3	3	3	0	3	(1000 HEAD)
TOTAL SUPPLY	1156894	1167293	1200327	1223351	519052	1269055	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Total Exports	1769	1769	2000	1700	0	1600	(1000 HEAD)
TOTAL Exports	1769	1769	2000	1700	0	1600	(1000 HEAD)
Sow Slaughter	0	0	0	0	0	0	(1000 HEAD)
OTHER SLAUGHTER	653670	660986	678475	701399	0	740201	(1000 HEAD)
Total Slaughter	653670	660986	678475	701399	0	740201	(1000 HEAD)
Loss	1131	1190	800	1200	0	800	(1000 HEAD)
Ending Inventories	500324	503348	519052	519052	0	526454	(1000 HEAD)
TOTAL DISTRIBUTION	1156894	1167293	1200327	1223351	0	1269055	(1000 HEAD)
Calendar Yr. Imp. from U.S.	2	2	2	2	0	2	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

PSD Table

Country

China, Peoples
Republic of

Commodity

Meat, Swine

(1000 MT CWE)(1000 HEAD)

	2005 USDA Official [Old]	Revised Post Estimate[New]	2006 USDA Official [Old]	Estimate Post Estimate[New]	2007 USDA Official [Old]	Forecast Post Estimate[New]	UOM MM/YYYY
Market Year Begin	01/2005			01/2006		01/2007	
Slaughter (Reference)	653670	660986	678475	701399	0	740201	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	49685	50106	52000	53000	0	55800	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	41	41	50	36	0	34	(1000 MT CWE)
TOTAL Imports	41	41	50	36	0	34	(1000 MT CWE)
TOTAL SUPPLY	49726	50147	52050	53036	0	55834	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	331	331	300	350	0	360	(1000 MT CWE)
TOTAL Exports	331	331	300	350	0	360	(1000 MT CWE)
Human Dom.	49395	49816	51750	52686	0	55474	(1000 MT CWE)
Consumption							
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom.	49395	49816	51750	52686	0	55474	(1000 MT CWE)
Consumption							
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	49726	50147	52050	53036	0	55834	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	53	49	48	42	0	40	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Swine and pork trade matrix

China Swine Imports, 2004-2006 (Number of Head)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2004	2005	2005	2006	2006/05
World	1,898	3,238	1,303	1,383	6.14
United States	840	1,892	741	1,038	40.08
Denmark	578	0	0	562	0.00
Canada	480	1,032	562	165	-70.64
France	0	314	0	0	0.00
HS Code: 0103					
Source: WTA China Statistics					

China Pork Imports, 2004-2006 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2004	2005	2005	2006	2006/05
World	70,683	31,254	17,728	11,194	-36.86
Canada	23,968	19,178	11,049	8,283	-25.03
United States	29,585	6,750	4,217	1,001	-76.26
Denmark	17,000	4,654	2,298	228	-90.08
France	2	577	86	1,133	1217.44
Other	128	95	78	549	603.85
HS Code: 020311, 020312, 020319, 020321, 020322, 020329, 021011 021012, 021019, 160241, 160242 and 160249 (160249 excluded from the PS&D table)					
Source: WTA China Statistics					

Hong Kong Pork Re-Exports to China, 2004-2006 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2004	2005	2005	2006	2006/05
-The World-	59,655	5,997	3,019	5,434	79.99
Spain	4,261	657	295	1,174	297.97
Canada	9,899	1,589	799	1,065	33.29
Denmark	11,158	727	572	791	38.29
Germany, Fed Rep	8,068	525	449	687	53.01
Brazil	3,422	516	193	293	51.81
France	2,600	411	119	290	143.70
Netherlands	5,381	345	161	243	50.93
United States	8,800	581	266	122	-54.14
Other	6,066	646	165	769	366.06
HS Code: 020311, 020312, 020319, 020321, 020322, 020329, 021011 021012, 021019, 160241, 160242 and 60249 (160249 excluded from the PS&D table)					
Source of data: WTA Hong Kong Census and Statistics Department					

China Swine Exports, 2004-2006 (Numer of Head)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Destination	2004	2005	2005	2006	2006/05
World	1,972,911	1,768,772	872,650	823,554	-5.63
Hong Kong	1,853,771	1,646,605	815,028	763,805	-6.28
Macau	118,899	120,869	57,522	58,989	2.55
Korea North	75	1,198	0	594	0.00
Other	166	100	100	166	66.00
HS Code: 010310, 010391, 010392					
Source: GTA China Statistics					

China Pork Exports, 2004-2006 (Metric Tons)					
	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
Origin	2004	2005	2005	2006	2006/05
World	413,321	385,967	193,065	198,638	2.89
Hong Kong	116,810	114,375	54,186	62,681	15.68
Japan	53,139	68,714	27,983	35,614	27.27
Korea North	87,031	61,609	37,189	34,140	-8.20
Vietnam	23	874	24	15,179	63145.83
Singapore	21,319	16,327	9,256	6,855	-25.94
Russia	70,526	43,275	30,229	6,528	-78.40
Korea South	1,887	6,715	2,154	6,226	189.04
Philippines	8,197	9,354	4,065	5,253	29.23
Kazakhstan	248	7,686	1,326	4,376	230.02
Malaysia	14,656	12,249	6,561	4,235	-35.45
Kyrgyzstan	0	1,023	49	3,668	7385.71
Macau	4,403	5,411	2,488	2,976	19.61
Albania	3,571	6,224	3,491	2,634	-24.55
Indonesia	2,877	3,038	1,286	1,810	40.75
Moldova	11,048	13,512	3,431	889	-74.09
Ukraine	7,992	5,245	4,062	630	-84.49
Other	9,594	10,336	5,285	4,944	-6.45
HS Code: 020311, 020312, 020319, 020321, 020322, 020329, 021011 021012, 021019, 160241, 160242 and 160249 (160249 excluded in PS*D table)					
Source: WTA China Statistics					

China Wholesale Pork Prices On Average, 2004-2006 (US\$/KG)

				% Change
	2004	2005	2006	2006/05
January	1.40	1.65	1.52	-7.88
February	1.45	1.69	1.43	-15.38
March	1.49	1.63	1.36	-16.56
April	1.56	1.60	1.29	-19.38
May	1.57	1.59	1.23	-22.64
June	1.62	1.59	1.22	-23.27
July	1.66	1.61	1.35	-16.15
August	1.72	1.59		
September	1.75	1.55		
October	1.75	1.48		
November	1.67	1.42		
December	1.66	1.43		

Source: The Ministry of Agriculture

China Wholesale Hog Prices On Average, 2004-2006 (US\$/KG)

				% Change
	2004	2005	2006	2006/05
January	0.84	1.05	0.82	-21.90
February	0.88	1.05	0.75	-28.57
March	0.92	0.99	0.71	-28.28
April	0.96	0.94	0.57	-39.36
May	0.96	0.94	0.68	-27.66
June	1.02	0.89	0.65	-26.97
July	1.06	0.86	0.75	-12.79
August	1.10	0.87		
September	1.13	0.87		
October	1.12	0.77		
November	1.05	0.74		
December	1.02	0.76		

Source: The Ministry of Agriculture

China Wholesale Piglet Prices On Average, 2004-2006 (US\$/KG)

	2004	2005	2006	% Change 2006/05
January	1.20	1.44	0.97	-32.64
February	1.05	2.05	0.74	-63.90
March	1.13	1.71	1.00	-41.52
April	1.71	1.13	0.68	-39.82
May	1.21	1.25	0.63	-49.60
June	1.31	1.56	0.60	-61.54
July	1.48	1.32	0.60	-54.55
August	1.51	1.29		
September	1.66	0.87		
October	1.59	0.76		
November	1.50	0.76		
December	1.52	0.79		

Source: The Ministry of Agriculture