



Voluntary - Public

Date: 7/14/2009

GAIN Report Number: CH9028

China - Peoples Republic of

Post: Beijing

China's Agriculture Subsidies on the Rise

Report Categories:

Agricultural Situation

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Report Highlights:

In recent years, China has made the significant transition from taxing the rural sector to providing subsidies. Since 2006, the number, complexity, and size of Chinese agricultural subsidy programs have grown rapidly. According to the Chinese Government, subsidies will increase at least 20 percent from 2008 to 2009. China primarily utilizes direct payments, price supports, subsidized credit, and preferential tax policies as agricultural supports. The main beneficiaries of the various subsidies are the dairy, meat, and grain sectors. This report contains a compilation of China's support policies from 2005 to 2008.

Executive Summary:

In recent years, China has made the significant transition from taxing the rural sector to providing it subsidies. 2006 marked a watershed as China's centuries-old agricultural tax was removed and the structure of rural taxation and payment for local services and infrastructure dramatically shifted. Despite allowing farmers keep more of their income, the central government feels compelled to do more to increase assistance to local governments for the loss of the tax, speed modernization and higher farm productivity, and close the rural/urban income gap by supplementing rural incomes with direct and indirect subsidies. China's policy documents confirm the rapid growth of input subsidies, direct payments, price controls, and subsidized loans. From the analysis presented below, it is clear that the largest subsidies are currently being given to the grain, pork, and dairy sectors, but that additional programs and recipient groups are being added yearly.

Despite some Chinese government declarations about size of Chinese subsidies, this research suggests that the actual scope and scale has not been included in the current official estimate. This report compiles available information on

the scope of China's agricultural subsidies from 2005-2008 primarily based on USDA Foreign Agricultural Service and Economic Research Service (ERS) information, Chinese official press releases, and local press. Due to the lack of supporting information, this report does not make conclusions about China's total agricultural domestic support.

General Information:

China's Domestic Support Overview

For the past 60 years, China has pushed for strong economic growth through industrialization and developing urban areas. As the income gap between urban and rural populations widens, policy makers are looking "backwards" to address rural development and resolve social issues that are considered potentially disruptive to stability. The initial step towards improving rural farmers' lifestyles was to increase farm incomes by removing centuries old agricultural tax; in 2006 the agriculture tax was removed completely. At the same time that the agriculture tax was phased out, subsidies aimed at supplementing agricultural incomes began, including: input subsidies, direct payment, loan subsidies, and price supports.

On March 5, 2009 at the 11th National People's Conference, Premier Wen Jiabao addressed the government financial contribution to the sector by announcing that agriculture spending during 2008 totaled US \$87.3 billion (RMB 596 billion), an increase of 38 percent from the previous year. He noted that the spending including US \$15.1 billion (RMB 103 billion) used for direct subsidies, inputs, machinery, and improved crop varieties. In 2009, these categories of subsidies are slated to increase to \$18 billion (RMB 123 billion). (Note: The Appendix contains additional recent documents providing some context to government positions that support the growth in agricultural subsidies.)

Subsidy Themes

In January 2009, the Chinese Central Committee of the Communist Party issued 2009 Document No. 1 (GAIN CH9026), its annual summary of efforts planned to address the range of rural issues in the upcoming year. This document is instructive in describing the basic objectives of the subsidies and the structures the Chinese Government intends to pursue. Generally speaking, the priorities are 1) income support and 2) increased production.

According to Document No. 1, the following specific goals are prominent on the list of activities China is encouraging:

- Food Security – in particular grains
- Farmer income support
- Consolidation - especially livestock and agricultural processing sectors
- Increased Productivity – in all sectors through the use of innovation, technology, more inputs, and mechanization
- Creation of national champion enterprises
- Increasing rural financial services
- Rationalization and Conservation – encouraging concentration of certain industries in areas that have geographic or other comparative advantages and optimizing/conserving use of water and land resources

Additionally, Document No. 1 lists the following as the preferred subsidy formats:

- Price Supports
- Subsidized Credit
- Direct Payments
- Preferential tax schemes

Subsidy Research Limitations

Overviews of Chinese agricultural policies are an important source of information on the evolution of Chinese policy, with FAS commodity reports and ERS reports, such as “China’s Ongoing Agricultural Modernization: Challenges Remain After 30 Years of Reform” from April 2009, playing a key role in English language research. However, there have been very few comprehensive, current studies on Chinese subsidy policies because their history is fairly recent and their impact is only beginning to be felt. Moreover, partly because they are so new, there has not been notification of these measures by China to the World Trade Organization in the form of a standard domestic support summary. This report is not meant to substitute for detailed examination of China’s subsidies in the WTO or academia, but it is designed to begin discussion of a new phenomenon that is starting to have profound impacts on China’s agricultural development.

Several hurdles face researchers in this area and necessarily make any analysis of the scope and breadth of Chinese agricultural subsidies difficult. The following issues should be taken into account by readers of this document and be considered caveats relating to the fullness and accuracy of the data in this report. While all the programs listed in the report are confirmed through government sources or government released information, the following issues are the most common reasons why certain information is not available or could not be confirmed:

- **Transparency:** Most Chinese subsidy program details are not public information. While the program itself may be announced publically, implementing regulations are rarely public. The type of information absent often includes the value of the program, participant eligibility, number of participants, or how the subsidy is distributed.
- **Uniformity of Eligibility:** Unlike many countries, most Chinese subsidies do not have universal eligibility. There are simply too many farmers. Unpublished criteria or eligibility differences between provinces make it difficult to ascertain the total number of participants or other fixed data points (Ha/animals/kg) which to use in calculating the total subsidy amount.
- **Block Grants:** Many subsidies are distributed to provinces for administration. The province is responsible for developing eligibility and distribution criteria. Depending on the program, it may be implemented in a different way in each province or even county.
- **Sub-national Subsidies:** This information is almost totally absent save local press releases and on-farm intelligence.
- **Loan/Insurance Programs Opaque:** Subsidized loans or insurance subsidies are particularly difficult to analyze due to the use unpublished loan rates or insurance premiums.

Table 1. Product Specific Support Summary

Domestic Support - Product Specific Support

Product	Year	Measure Type	Subsidy Amount RBM Million	Subsidy Amount US\$ Million*
Cotton	2007	Direct Payment (Seed)	500	73
Cotton	2008	Direct Payment (Transportation)	N/A	N/A
Cotton	2007	Price Support/VAT Rebate Policy	N/A	N/A
Cotton	2008	Price Support/VAT Rebate Policy	N/A	N/A
Cotton	2009	Price Support/VAT Rebate Policy	N/A	N/A
Cotton	2006	Loan Subsidy	N/A	N/A
Cotton	2007	Loan Subsidy	N/A	N/A
Cotton	2007	Loan Subsidy	N/A	N/A

Cotton	2006	Total	N/A	N/A
Cotton	2007	Total	500	73
Cotton	2008	Total	N/A	N/A
Cotton	2009	Total	N/A	N/A
Oilseeds	2008	Direct Payment	N/A	N/A
Oilseeds	2007	Input Subsidy (Seed)	N/A	N/A
Oilseeds	2007	Input Subsidy (Machinery/Seed)	96 – 144	14 – 21
Oilseeds	2008	Input Subsidy (Machinery/Seed)	386 – 578	56 – 85
Oilseeds	2007	Insurance Subsidy	N/A	N/A
Oilseeds	2007	Total	N/A	N/A
Oilseeds	2008	Total	N/A	N/A
Walnuts	2007	Direct Payments (Production)	N/A	N/A
Walnuts	2006 - 2010	Direct Payments (Forestation)	N/A	N/A
Walnuts	2006	Price Support	N/A	N/A
Walnuts	2006	Loan Subsidy	N/A	N/A
Walnuts	2006 - 2010	Total	N/A	N/A
Pork	2006	Direct Payment (Blue Ear Recovery)	2,345	343
Pork	2007	Direct Payment (Blue Ear Recovery)	4,689	686
Pork	2008	Direct Payment (Blue Ear Recovery)	4,689	686
Pork	2007	Direct Payment (Production)	1,500	219
Pork	2007	Direct Payment (Production)	2,350	343
Pork	2008	Direct Payment (Production)	1,960	286
Pork	2009	Direct Payment (Production)	4,000	585
Pork	2008	Direct Payment (A.I.)	360	53
Pork	2008	Direct Payment (Farm Size)	N/A	N/A
Pork	2007	Loan Subsidy	N/A	N/A
Pork	2008	Loan Subsidy	N/A	N/A
Pork	2007	Insurance Subsidy	1,180	173
Pork	2008	Insurance Subsidy	2,280	334
Pork	January 2009	Insurance Subsidy	12	1.75
Pork	2008	Insurance Subsidy (Finishing)	290	42
Pork	2006	Total	N/A	N/A
Pork	2007	Total	N/A	N/A
Pork	2008	Total	N/A	N/A
Pork	2009	Total	N/A	N/A
Swine	2008	Direct Payment (Meat Subsidies)	N/A	N/A
Swine	2008	Total	N/A	N/A
Dairy	2007	Direct Payment	N/A	N/A
Dairy	2005	Input Subsidy	N/A	N/A
Dairy	2006	Input Subsidy	N/A	N/A
Dairy	2007	Input Subsidy	N/A	N/A
Dairy	2008	Input Subsidy	N/A	N/A
Dairy	2006	Input Subsidy	100	15
Dairy	2007	Input Subsidy	N/A	N/A
Dairy	2007	Input Subsidy	N/A	N/A
Dairy	2007	Insurance Subsidy	10	1.5
Dairy	2005	Total	N/A	N/A

Dairy	2006	Total	100	15
Dairy	2007	Total	10	1.5
Dairy	2008	Total	N/A	N/A
Hides and Leather	2006	Price Support	N/A	N/A
Hides and Leather	2007	Price Support	N/A	N/A
Hides and Leather	2008	Price Support	N/A	N/A
Hides and Leather	2006	Total	N/A	N/A
Hides and Leather	2007	Total	N/A	N/A
Hides and Leather	2008	Total	N/A	N/A
Grains	2005	Direct Payment	13,200	1,930
Grains	2006	Direct Payment	14,200	2,076
Grains	2007	Direct Payment	15,120	2,211
Grains	2008	Direct Payment	15,120	2,211
Grains	2009	Direct Payment	15,120	2,211
Grains	2004	Seed Subsidy	2,840	415
Grains	2005	Seed Subsidy	3,880	556
Grains	2006	Seed Subsidy	4,070	595
Grains	2007	Seed Subsidy	6,650	972
Grains	2008	Seed Subsidy	12,070	1,765
Grains	2005	Machinery Subsidy	300	44
Grains	2005	Machinery Subsidy	82	12
Grains	2006	Machinery Subsidy	600	88
Grains	2006	Machinery Subsidy	1,140	167
Grains	2007	Machinery Subsidy	2,000	292
Grains	2007	Machinery Subsidy	1,300	190
Grains	2008	Machinery Subsidy	3,990	583
Grains	2009	Machinery Subsidy	10,060	1,470
Grains	2006	Fuel/Fertilizer	12,500	1,827
Grains	2007	Fuel/Fertilizer	27,600	4,035
Grains	2008	Fuel/Fertilizer	63,800	9,327
Grains	2009	Fuel/Fertilizer	72,001	10,526
Grains	2004	Total	2,840	415
Grains	2005	Total	17,426	2,548
Grains	2006	Total	32,510	4,753
Grains	2007	Total	52,670	7,700
Grains	2008	Total	94,980	13,886
Grains	2009	Total	82,061	11,997
Biofuels	2005	Input Subsidy	N/A	N/A
Biofuels	2006	Input Subsidy	N/A	N/A
Biofuels	2007	Input Subsidy	N/A	N/A
Citrus	2006	Direct Payment	300	44
Citrus	2007	Direct Payment	300	44
Citrus	2008	Direct Payment	300	44
Citrus	2009	Direct Payment	300	44

Citrus	2010 (expected)	Direct Payment	300	44
Citrus	2006	Input Subsidy	N/A	N/A
Citrus	2006	Total	300	44
Citrus	2007	Total	300	44
Citrus	2008	Total	300	44
Citrus	2009	Total	300	44
Citrus	2010	Total (expected)	300	44
Canned Deciduous Fruit	2006	Price Support	N/A	N/A
Sugar	2008	Price Support	N/A	N/A
Canned Deciduous Fruit	2006	Total	N/A	N/A
Asparagus	2006	Loan Subsidy	N/A	N/A
Asparagus	2006	Total	N/A	N/A
Tomato	2006	Loan Subsidy	N/A	N/A
Tomato	2006	Total	N/A	N/A

*Calculated using a 6.8 RMB = 1 U.S.\$ exchange rate

Table 2. Non-Product Specific Domestic Support Measures

Program	Amount (RMB)	Amount (US \$ millions)	Description of Program
Tree Nut Public Research Institutes	N/A	N/A	Provincial governments fund public research institutes and agricultural universities in order to develop standardized farming practices and to build demonstration farms to exhibit these standards. Research projects also focus on developing new or improving existing varieties. (Source: CH7071)
World Bank Project to Improve Dairy Industry			This project is reported to include funding of about RMB 1.48 billion (\$189.7 million). The World Bank approved a \$100 million loan in January 2006 and the provincial government will provide another \$100 million. The project includes the "Dairy Cow Production" program for the construction of seven dairy farms each raising 1,000 cows and building 125 cow farm "gardens" for demonstration purposes. A total of 40,000 head will be bought, of which 40 percent will be imported from abroad. Second, a "Service System" will focus on dairy herd improvement (DHI) with the construction of one lab and one data processing center. At least 800,000 straws of frozen bovine semen will be imported from abroad within five years. Third, "Environmental Protection" will mainly use an Italian Government's grant valued at RMB 5.5 million (\$705,000) to improve crop stem production and cow waste treatment.
Opinion on Promoting Sustainable and Healthy	N/A	N/A	On September 30, 2007, MOA announced the implementation measures to carry out Memo #31. It

Development of the Dairy Industry [2007] Memo #31 - September 27, 2007			will also subsidize standardized large commercial dairy farms to improve water, electricity, waste treatment, disease control, and milking facilities. Farms culling cows for disease control reasons are eligible for a subsidy. (Source: CH7080)
Supply Chain Improvements Program 1	N/A	N/A	The Ministry of Commerce launched a program in February 2006 to renovate and upgrade 100 large wholesale markets and 100 retail markets for farm produce through direct funding and subsidized loans totaling US\$62 million. The program is aimed at facilitating the sales of agriculture products through improved distribution channels. (Source: CH6078)
Supply Chain Improvements Program 2	N/A	N/A	The Ministry of Agriculture and provincial departments of agriculture to provide technical support to fruit farmers. Support includes training and guidance on fertilization and pest/disease control, as well as drafting and implementing food and agriculture standards such as those for organic products, “green food,” and “wholesome food.” In some cases, the government is helping build demonstration farms to promote good farming practices. A central government fund focused on subsidizing apple bagging in key producing areas was established in 2005 with the aim of encouraging farmers to bag apples on the tree to improve quality. In 2005, the Chinese Ministry of Agriculture (MOA) initiated an apple bagging subsidy program in producing areas with export potential. Similar to apples and citrus, the central government is working on identifying advantageous areas for pear production. The Ministry of Commerce issued the first Five-Year Development program (2006-2010) for Agricultural Exports, in which the government vows to focus its support on developing fruit processing capacity and exploring U.S. and European markets. In a joint announcement issued by the Ministry of Finance and MOFCOM in July 2006, the government decided to provide subsidized loans and direct subsidies to construction projects of modern distribution centers, cold storages, and wholesale markets. (Source: CH6078)
Supply Chain Improvements Program 3	N/A	N/A	The central government provided no direct support to fruit producers, but it did provide analytical and policy support, such as identifying advantageous planting areas for certain fruit. In 2003, the Ministry of Agriculture issued a five-year-plan identifying two geographic areas as being the most suitable for apple production (see CH3121). A similar plan was formulated for pear and grape production. (Source: CH7086)
Supply Chain Improvements Program 4	N/A	N/A	Although a few agricultural processing enterprises received subsidized loans from state-owned banks, such cases were rare in the fruit-canning sector. The “Five-Year-Plan” (2006-2010) for the processing food sector published by the Ministry of Agriculture

		envisions processing facilities for canned fruit and vegetables being built around large cities and in major growing regions in Hebei, Zhejiang, Anhui, Fujian, Shandong, Hunan and Xijiang provinces. The plan provides guidelines and sets targets for the agriculture-related processing industry, actual incentives or legislation were not publically released. Industry sources indicated one of the supportive measures included increasing the tax rebate rate for exported farm products, including processed products. (Source: CH7026)
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Commodity Specific Domestic Support

Cotton

Table 3. Cotton Direct Payments: Transportation and Seed Subsidies

Direct Payment	Payment / unit (RMB)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Seed Subsidy 2007	15 RMB/Mu	33.33 MMu	500 million			Supported by (CTIA)
Transportation 2008	N/A	N/A	N/A	Outbound shipments from Xinjiang		

Direct Payments

Seed Subsidy: In 2007, the GOC began to subsidize cotton production through a multi-year “seed subsidy” program. Supported by China Textile Industry Association (CTIA), Ministry of Agriculture (MOA) appropriated a total of RMB 500 million (U.S. \$73 million) to large cotton seed producers and traders aimed at stabilizing the planted area by allocating subsidies for “high quality varieties” through an open bidding process. It is expected that cotton quality will become more uniform as only those eligible for subsidies are “high quality variety” seeds. The rate of allocation is approximately 15 RMB/Mu (U.S. \$32/Ha). (Source: GAIN CH8037)

Oilseeds

On September 19, 2007, the Chinese Premier chaired a meeting on promoting domestic oilseeds and dairy production where the following measures on developing oilseed production were presented:

Input Subsidies

Seed Subsidies: Northeast Provinces and Inner Mongolia subsidized soybean area increased from 10 million Mu (0.67 MHa) to 40 million Mu (2.67 MHa) and the Yangtze River region received a seed subsidy of 10 RMB/Mu (U.S. \$21/Ha) from the central government. (Source: CH8010)

Machinery/Seed Subsidies: The GOC initiated a new plan to boost domestic oilseeds production, including soybeans, rapeseed, and peanuts. According to MOA, the soybean area receiving seed and machinery subsidies (U.S. \$20-30/Ha) expanded to 2.7 MHa in MY08/09 from 670,000 Ha in MY07/08, in increase in over 300%. This plan is separate from the soybean subsidy. (Source: CH8010)

Table 7. Oilseed Input Subsidy: Machinery and Seed

Input Subsidy	Payment / unit (RMB)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Seed 2007			N/A			
Northeast/Inner Mongolia	N/A	40.05 MMu	N/A		Central Gov.	
Yangze River region	10/Mu	N/A	N/A		Central Gov.	
Machinery/Seed Subsidy 2007	9.5 – 14/Mu	10.05 MMu	96 – 144 million			
Machinery/Seed Subsidy 2008	9.5 – 14/Mu	40.5 MMu	386 – 578 million			

Insurance Subsidy

Rapeseed Insurance Subsidy: The implementation of a trial oilseed crop insurance program was implemented in 2008. Public information has not been released relating to the total value of the subsidy, the amount of land or production eligible, or the level of subsidy relative to commercial insurance. (Source: CH8010)

Table 8. Soybean Insurance Subsidy

Insurance Subsidy	(Market ins. premium/unit) – (sub. ins. Premium/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Rapeseed Insurance Subsidy (trial) 2007	N/A	N/A	N/A			

Tree nuts – Walnuts**Table 9. Walnut Direct Payments: Production and Forestation Subsidies**

Direct Payments	Payment / unit (RMB/Mu)	Total units (Mu)	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Production 2007			N/A			
Yunnan (Dayao) & Shanxi	N/A 47.6/Mu	.13 MMu N/A	N/A N/A	Orchards > 1Mu in size	Local Gov.	Technical services, cash, or subsidized seedlings
Forestation 2006 - 2010	N/A	N/A	137.7 billion	Farmers converting grain corps on slope land into forest grasslands	Provincial level	

Direct Payments

Production: Direct support for walnut production is often administered by local or provincial governments. County governments in the major producing provinces of Yunnan and Shanxi provide cash or subsidized seedlings to walnut growers. The Yunnan provincial government set a short-term goal of dedicating a total of two million hectares to walnuts and producing 600,000 MT by 2012. (Source: CH8081)

Forestation: Although the central government encourages walnut planting as a way of generating income for farmers, it does not provide subsidies or support programs for walnut production. Some local governments in key production

areas, however, provide free or subsidized seedlings to walnut growers. A national forestation program initiated in 1999 continues to facilitate plantations of economic trees (cash crops), including walnuts (refer to Tree Nut Annuals CH6067 and CH5062 for details about the program). The program provides cash subsidies to farmers who convert their grain crops on slope land into forestry and grassland to prevent soil erosion. As walnuts, chestnuts and jujube are classified as both ecological and economic plants, farmers choose to plant these types of trees in order to receive subsidies that can last for as long as eight years before new plantings start bearing fruit. While targeted slope areas under this program are decreasing, the official media reported that RMB 137.7 billion (U.S. \$17.2 billion) will be allocated to the conversion program during 11th Five-Year-Plan (2006-2010). Substantial support for walnut production occurs at the provincial level or below, depending on the local government's resources and the importance attached to production. Often provincial support is implemented through technical services, free or subsidized seedlings, and in some cases, cash subsidies. For example, in the major walnut producing area of Yunnan Province, the county government of Dayao provides U.S. \$100 per hectare to walnut growers whose orchards measure more than one mu (15 mu = 1 hectare). (Source: CH7071, CH6067)

Table 10. Walnut Price Support

Price Support	Tax Rebate	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
VAT Rebate 2006	5%	N/A	Exporters		

Price Support

Tax Rebates: Import tariffs for tree nuts reached final bound rates in 2004 after China joined the WTO. Traders complain that tariffs remain high, especially for in-shell almonds and walnuts. In addition to the customs duties, importers need to pay 13 percent VAT. As a result, imported nuts are priced much higher than domestically produced ones. Chinese nut exporters receive a five percent VAT rebate after their products have been exported. Since current policy requires exporters to provide evidence showing their nuts are sourced from farmers, exporters argue that the policy is impractical and cumbersome. (Source: CH6067)

Table 11. Walnut Loan Subsidy

Loan Subsidy	(Market int. rate) - (sub. Int. rate)	Value of loans made	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Purchasing Loans 2006	N/A	N/A	N/A	Exporters purchasing raw material		

Loan Subsidy

Purchasing Loans: Exporters can receive preferential bank loans to purchase raw materials. (Source: CH6067)

Livestock - Swine

In June 2007, the MOF announced a total subsidy amount of RMB 6.5 billion (U.S. \$886.7 million), for various programs. The central government contributing RMB 3.8 billion (U.S. \$506.7 million) of that total sum. (Note: It is unclear if the total contribution to pork subsidies noted by the Ministry of Finance incorporates the total of indirect and direct central government subsidies to the pork sector.)

Table 12. Livestock Direct Payments: Production Subsidy

Direct Payments	Payment / unit	Total units	Total Subsidy	Eligibility	Distribution	Legal
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	(RMB/unit)		Value (RMB)			Framework
Blue Ear Recovery Production Subsidy 2006	50 / head	46.89 million	2,345 million			
Blue Ear Recovery Production Subsidy 2007	100 / head	46.89 million	4,689 million			
Blue Ear Recovery Production Subsidy 2008	100 / head	46.89 million	4,689 million			
Production Subsidy 2007	N/A	N/A	1.5 billion	253 counties	Central government	50% selling 25% slaughter 25% inventory sectors
Production Subsidy July 2006 – June 2007	50 / head	47 million	2.35 billion			
Production Subsidy June 2007 - May 2008	50 / head	39.2 million (est.)	1.96 billion			
Production Subsidy June 2008 – May 2009	100 / head	40 Million (est.)	4.00 billion			
Artificial Insemination Straws 2008	40 / head (est.)	9 million head	360 million	200 Counties		

Direct Payments

Blue Ear Recovery: From July 2006 to June 2007, the government provided RMB 50 (U.S. \$7) cash for swine farmers for each producing sow, which benefited approximately 46.89 million head. The project expanded to RMB 100 (U.S. \$14.1) during July 2007 to June 2009. (Source: CH8014)

Production Subsidy: The MOF announced on September 17, 2007 that the Central Government distributed RMB 1.5 billion (U.S. \$200 million) to 253 large counties selling fattened pigs outside their production region. The subsidy was allocated accordingly: 50 percent to sellers, 25 percent to slaughter, and 25 percent to inventory sector, respectively. Information related to how this program was implemented is not available. (Source: CH7076)

Table 13. Examples of Sow Subsidy Implementation

Location	Date subsidy distributed	Description
Shanxi Province	August 2007	Standard breeding sow subsidy of RMB 50 per head for 530,000 sows, 60 percent from the central government and the remainder divided among provincial (16 percent), prefecture and county governments (12 percent each).
Guangxi Province	July-Sept 2007	Subsidies for 2.48 million sows distributed by end of September.
Minhe County, Qinghai Province	July-Aug 2007	RMB 346,750 issued to 4,461 farmers for 6,935 sows by Aug 21.
Harbin City, Heilongjiang Province	July 1, 2008	Distributed subsidies to 100,000 farms for 333,000 breeding sows (8 months or older) in 2007; officials instructed to raise subsidy to RBM 100 in 2008.
Pinghu City, Zhejiang Province	Sept 30, 2008	Sow subsidy RMB100 split among province (20%), city (50%), town or street committee (30%) to be distributed by bank card or by deducting it from other fees.
Wusheng County, Sichuan	February 2009	First batch of funds had been allocated to the county and would be doled out to township financial officials.
Wancheng City, Henan Province	Dec 31, 2008	Subsidy based on the sow inventory as of December 10, 2008, and would not change if the farmer bought or sold sows.

Source: News reports compiled by ERS.

Table 14. Swine Loan Subsidy: Production Loans

Loan Subsidy	(Market int. rate) – (sub. Int. rate)	Value of loans made	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Standardized Production Loan Subsidy 2007	N/A	N/A	2.5 billion	Large producers only		
Standardized Production Loan Subsidy 2008	N/A	N/A	2.5 billion	Large producers only		

Loan Subsidy

Standardized Production Loan Subsidy: In 2007 and 2008, the government invested RMB 2.5 billion (U.S. \$352 million) to support standardized animal production loans. To ease farmers' cash flow, the bank loan pay back period was extended from one to three years for swine farmers in difficult financial situations. Backyard and small-sized operations were not eligible to receive benefits. (Source: CH8014)

Table 15. Livestock Insurance Subsidy: Swine Breeding Sow Subsidy

Insurance Subsidy	(Market ins. premium/unit) – (sub. ins. Premium/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Breeding Sows Insurance Subsidy 2007	(60 – 12) = 48/head	24.59 million heads	1,180 million	Piglets and fattening swine are excluded	Central and local government	
Breeding Sows Insurance Subsidy 2008	(60 – 12) = 48/head	47.5 million	2,280 million			Balance of payment covered by government
Breeding Sows Insurance Subsidy January 2009	(60 – 12) = 48/head	240,000	12 million			Balance of payment covered by government
Finishing Pigs Insurance Subsidy 2008 Hunan	(17.5 – 10.5) = 7/head	41.4 million	290 million			

Insurance Subsidy

Breeding Sows Insurance Subsidy: In 2007 through 2009, breeding sow farmers paid RMB 12 (U.S. \$1.80) per head out of a total RMB 60 (U.S. \$8.70) premium required to receive RMB 1,000 (U.S. \$145) in insurance coverage per head. Piglets and fattening swine were excluded from this program. The balance of payment of RMB 48 was covered by the government in the form of a subsidy. This project benefited 24.59 million producing sows in 2007 and 47.5 million heads in 2008. As of January 2009, 240,000 sows received insurance subsidies. (Source: CH8078, CH8014, and CH7076)

Finishing Pigs Insurance Subsidy: In 2008, the government began a pilot program launched in Hunan Province supplying insurance subsidies to finishing pigs. Eligible farms must at least slaughter 50 pigs weighing over seven kg. The coverage was up to RMB 500 (U.S. \$74) per pig with a premium of RMB 17.5. The actual indemnity paid was based on the pig’s actual weight at the time of loss. If there was a disease outbreak that requires large-scale slaughter of hogs, the indemnity was RMB 200 per pig. The central and provincial government paid a subsidy of 10 percent of the premium, and the prefecture and county governments will also pay subsidies of no less than 10 percent, thus a total of at least 40 percent of the premium would be subsidized. The provincial branches of two State-owned insurance companies were selected to offer the insurance. The program covered half of the province’s hogs with annual insurance premiums of RMB 726 million (U.S. \$107 million). The central government subsidy is anticipated to be RMB 72.6 million. (Source: China’s Policies Aim to Engineer a “Modern” Hog Sector, Fred Gale, Zhihao Zheng, and Shida Henneberry)

Other Livestock Support Programs

New National Swine Price Alert System and Subsidy Program

On January 9, 2009 the government introduced a new market intervention scheme called the “National Swine Price Alert System to Prevent Extreme Price Falls (temporary implementation)”.

Main Content: The national swine price alert system is based on a ratio of the live market hog price to the corn price. The targets are: hog and grain ratio shall not be lower than 5.5:1, piglet to carcass ratio not lower than 0.7:1, annual hog inventory not be lower than 410 million head, and productive sow inventory not be lower than 41 million head. NDRC will announce hog producer prices and corn wholesale prices each week. MOA will announce piglet prices weekly and every month provide inventory numbers of swine and productive sows, as well as the swine disease situation. MOFCOM will announce ex-slaughterhouse carcass prices weekly, swine slaughter numbers monthly (identified slaughterhouses), and disinfection treatment of disease-infected swine at slaughterhouses quarterly. (Source: CH9017)

Table 16. Hog Subsidies Based on Hog to Corn Price Ratios

Hog to Corn Ratio	Classification	Subsidies	Other Measures
>9	Red Zone	The government may provide pork subsidies to low income consumers.	The central government may start releasing pork from central reserves.
6.0 – 9.0	Green Zone		Central purchases pork reserves mainly used for disaster relief or urgent cases.
5.5 – 6.0	Blue Zone		Market alerts are announced. If prices remain for 4 weeks, the central and local governments may enter the market and buy pork to increase reserves.
5.1 – 5.5	Yellow Zone	If prices fall below 5.5, the government provides discounted interest rate to encourage large domestic pork processors to increase their frozen stocks and processed products.	If prices remain at 5.1-5.5 for four weeks, the central government will further increase central reserves, and request main sales areas and large-medium cities along coastal areas to increase local government frozen pork reserves; encourage local government to increase live hog reserves.
<5.1	Red Zone	The government provides an additional one-time temporary subsidy at RMB100 (U.S. \$14.6) to a productive sow; provides a one-time temporary subsidy at RMB100 to a breeding boar, all from identified	The central government will make heavy purchases for reserves. If prices prolong even after government heavy purchase, and sows are over slaughtered, China may constrain imports to reduce supply and stimulate exports.

	farms.	
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Financial support for standardized commercial-scale hog production

One of the government’s main strategies is to move hog production from traditional scattered “backyard” production to a more commercialized sector. “Backyard” production is commonly defined as farms raising less than 50 head, usually raised as a sideline activity. “Commercial” scale production includes small-scale farmers who raise 50 head or more and specialize in commercial hog production, larger farms operated by individuals, and large-scale farms operated by companies that raise thousands of hogs.

In March 2008, the National Development and Reform Commission issued a plan to promote standardized, large-scale hog and poultry breeding farms and zones. Farms operated by licensed companies with diverse ownership that raised more than 500 sows were eligible for support that could be used for animal housing, laboratories, manure treatment, performance measurement, disease prevention and control facilities and equipment purchases. Government funds were allocated to farms based on the farm’s herd size. For example, the central government reportedly set the level of direct support from RMB 200,000 (U.S. \$26,800) to RMB 1 million (U.S. \$134,000) for standardized hog farms according to four different herd sizes (see table). Local governments are expected to contribute funds in wealthy provinces and special support was earmarked for poor provinces.

The Ministry of Agriculture has a campaign to encourage small-scale farmers to concentrate their hogs in livestock production zones (yangzhi xiaoqu), a designated area in a village for producers to keep their livestock. Farmers have to raise at least 50 hogs to participate in a production zone. Guidelines specify that hog production zones are to be situated far from cities or residential areas of villages, far from highways, in areas with clean water, air, and soil, and in proximity to a processing facility or market. China’s government has allocated RMB 5 billion (U.S. \$704 million) from 2008 to 2009 to support large-scale commercial firms and livestock production zones. The Ministry of Agriculture’s target was to establish 60,000 livestock production zones (including zones for dairy, beef cattle, and other livestock) by the end of 2008. Provinces and local governments have their own targets. Wuhan City in Hubei Province, for example, aims to have 82 such zones by 2010 with the stated goal of “taking the large-scale husbandry road,” stabilizing supply and demand, while simultaneously addressing environmental pollution issues.

Table 17. Large Scale Hog Production Subsidies

Direct Payment	Payment / Unit (RMB)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Large Farm Size Subsidy	200,000	N/A	N/A	Farm Size 500-999 heads		
Large Farm Size Subsidy	400,000	N/A	N/A	Farm Size 1,000-1999 heads		
Large Farm Size Subsidy	600,000	N/A	N/A	Farm Size 2,000-2,999 heads		
Large Farm Size Subsidy	800,000	N/A	N/A	Farm Size 3,000 or more heads		

Income-tax regulations on large-scale livestock-raising operations

Hog production in China has long been dominated by small-scale farmers, but recent development strategies have sought to attract companies and new sources of investment to the sector. A 2006 article in the Economic Observer newspaper noted uneven tax treatment of hog producers. The relatively few state-owned companies and “dragon head” companies received tax concessions and the large numbers of small farmers were able to evade most taxes. Private companies engaged in hog production were discouraged from entering the sector since they would be liable for a 33-percent tax. The article also reported some cases where local officials had come to collect taxes from companies that had

initially been promised tax concessions.

A new tax break for large companies is intended to attract more investment to livestock production. In December 2007, the State Council announced a “Regulation on Implementing the Law on Corporate Income Tax” that exempts firms engaging in raising livestock and poultry from the 25-percent corporate income tax. The regulation took effect in January 2008. See GAIN Report CH9003 for more details on the Corporate Income Tax exceptions for agriculture. (Source: China’s Policies Aim to Engineer a “Modern” Hog Sector, Fred Gale, Zhihao Zheng, and Shida Henneberry)

Swine Meat

In 2008, the government provided meat subsidies to China’s lowest-income consumers, varying from 30-60 RMB (U.S. \$4.30 to \$8.70) per person per month depending on income levels. Many low or middle-income consumers who do not receive subsidies have been forced to switch to lower priced broiler meat as a substitute for pork and beef. (Source: CH8078)

Table 18. Direct Payments: Meat Subsidies

Direct Payment	Payment / Unit (RMB)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Meat Subsidies	30 - 60	N/A	N/A	Lowest-income consumers	Central government	Per month

Dairy

Table 19. Dairy Direct Payments: Heifer Production Subsidies

Direct Payments	Payment / unit (RMB)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Heifer production 2007	500	N/A	N/A			Registered with official breeding centers under MOA

Direct Payments

Heifer Production: On September 30, 2007, MOA announced the implementation measures to carry out Memo #31. Starting in 2007, the Chinese Government subsidized dairy farmers with RMB 500 (U.S. \$72.50) for each high quality heifer with bloodlines tested and registered by official breeding centers under MOA. (Source: CH8078)

Table 20. Dairy Input Subsidies: Genetic Improvements

Input Subsidy	(Market RMB/unit) – (sub. RMB/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Artificial insemination straws 2005	(N/A) – (10/straw) = N/A	N/A	N/A		MOA	Four major milk producing provinces
Artificial insemination straws 2006	(N/A) – (15/straw) = N/A	N/A	N/A		Central Government	
Artificial insemination straws 2007	(N/A) – (15/straw) = N/A	N/A	N/A			
Artificial insemination straws 2008	(N/A) – (15/straw)	N/A	N/A			

Genetic Improvement 2006	N/A	N/A	100 million		22 Provinces	20% Used for importing frozen semen or embryos
Purchase of high quality cows 2007	20 – 30% subsidy	N/A	N/A			
Purchase of high quality cows 2007	1,500	N/A	N/A			

Input Subsidy

Artificial Insemination Straws: In 2005, MOA began providing a subsidy of RMB 20 (U.S. \$2.5) to purchase two straws of frozen semen from high quality Holstein bulls for artificial insemination of Holstein cows in four major milk producing provinces. In early 2006, this rate increased to RMB 30 (U.S. \$4) for two straws and continued through 2008. (Source: CH7080, CH6074, CH8078, CH7080)

Genetic Improvement: During 2006, the Chinese Central Government implemented a financial subsidy program in 22 provinces for dairy cow genetic improvement valued at RMB 100 million (U.S. \$12.7 million) a year. Twenty percent of the subsidy was used for importing dairy cattle frozen semen or embryos. Some local provincial governments had similar programs. (Source: CH6074)

Purchase of High Quality Cows: In 2007, subsidies to purchase high quality cows were initiated but the amounts and types of purchases varied by province. For example, some local governments provided 20-30 percent subsidies for farmers to buy high quality cows. Heilongjiang Province, one of the largest dairy producing provinces, initiated a RMB 0.1 (U.S. \$1.3 cents) per kilogram of raw milk set-aside fee as a dairy cow risk fund to help dairy farmers when necessary. Some provinces provided RMB 1,500 (U.S. \$200) to farmers to buy Holstein or other high-quality cows. (Source: CH7080)

Table 21. Dairy Insurance Subsidy: Cow Insurance

Insurance Subsidy	(Market ins. premium/unit) – (sub. ins. Premium/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Cow Insurance 2007	(N/A) – (200) = N/A	N/A	10 million	Production > 5MT per year	Provincial level	Both provincial and county government contribute RMB 100 each

Insurance Subsidy

Cow Insurance: In September 2007, Heilongjiang Province allocated RMB 10 million (U.S. \$1.3 million) to subsidize dairy cow insurance requiring that the provincial government, county government, and a dairy farmer to pay RMB 100 (U.S. \$13) each to buy insurance for a cow that produces at least 5 MT of milk a year. (Source: CH7080)

Hides and Leather

Table 22. Hides and Leather Price Supports: Export Support Programs

Price Support	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Export Support Programs 2006	N/A			

Export Support Programs 2007	N/A			
Export Support Programs 2008	N/A			

Price Support

Export Support Program: In January 2006, the Chinese Government eliminated hides and skins products from preferential export programs. However, in September, China loosened these restrictions and partially re-instituted the same export support programs for the most high value leather products. China issued Decree No. 63 “Adjustment on Policy on Processing Trade of Hides and Skins” and Announcement No. 390 “Relevant Issues about Processing Trade of Hides and Skins” to implement these changes. According to these two documents, this partial policy reversal was made “in an effort to maintain the highly developed industry relations between the upstream and downstream chains of the leather industry.” The new policy took effect on September 15, 2006 and remained in effect through December 31, 2008. (Source: CH6098)

Grain

According to the Ministry of Finance, the direct grain subsidy (payment to the grain farmer), seed subsidy, farm machinery subsidy, and comprehensive subsidy totaled RMB 51.27 billion (U.S. \$6.84 billion) in 2007, up 63 percent from the previous year. In 2008, government spending on the agricultural sector is expected to be higher than the previous year. The budget will be approved and announced after National People’s Congress in March. (Source: CH8012)

The grain direct subsidy (payment to the grain farmer), seed subsidy, farm machinery subsidy, comprehensive subsidy and other financial awards to major grain producing counties totaled RMB 39.37 billion (U.S. \$5.05 billion) in 2006, according to the state media. (Source: CH7015)

Table 23. Grain Direct Payment Subsidies

Direct Payments	Payment / unit (RMB/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Direct Payments 2005	N/A	N/A	13.2 billion			
Direct Payments 2006	N/A	N/A	14.2 billion			
Direct Payments 2007	N/A	N/A	15.12 billion			
Direct Payments 2008	N/A	N/A	15.12 billion			
Direct Payments 2009	N/A	N/A	15.12 billion			
Seed Subsidy 2004	N/A	N/A	2.84 billion		Through the MOA implemented at Provincial level	Provides a subsidy to seed companies
Seed Subsidy 2005	N/A	N/A	3.88 billion			Implementation can also occur through discounted seeds
Seed Subsidy 2006	N/A	N/A	4.07 billion			Implementation can also occur through discounted seeds
Seed Subsidy 2007	N/A	N/A	6.65 billion			Implementation can also occur through

						discounted seeds
Seed Subsidy 2008	N/A	N/A	12.07 billion			Implementation can also occur through discounted seeds
Machinery Subsidy 2005	N/A	N/A	300 million		500 counties	
Machinery Subsidy 2005	N/A	N/A	82 million		Provincial government	Local governments decide on models eligible
Machinery Subsidy 2006	N/A	N/A	600 million		1,126 counties	
Machinery Subsidy 2006	N/A	N/A	1.14 billion		Provincial government	Local governments decide on models eligible
Machinery Subsidy 2007	N/A	N/A	2 billion		2/3 of agricultural counties nationwide by central government	
Machinery Subsidy 2007	N/A	N/A	1.3 billion		Provincial government	Local governments decide eligibility
Machinery Subsidy 2008	N/A	N/A	3.99 billion		Central government	
Machinery Subsidy 2009	N/A	N/A	10.06 billion		Central government	
Fuel/Fertilizer Subsidy 2006	N/A	N/A	12.5 billion			
Fuel/Fertilizer Subsidy 2007	N/A	N/A	27.6 billion			
Fuel/Fertilizer Subsidy 2008	N/A	N/A	63.8 billion			
Fuel/Fertilizer Subsidy 2009	N/A	N/A	72.01 billion			

Direct Payments

Direct Payments: In 2005, the central government began to offer direct payments to grain growers, implemented at the discretion of the provinces with some providing the subsidy based on planted area and others based on quantity produced. During 2007 – 2009 the government allocated RMB 15.12 billion in direct payments for grain farmers. (Source: CH8012)

Table 24. Detailed Grain Seed Subsidies

Input Subsidy	(Market RMB/unit) – (sub. RMB/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Winter Wheat Seed Subsidy 2007	(N/A) – (1/kg) = N/A	N/A	1.0 billion			
Winter Wheat Seed Subsidy 2006	N/A	N/A	1.0 billion		11 Provinces 54% area covered	
Winter Wheat Seed Subsidy 2005	N/A	N/A	1.0 billion		11 Provinces 54% area covered	
Winter Wheat Seed	N/A	N/A	100 million		6 Provinces 50%	

Subsidy 2004				area covered	
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*Converted using a 6.84 RMB to U.S.\$ exchange rate

Input Subsidies

In 2001 MOA started the seed subsidy program for wheat and has subsequently expanded it to corn, rice and soybeans. The combined value of the seed subsidy for wheat, rice, corn and soybean was RMB 3.87 billion (U.S. \$480 million) in 2005, up 36 percent from 2004. In 2006 the total was RMB 4.07 billion (U.S. \$521 million). The program is intended to expand production through improved seed quality. Funding is principally provided through MOA and implementation is at the provincial level. In 2007, the funding for wheat, rice, and corn was unchanged from the previous year.

Implementation varies by commodity and province but basically falls into two categories: direct payments or discounted seeds. As a direct payment, it is an income support mechanism where the farmer is provided between RMB 10-15/mu (U.S. \$19-23/Ha) to purchase seeds, but what the farmer actually does with the payment is not monitored.

Alternatively, the subsidy is provided for farmers to purchase high quality seeds at commodity prices. The subsidy is approximately RMB 10/mu (U.S. \$19/Ha) and may take the form of a payment to the seed company to provide a specific type of seed at commodity prices, or a reimbursement to the farmer for seeds purchased. In Henan, the government first identifies the preferred wheat varieties and then seed companies are asked to offer discount prices. After the sale, the seed company receives a subsidy of approximately RMB 1/kg (U.S. \$13.3 cent/kg) of wheat seed. (Seed wheat usage averages 10 kg/mu (150 Kg/Ha) in Henan Province). (Source: CH8012)

Machinery Subsidies: The central government provided RMB 300 million in 2005 and RMB 600 million (US\$ 77 million) in 2006 for the purchase of farm machinery. The program covered 1,126 counties in 2006, up from 500 counties the previous year. Complementing central government funds, the provincial governments provided RMB .82 billion in 2005 (U.S. \$109 million), RMB 1.14 billion (U.S. \$151 million) in 2006, RMB 1.3 billion (U.S. \$173 million) in 2007, and RMB 3.99 billion in 2008. Machinery subsidy amounts have been more than doubling each now and now total RMB 10.6 billion.

The program offsets the cost of purchases by reimbursing the farmer or compensating the seller for 20 to 30 percent of the purchase price. In 2006, the cost-sharing program stimulated expenditure for farm machinery to over RMB 4.5 billion (U.S. \$577 million). The program is implemented at the provincial level and local governments decide on machines and models eligible for the subsidy. Mostly the subsidy has supported the mechanization of wheat harvesting and rice planting. In 2007, the government continued trials on mechanized corn harvesting. (Source: CH7015)

(Note: It is unclear if the machinery subsidy consists of only central government funding or if it is composed of central government and a matching provincial subsidy.)

Fuel and Fertilizer Subsidy: In 2007, the comprehensive subsidy on fuel and fertilizer for grain farmers totaled RMB 27.6 billion (U.S. \$3.6 billion), up 120 percent from the previous year. The program was started in 2006 and was intended to partially compensate farmers for price increases in fuel, fertilizer and other agricultural inputs. According to the Ministry of Finance, the comprehensive subsidy averaged about U.S. \$14.5 per farm household in 2007. In 2009, fuel and fertilizer subsidies are estimated to reach RMB 72.01 billion. (Source: CH8012)

Biofuel

To maintain low and stable energy costs for all sectors, the central government has been offering subsidies to state refineries of gasoline and diesel for decades. As a result, domestic gasoline and diesel prices have been lower than

international prices by a range of 30-60 percent. The government evaluates international oil prices periodically to determine a benchmark price for gasoline and diesel for domestic distribution. The fuel ethanol price is linked to the set government fuel price and then marketed by state designated retailers. Five fuel ethanol producers receive government subsidies to cover losses under the current pricing regime. This pricing regime also functions to discourage the private sector's investment in fuel ethanol production. Over the long term, the government is expected lessen intervention in determining the price of fuel. However, given sharp inflationary pressure and the substantial price difference between fuel in China and that abroad, it will take years for the domestic fuel price to near the international market price. Therefore, fuel ethanol production in China will continue receiving subsidies from the government in until the overall fuel subsidy is removed. Simply put, fuel subsidies and price support programs will continue to be essential to the development of China's fuel ethanol sector. (Source: CH8052)

Table 25. Fuel Ethanol Subsidy

Input Subsidy	(Market RMB/unit) – (sub. RMB/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Fuel Ethanol Subsidy 2005	(N/A) – (N/A) = (2,000)	N/A	N/A			
Fuel Ethanol Subsidy 2006	(N/A) – (N/A) = (1,700)	N/A	N/A			
Fuel Ethanol Subsidy 2007	(N/A) – (N/A) = (1,373)	N/A	N/A			

In 2007, the subsidy for fuel ethanol production set by the central government reached U.S. \$196/ton (RMB 1,373), while it was approximately U.S. \$242/ton (RMB 1,700) in 2006, and U.S. \$285/ton (RMB 2,000) in 2005. In 2008, instead of applying a fixed subsidy, the government implemented a flexible subsidy program for all five fuel ethanol producers. According to the program, the final subsidy level will be based on the actual evaluation of each individual plant's performance. The evaluation is scheduled in November of each year. The program is designed to make more efficient use of government funding to the sector.

Currently, ten provinces participate in the fuel ethanol program. These ten provinces will remain the priority for use of an E10 gasoline (with a fuel/ethanol mix rate of 10 percent). Six of these provinces use E10 within their entire provinces while four provinces have only partly adopted the product. Close to full adoption by these four provinces remains a priority for the government's fuel ethanol program.

Similar to other countries, cellulosic ethanol is not commercially viable in China. Currently, there are two major testing plants in China, located in Henan and Heilongjiang province, respectively. The plant in Henan is in a trial stage of 300 tons annually, taking wheat straw as feed stock, while the plant in Heilongjiang, with a trial stage of 500 tons annually, uses corn stover as feed stock. Both plants were jointly funded by the government and state companies. State media reports that these plants are planned to expand their trial capacity in 2008, however, industry experts are not confident that the technology will facilitate commercial production of cellulosic ethanol in China in the short term. (Source: CH8052)

According to the Law Concerning Testing for the Extensive Use of Ethanol Blended Gasoline for Automobiles and the Regulations Concerning the Conduct of Testing for the Extensive Use of Ethanol Blended Gasoline for Automobiles, the following financial incentives were put in place:

1. Refund of value added taxes (appreciation duties).
2. Five percent consumption tax on ethanol is exempted.
3. Approximately \$12.50 (100 Yuan) in profit is guaranteed for each MT of ethanol.

4. Grain reserve subsidies can be granted by supplying grain stocks on a preferential basis. Stock grain subsidies are determined by referencing market prices in each relevant area.
5. The government will cover any loss incurred as a result of adjustment, transportation, or sale of E10. The Ministry of Finance will provide a specified amount of compensation.

According to government reports, the 2006 ethanol subsidy that the government provides producers was RMB 1,373/MT (U.S. \$172/MT) and China appropriated RMB 1.5 billion (U.S. \$188 million) in financial subsidies to ethanol producers each year.

Before May 2006, all financial incentives and biofuel promotion were limited strictly to ethanol. On May 30, 2006, the Ministry of Finance published the Interim Procedures for the Management of the Special Development Fund for Renewable Energy Resources. In these interim procedures, the government outlined the creation of a special fund to encourage the development of renewable energy resources. By renewable energy resources, the procedure refers to wind energy, solar energy, hydro-energy, biomass energy, geothermal energy and ocean energy. The procedure focuses primarily on renewable alternatives to petroleum. Biomass energy, in this context, extends beyond bioethanol to also include biodiesel and biomass power generation and methane. Companies can apply to the fund for capital to invest in research, development, demonstration and production of these biofuels.

The Chinese Government recently prioritized biomass energy ahead of wind power. This unprecedented change indicates that China is shifting its focus of official support for renewable energy from wind power to biomass energy. The Ministry of Finance and NDRC view biomass energy as their top priority among sources of renewable energy.

The government is expected to enact new fiscal policies to encourage the development of biomass energy from organic matter, in hopes to spur R&D investment. The Ministry of Finance is deliberating a cost-sharing and risk-sharing for biomass companies which risk funds accumulated during times of high oil prices will be used to compensate losses and sustain companies' operations if oil prices fall. (Source: CH6049)

Citrus

Table 26. Citrus Direct Payments: Farm Renovation Subsidy

Direct Payments	Payment / unit (RMB/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Citrus farm renovation 2006	1368 – 2650/Mu	N/A	300 million		Chongqing Municipal government	
Citrus farm renovation 2007	1368 – 2650/Mu	N/A	300 million		Chongqing Municipal government	
Citrus farm renovation 2008	1368 – 2650/Mu	N/A	300 million		Chongqing Municipal government	
Citrus farm renovation 2009	1368 – 2650/Mu	N/A	300 million		Chongqing Municipal government	
Citrus farm renovation 2010 (expected)	1368 – 2650/Mu	N/A	300 million		Chongqing Municipal government	

Direct Payments

Citrus Farm: Governments at different levels provide guidance and technical support but no financial incentives to citrus farmers. The exception is Chongqing, where both central and municipal governments are financing the relocation of Three Gorges migrants by providing subsidized citrus seedlings and building citrus orchards. As more than half a million displaced farmers are likely to engage in citrus farming, the government is allocating U.S. \$3,000 to U.S. \$5,812 per hectare for building or renovating citrus farms, mostly for oranges, to attract these immigrants. The government, along with private companies and public institutions, has also funded construction for large state-of-the-art nurseries in this area. It is reported that the Chongqing Municipal Government spent RMB 300 million (U.S. \$40.5 million) in 2006 and will continue that spending each year for the next five years. (Source: CH6102)

Table 27. Citrus Input Subsidy: Seeds

Input Subsidy	(Market RMB/unit) – (sub. RMB/unit)	Total units	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Seed Subsidy 2006 Zhongxian County	(5/seedling) – (4/seedling) = 1/seedling	N/A	N/A			

Input Subsidies

Seed Subsidy: While the central government provides guidance for citrus planting, direct support for citrus production occurs at the provincial or lower levels of government. In Chongqing Municipality, a central government fund to relocate immigrants from the Three Gorges area is closely connected with citrus production. The central and municipal governments have built citrus orchards, mostly orange farms, to give to relocated migrants (see [CH6111](#)). The Chongqing Municipal Government attaches great importance to citrus production within the municipality, which has been designated as the center of processing oranges under the national plan for citrus production (see [CH3132](#)).

Working with private juicing companies who have built several large-scale citrus nurseries, the government provides subsidized seedlings to farmers to plant orchards. In Zhongxian County, for example, the government gave farmers four Renminbi to buy a five Renminbi seedling (U.S. \$0.67). (Source: CH7090)

Canned Deciduous Fruit

Table 28. Canned Deciduous Price Supports: Fruit Tax Rebates

Price Support	VAT Rebate	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Tax Rebate 2006	13%	N/A	Exports		

Price Support

Tax Rebate: Chinese enterprises currently enjoy a 13 percent VAT rebate from the government for processed farm products destined for export. Other policy changes may include the establishment of specialized funds for agricultural processing, reform on value-added tax, expanding coverage of policy insurance service, and encouraging the establishment of specialized credit guarantee agencies to facilitate financing services for agricultural processing enterprises. (Source: CH6028)

Asparagus

Table 29. Asparagus Loan Subsidy: Production Material Loans

Loan Subsidy	(Market int. rate) – (sub. Int. rate)	Value of loans made (RMB)	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Purchase Production Material Loan 2006	(N/A) – (N/A) = N/A	N/A	N/A			

Loan Subsidies

Purchasing Loans: Market intelligence indicates that local governments of major asparagus producing regions provided technical and financial supports to asparagus production. With the cost of seed procurement and prophase, investment needed for asparagus planting is relatively high. Since it takes approximately two years before asparagus can be harvested, farmers yield no income in the first two years of planting, and local governments stepped in to provide assistance via small low interest loans to asparagus farmers for the purchase of production material. In addition, technical training was provided by local organizations and financially supported by local governments to improve yield and quality. (Source: CH6059)

Sugar

At the beginning of each marketing year, provincial governments in the southern sugar cane production regions announce a pre-set (floor) purchase price for cane. This floor price is also maintained by controlling the price and availability of artificial sweeteners and the price of corn used in starch sweeteners. China's sugar price can vary significantly from the international price as a result. (Source: CH8023)

Tomato

In January 2007, the Ministry of Agriculture (MOA) released the 11th Five-Year Plan for the Agricultural Products Processing Industry, which includes further developing China's tomato processing industry as a priority. To help accomplish this goal the central government removed all agricultural taxes for growers and highlighted Xinjiang, Inner Mongolia, Gansu, and Ningxia Provinces as the best suited growing areas for tomato paste production. Xinjiang, Inner Mongolia and Gansu Provinces combined represent 90 percent of China's total processing tomato production. (Source: 8041)

Table 30. Tomato Loan Subsidy: Production and Processing

Loan Subsidy	(Market int. rate) – (sub. Int. rate)	Value of loans made (RMB)	Total Subsidy Value (RMB)	Eligibility	Distribution	Legal Framework
Production and processing loans	(N/A) – (N/A) = N/A	N/A	N/A			

Loan Subsidy

Production and Processing Loans: No special central government policies exist to encourage tomato production and processing. There are some preferential policies to support tomato production and processing in major producing provinces, including low interest loans and preferential tax treatment, such as tax exemptions and tax rebates. (Source: CH6024)

Other Relevant USDA Reports

Below are references to several other USDA reports related to China's agricultural subsidies and agricultural policies.

Corporate Income Tax

On December 11, 2007, the State Council announced the "Regulation on Implementing the Law of the People's Republic of China on Corporate Income Tax" effective January 1, 2008. The new regulation exempts companies involved in animal and poultry rearing from paying corporate income tax, while lowering tax rates for other domestic companies to 25 percent, down from 33 percent. This new tax law has already attracted large investment in swine rearing. For example, the China National Cereals, Oils and Foodstuffs Corp. (COFCO), the country's largest oils and food importer and exporter, started a five-year pig raising project, investing U.S. \$1.36 billion in Hubei Province, Central China. COFCO will build a 500,000 head reproducible sow breeding base, a 10 million live pig raising demonstration project, and establish centers for pig breeding technology research and swine disease prevention. (Source: CH8078)

Although China's new Law on Corporate Income Tax, effective on January 1, 2008, exempts companies involved in cattle rearing from paying corporate taxes, it has not attracted domestic and international investment to the beef sector as it did in the swine sector. (Source: CH8078)

VAT

Trade Policy Monitoring VAT Protections: The Rest of the Story

China, like many countries, relies on a value-added tax for tax revenues. In order to promote certain sectors and because it is impractical for Chinese farmers to keep track of VAT-able transactions, the Ministry of Finance has implemented a variety of exceptions. These include select farm inputs VAT-free, farm sales exempt from VAT, imputed VAT for products purchased from farmers, animal feed exempted from VAT, and imported product exempted from VAT, including animal feed.

Except for the import product exemption, benefits accruing under these exceptions do not apply to imports. The impact is that there is an applied VAT and an effective VAT where the applied VAT is applicable to imports and the effective VAT is applicable to domestic products, adjusting for the VAT exceptions. The analysis in this report finds that where the applied VAT is 13 percent, the effective VAT on domestic products varies between 3.23 and 6.23 percent. While the effective VAT will vary depending on, among other things, market prices, profit margins and marketing costs, there is a disparate impact on imports, making these VAT exemptions inconsistent with the World Trade Organization's principles of "National Treatment." (Source: CH7018)

ERS

China's New Farm Subsidies

In 2004, China entered a new era in its approach to agricultural policy, as it began to subsidize rather than tax agriculture. China introduced direct subsidies to farmers, began to phase out its centuries-old agricultural tax, subsidized seed and machinery purchases, and increased spending on rural infrastructure. The new policies reflect China's new view of agriculture as a sector needing a helping hand. The subsidies are targeted at grain producers, but they do not provide strong incentives to increase grain production. (Source: WRS-05-01)

Subsidized Corn Exports Help Prices Rebound

In 2001, corn prices in China rebounded from the low levels seen during 2000. A second straight year of drought will

result in another relatively small corn crop. Corn exports are not likely to return to the high levels seen during 2000. China's corn exports are highly uncertain because they depend on internal government decisions about continued export subsidies, the level and condition of government-held stocks, and the timing of China's WTO entry. (Source: WRS-01-02)

Appendix: Related Documents and Press Reports

China pledges hefty investment to boost agriculture

Source: China Daily

Date: 03/05/09

The money would be used in expanding direct agricultural subsidies to farmers by 20 billion yuan to a total of 120 billion yuan, popularizing agricultural science and technologies, and improving infrastructure facilities such as roads and water conservancy projects, and upgrading low and medium-yield farmland.

Greater priority would be given to major grain-producing counties in implementing the policies and measures supporting grain production, Wen said. More financial rewards would be provided to major projects for industrializing grain production.

The country would also "significantly" raise minimum purchase prices of wheat and rice by 0.22 yuan and 0.26 yuan per kilogram respectively, and keep the prices of agricultural products stable at a reasonable level to encourage farmers to grow more, Wen said.

"We will effectively keep the area planted in grain crops stable, focus on increasing the yield per unit area and optimizing the variety mix, and increase the country's grain production capacity by 50 million tons," the premier told the legislators.

China, with a population of 1.3 billion, is faced with severe challenges in safeguarding grain security due to rising living standards, decreasing arable land, water shortages and climate change.

Slowdown in economic growth rate due to the impact of the global financial crisis has become a major problem affecting the overall situation, Wen said in his report.

"It has become more difficult to maintain steady agricultural development and keep rural incomes growing", he admitted.

Calling agriculture the "foundation of the economy", Wen said the government would do everything in its power to keep the total amount of arable land above the red line of 120 million hectares.

The Five Measures to Comprehensively Strengthen the Work Related to Agriculture, Rural Areas and Farmers

Premier of the State Council Wen Jiabao says while presenting the report on the work of the government at the Second Session of the Eleventh National People's Congress on March 5:

Funding for agriculture and rural areas will be greatly increased

Central government allocations for agriculture, rural areas and farmers will total 716.1 billion yuan this year a y-o-y increase of 120.6 billion yuan

Minimum grain purchase prices will be significantly raised and the price of agricultural products will be kept stable at a reasonable level to encourage farmers to grow more

The floor price for the purchase of wheat will be increased by **0.22** yuan per kilogram on average

The floor price for the purchase of rice will be increased by **0.26** yuan per kilogram on average

Agricultural subsidies will be further increased

Central government funding for the subsidies will total **123** billion yuan a y-o-y increase of 20 billion yuan

Development of a new system under which various sectors of society provide services for agriculture will be speeded up



2009

The basic rural operation system will be stabilized and improved

Xinhua/Zheng Yue

Graphics shows the five measures to comprehensively strengthen the work related to agriculture, rural areas and farmers, according to the government work report of China released on March 5, 2009. (Xinhua/Zheng Yue)

The premier pledged to ensure the existing land system remain stable and unchanged for a long time to come, and better protect the land use of farmers, including migrant workers who are away from their home villages.

Lai Xiuhua, chief of Hutian Village in the southern province of Guangdong, said she was glad to know the planned agricultural spending increase.

More than 1,000 rice farmers lived in Lai's village, and their income in 2008 averaged around 4,000 yuan, said Lai, who was here to attend the annual session of NPC.

"The majority of our income did not come from grain production, but from the government's direct subsidies for grain farmers," she said, "The three minimum grain purchase price hikes by the government last year also helped."

"So it's really good to know that the government will increase the direct agricultural subsidies, and raise the minimum grain purchase prices again this year," she said.

Steady growth of rural incomes was also one of the major targets Premier Wen set for this year's national economic and social development.

Rural per capita net income reached 4,761 yuan last year, up by 8 percent in real terms, compared with the urban per capita annual disposable income of 15,781 yuan.

The premier pledged in the government work report that the country would increase farmers' incomes in a variety of ways.

The country would vigorously develop modern agriculture with distinctive local features, support the processing and marketing of agricultural products, develop service and manufacturing industries in rural areas and accelerate the development of small towns, Wen said.

He also pledged to intensify efforts to alleviate poverty in the countryside, adding that a new poverty line would be adopted and all low-income rural residents would be covered by the poverty relief policy with grants increased to 1,196 yuan per person on average.

The policy, which would cover more than 40 million people, marked a new stage in China's efforts to reduce poverty through development, he said.

"Under the current economic situation, the increase of farmers' incomes is essential to China's policy to expand domestic demand," said Zhang Ning, director of the agriculture office of the Sichuan provincial party committee.

"The rural population would become a market with the biggest potential for consumption only when they have more access to disposable currency," he said.

Of China's total 1.3 billion population, more than 900 million are farmers.

Steady growth of rural incomes would also help bridge disparities in development between urban and rural areas, thus contribute to the social harmony, he said.

Gov't's grain purchase price set to rise sharply

Source: China Daily

Date: 2009-03-04

The government's farm procurement prices are set to see a hefty rise as policy makers try to mitigate the impact of the global economic crisis on rural residents.

The average minimum procurement price for all grain products will rise 13 percent from last year, Chen Xiwen, director of the office of the Central Leading Group on Rural Work, told China Daily yesterday.

That would generate more than 116 billion yuan (\$17 billion) of cash income for the country's 700 million farmers; or each of the rural households would earn an extra 500 yuan, enough for a month's expenses.

The country's grain output hit a record high of 528.5 million tons last year, but the recent drought in many provinces has lowered expectations this year. Grain prices have been on the rise in the last few years but backed by large reserves, the government has been able to intervene in the market to pre-empt the skyrocketing trend seen last year on the international market, especially for such staple items as rice, wheat, and corn.

But if domestic grain prices remain too low, farmers' incomes will fall and thus hurting the overall economy, especially consumer spending, rural policy advisors said.

Chen disclosed the government farm price initiative to China Daily on the sidelines of the ongoing annual session of the Chinese People's Political Consultative Conference National Committee.

The government will also try to raise financial support for rural infrastructure and farm technology services, Chen said.

Direct subsidies will be provided to farmers who grow grains, choose advanced strains of seeds or buy farm machinery, he said.

The subsidies will rise to 120 billion yuan this year from 102.9 billion yuan last year, Chen said.

Rural cash income has risen more than 6 percent annually in the last five years but much of the increase has come from remittances by migrant workers in cities. Song Hongyuan, a senior researcher at the Ministry of Agriculture, said recently that remittances are threatened by the sweeping job cuts in the manufacturing sector. Farmers' income would suffer "a sizable loss" if they are not provided access to other income sources, he said.

Farmers income growth a priority for Govt

Source: China Daily

Date: 2009-03-04

Income growth for Chinese farmers, threatened by the global financial crisis, will be one of the top priorities of this year's government agenda, China's senior rural economist told China Daily on Tuesday.

"With less job opportunities for migrant workers in the cities, income of farmers as a whole will suffer a sizable loss," said Song Hongyuan, director of the Research Center for the Rural Economy in the Ministry of Agriculture. According to Song, income earned by migrant workers contributes to more than half of the income of the entire rural population.

Per capita income of China's rural population grew by 8 percent last year and has witnessed annual growth of more than 6 percent, or about 400 yuan (\$58), in the past five years, said Song. "It's highly possible that this year's income growth of farmers will be less than last year's," he said.

The financial crisis is a serious threat to income growth for Chinese farmers. The central government's first policy document of the year, issued on Feb 1, said this year would be "the toughest year" so far in this century for agriculture and the rural economy given falling produce prices and the grim employment situation of migrant workers.

'Grim times for rural earnings'

Source: By Fu Jing, Si Tingting and Zhang Qi (China Daily)

Date: 2009-03-04

Chinese farmers have met mounting difficulties in increasing their disposable income this year mainly due to growing factory closures and fewer job opportunities, a leading agricultural expert warned yesterday.

The expert added that the continuing decline of grain prices since September may also hurt farmers' income this year despite the government's vow to increase the crops' minimum purchase prices.

"With less job opportunities for migrant workers in the cities, income of farmers as a whole will suffer a sizable loss," said Song Hongyuan, director of the Research Center for the Rural Economy in the Ministry of Agriculture during an exclusive interview with China Daily.

Per-capita income of China's rural population grew by 8 percent last year and has witnessed an averaged annual growth of more than 6 percent, or about 400 yuan, over the past five years, said Song.

"It's highly possible that this year's income growth of farmers will be less than last year's," he said. Income earned by migrant workers contributes to more than half of the income of the entire rural population. Official statistics indicate that China has more than 230 million migrants, and so far more than 10 million are jobless due to the effects of the global financial crisis.

Song said the government will unveil more farm support measures at tomorrow's opening of the annual session of the National People's Congress, including subsidies and training opportunities.

The Ministry of Commerce (MOFCOM) recently said that the government would grant 20 billion yuan in subsidies in 2009 to boost electronic appliance sales in rural areas. Song's analysis of the rural situation has been echoed by China's highest leadership, which recently said that this year would be "the toughest year" so far this century for the rural economy given falling produce prices and the grim employment situation.

China's grain output in 2009 may not surpass the record high achieved last year because of the worst drought in half a century, said Song. He said 2009's summer wheat harvest is unlikely to be good because 40 percent of the nation's total wheat land is heavily affected by the drought. But he said it is too early to predict the autumn harvest, which makes up the lion's share of the country's total grain yield.

China saw bumper harvests for five straight years, the grain yield in 2008 reached 528.5 million tons and the annual growth rate was 5.4 percent. The China Meteorological Administration (CMA) forecast that there was still uncertainty over the weather in spring. "The weather can become worse than we think, and we must be fully prepared," CMA's Chief Zheng Guoguang said in February.

So far, the government has provided 86.7 billion yuan in subsidies to farmers in drought-hit provinces and increased this year's minimum purchasing price of wheat by 0.11 yuan per kg to raise farmers' income.

"Hopefully, all the measures will work to minimize the damages brought by abnormal weather," said Song.

Xinjiang gets RMB 500 mln in subsidies for agricultural machinery

Source: China Knowledge

Date: Mar. 16, 2009

Xinjiang Uygur Autonomous Region will receive subsidies from China's central government to buy agricultural machinery, according to the local government, the official Xinhua News Agency reported.

A representative of the local government says that Xinjiang will receive RMB 500 million of the RMB 10 billion that the central government has budgeted for agricultural machinery this year.

In 2008, sales of agricultural machinery in Xinjiang increased 32.7% from a year earlier and exceeded RMB 3.04 billion. Of which, RMB 639 million came from local farmers who benefited from the RMB 30.68 million in subsidies provided by the central government.