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## **Report Name:** Livestock and Products Annual

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**Post:** Beijing

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### **Report Highlights:**

Overall swine production and slaughter will hit record lows in 2020 as African Swine Fever continues to impact China's hog industry. However, the supply decline will bottom out in 2020 and 2021 beginning hog and sow inventories will be up by 9 percent and 15 percent, respectively. Robust slaughter in 2021 will drive pork production up to 41.5 million tons, from the record low level of 38 million tons in 2020. The 2021 ending pig inventory is forecast up at 370 million head, equivalent to over 80 percent of pre-ASF levels. Total pork imports will peak in 2020 at 4.3 million tons and decline to 3.7 million tons in 2021 as domestic supply recovers. Beef production will continue increasing in 2021, forecast at 6.9 million tons. Robust imports of beef in the first quarter of 2020 were met with weak domestic demand due to COVID-19 shutting down much of the HRI sector and a general economic downturn in China. 2021 beef imports are forecast down to 2.7 MMT.

## Executive Summary

**Swine Production:** The number of official ASF cases reported by China declined significantly since the second quarter of 2020. China's official and industry sources both agree that investments in biosecurity and supply chain measures, taken primarily by larger swine companies, have been largely effective in controlling the spread ASF. Additionally, the government's policy support has positively stimulated swine recovery, resulting in continuing growth of sow and live pig inventories in the first half of 2020. This expansion is forecast to continue in 2021. Post forecasts 2021 beginning sow inventory at 31 million head and 2021 ending hog inventory up at 370 million head, equivalent to over 80 percent of pre-ASF levels.

**Pork Production:** While pork production in 2020 will remain low at 38 million metric tons due to weak domestic demand, it will increase by 9 percent in 2021 to 41.5 MMT as the swine inventory recovers.

**Pork Imports:** Record pork imports in 2020 (4.3 MMT) will retreat by 14 percent in 2021 to 3.7 MMT due to increasing domestic supplies. COVID-19 continues to directly and indirectly constrain pork imports, including the Chinese government taking regulatory action against foreign facilities. China's opaque policies towards imported meats will create a significant amount of business uncertainty among the meat industry.

**Cattle Production:** Cattle production will continue to increase in 2021 due to strong profits in 2019 and 2020. However, rising feed costs, particularly corn, and the availability of lower-priced imports constrain more robust expansion of domestic beef production.

**Beef Production:** Chinese beef production will continue to increase steadily, with production in 2021 forecast at 6.9 million tons. While COVID-19 did affect some slaughterhouses and distribution facilities, the primary constraint on increased production was weak demand. The slowdown in the HRI sector due to COVID-19 has significantly weakened demand. While most businesses have reopened across China, the economic headwinds posed by COVID-19 will continue to affect demand.

**Beef Imports:** Despite the HRI sector's shutdown during the first three months of 2020, strong first half imports will result in record imports of 4.3 MMT. However, in 2021, COVID-19 will continue to have a significant effect on beef imports, both from a demand side (e.g., restaurants continue to remain closed) and from the supply side. Similar to pork, Chinese authorities have implemented a number of new trade requirements related to COVID-19, which will create a significant amount of business uncertainty among the meat industry. Combined, these factors will contribute to lower beef imports in 2021, at 2.7 MMT.

## SWINE

### PRODUCTION, SUPPLY, AND DEMAND TABLE FOR SWINE

Animal Numbers, Swine	2019		2020		2021		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	YOY Δ
Total Beginning Stocks	428,070	428,070	310,410	310,410	0	339,835	9%
Sow Beginning Stocks	37,000	37,000	27,000	27,000	0	31,000	15%
Production (Pig Crop)	440,000	440,000	497,000	490,000	0	540,000	10%
Total Imports	4	4	25	25	0	30	20%
Total Supply	868,074	868,074	807,435	800,435	0	879,865	10%
Total Exports	956	956	600	600	0	865	44%
Sow Slaughter	0	0	0	0	0	0	
Other Slaughter	544,190	544,190	445,000	455,000	0	505,000	11%
Total Slaughter	544,190	544,190	445,000	455,000	0	505,000	11%
Loss and Residual	12,518	12,518	6,835	5,000	0	4,000	-20%
Ending Inventories	310,410	310,410	355,000	339,835	0	370,000	9%
Total Distribution	868,074	868,074	807,435	800,435	0	879,865	10%
All units in 1,000 head							

### Swine Production:

#### *Improvements to ASF control measures underpin swine sector recovery*

Since the first ASF case was reported in August 2018, China's Ministry of Agriculture and Rural Affairs (MARA) has officially reported 171 ASF outbreaks to the World Organization for Animal Health (OIE), as of March 20, 2020. However, in the first half of 2020, only 16 outbreaks were reported. Most reported outbreaks in 2020 have been located on small, backyard farms.

On May 12, 2020, MARA, in collaboration with other ministries, held a joint press conference on ASF control and prevention. At the conference, MARA requested all relevant departments to improve animal

disease reporting and investigation, improve sampling and testing in key areas and sites, establish a weekly epidemic reporting system, and improve the culling process in cases of detections. MARA continues to encourage prevention and control measures, support large-scale farms in enhancing quarantine procedures prior to slaughtering, and closer supervision of slaughtering and culling efforts. In addition, MARA has further expanded the scope of regionalized prevention and control pilots. A "100-day special crackdown operation" on the illegal transfer of pigs was implemented by MARA by closely monitoring key transportation hubs. On June 2, 2020, MARA published an announcement containing the "Emergency Implementation Plan for ASF (Second Edition 2020)." This revised plan takes into account the current stage of recovery and codifies the latest ASF prevention and control requirements.

On June 28, MARA published an announcement on "Expediting the Establishment and Evaluation of ASF-free Regions/Farms." The plan details MARA's vision to establish ASF-free farms and ASF-free regions by the end of 2020. MARA requested all provinces and municipalities expedite the review and evaluation of ASF-free regions/farms within their borders. All provinces and municipalities were requested to submit recommendations for potential ASF-free regions/farms to MARA before July 15, 2020.

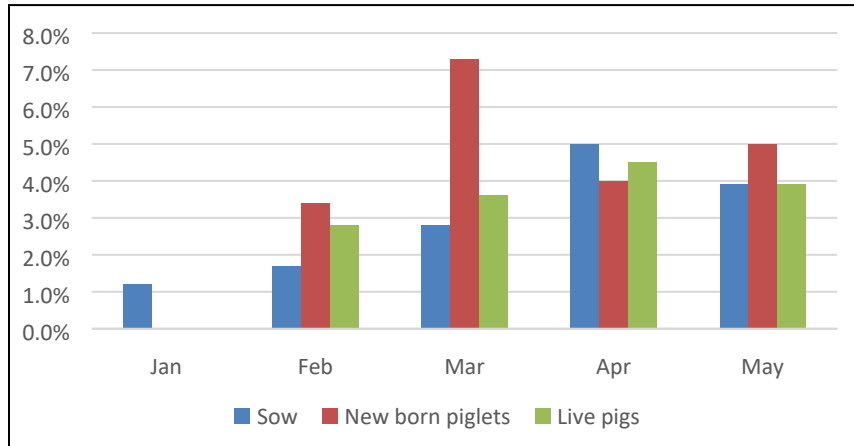
MARA now claims that ASF is generally under control and the swine production recovery is better than expected. Industry reports that confidence in MARA's guidance and support is growing and industry attributes much of the recent success to the government assistance.

#### *Nationwide herd inventory recovers in 2021*

Beginning hog and sow inventories are forecast up in 2021, at 339.8 million and 31.0 million, representing 9 percent and 15 percent increases, respectively. The 2020 beginning hog and sow inventories started from low levels at 310.4 million and 27 million, respectively. MARA reports that since 2019, it has tracked over 14,594 swine farms that have built new facilities or expanded construction of existing facilities. Heading into the second half of 2020, MARA estimates that 120 million head of the current inventory can be attributed to new capacity and that number will continue to grow heading into 2021.

MARA's monitoring data (covering 400 swine-producing counties nationwide) indicated sow inventory continuously grew during the last eight months, with cumulative growth up 23.3 percent from October 2019 to May 2020. In June 2020, MARA reported a 3.6 year-on-year increase in breeding sows, the first year-on-year increase since 2018. In April 2020, all provinces reported growth of live pig and sow inventories from the prior month; this growth continued in May for 29 out of 31 provinces. Some provinces are growing faster than others. Sow inventory in May grew more than 10 percent in Anhui, Jiangsu, and Jiangxi Provinces. Sow inventory growth in Hunan, Fujian, Chongqing, and Sichuan Provinces was between 5 and 10 percent (up from April). Based on reporting from over 160,000 swine farms nationwide, the number of available piglets has grown each month since February 2020.

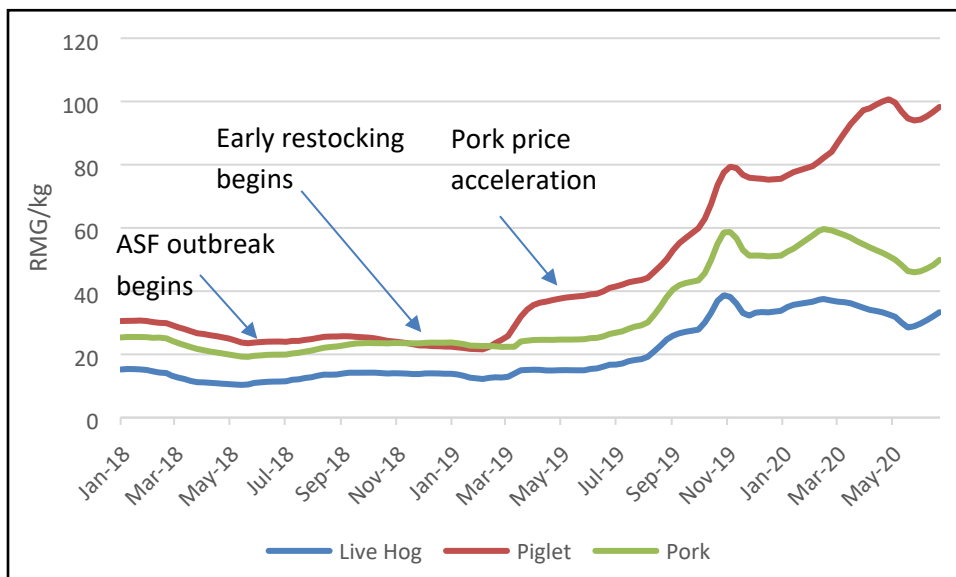
**Chart 1 – Percent Increases in Sow, Newborn Piglets and Live Pigs Inventories in 2020**  
(Jan to May 2020; month-on-month growth rate)



Source: MARA (in January, only sow data was available)

While live hog and pork prices have come down recently, piglet prices remain high at roughly 100 RMB/kg, or around 1700 – 2000 RMB (\$243 - \$286 USD) per head, signaling that the herd expansion will continue to grow.

**Chart 2 – High Piglet Prices Indicate Continuing Expansion**



Source: MARA

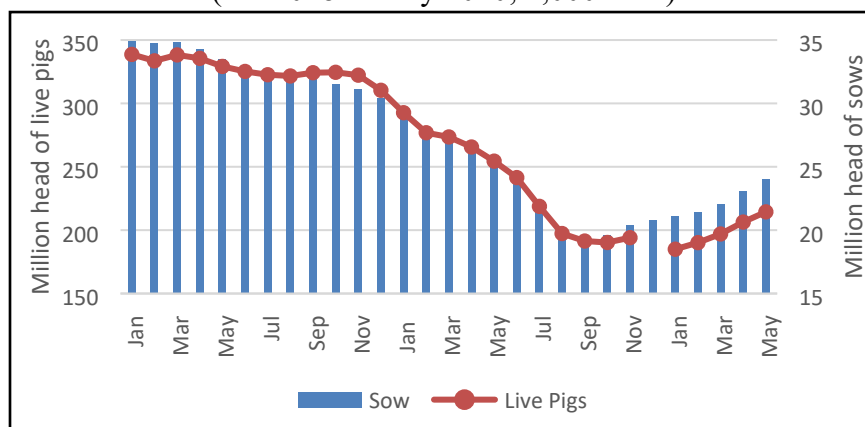
### *Government targets inventory recovery to pre-ASF levels by end of 2020*

The Chinese government implemented comprehensive measures to support swine production recovery, beginning in 2019 (for more information, see FAS GAIN Report CH2019-0204). The effectiveness of these policy measures appears to be reflected in sow and hog inventory growth. It is important to note that in the past, when the central government sets specific production targets for the provinces, the numbers reported out by industry and the local governments generally reflect achievement of those targets, regardless of actual production numbers.

According to MARA, production during the second half of 2020 will focus on accelerating the recovery. Based on survey results from 22 provinces, MARA and 8 relevant ministries will jointly supervise the implementation of swine support policies and provide additional encouragement to provinces showing a slower recovery. MARA will also continue to encourage the construction of new and expanded swine facilities. While early efforts in 2019 focused on securing and expanding large facilities, MARA is now widening its focus to include poverty alleviation through hog farming. MARA recently announced a new policy initiative, entitled “Continue to Promote the Poverty Alleviation Project of Flagship Swine Enterprises to Support 10,000 Households in Swine Farming” in an effort to encourage small and medium-sized farms to re-stock. Even though large-scale farms account for the largest percentage of the recent recovery, small and medium size farms still account for about half of total hog production. In order to hit production targets, these small and medium enterprises must also show strong recovery.

With these combined efforts, MARA expects the pork supply will rapidly increase during the second half of 2020 and hog inventories will reach 100 percent of the normal level by the end of 2020. Post concurs with the MARA’s expectation of a rapid recovery in the last half of 2020, but estimates the actual hog inventory will be closer to 80 percent of pre-ASF levels.

**Chart 3 - Sow and Live Pig Inventories Trend Towards Recovery**  
(Jan 2018 to May 2020; 1,000 head)



Source: MARA (December 2019 data not available)

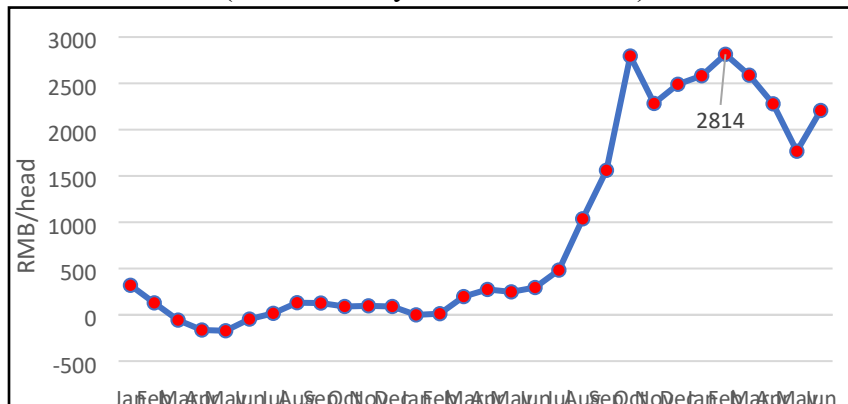
Many provincial governments implemented their own recovery programs to achieve the central government targets. For example, Hunan Province provided incentives for newly built, renovated, and

expanded swine farms based on newly added production capacity, with a subsidy of 500,000 yuan for newly added yearly production capacity of 10,000 to 30,000 head, and a subsidy of 800,000 yuan for newly added yearly capacity of over 30,000 head. A subsidy of 1,000 RMB/head is offered for importing breeding stocks into the province. In Yunnan Province, the local government is providing a subsidy of up to 4,000 RMB per head for imported genetic swine. Zhengzhou City, in Henan Province, will subsidize 2,000 RMB per head of breeding pigs introduced from October 1, 2019 to December 31, 2022. In a final example, Sichuan Province implemented eight measures, including providing 300 RMB per head for newly added sows in order to achieve its target of 60 million head of slaughtered hogs for 2020. For context, its year-end production target is 66 million head.

*High prices provide financial stimulus to invest in large-scale expansion*

Pork prices surged in August 2019 with hog profits hitting record levels in February 2020; industry estimates the average per head profit was 2,814 RMB (\$402 USD). Prices have again trended upwards since the beginning of June 2020 and are expected to remain high during the rest of the year.

**Chart 4 - Swine Profits Continue to be High**  
(From January 2018 to June 2022)



Source: China JCI

During the first 4 months of 2020, despite an overall 32-percent decrease in hog sales (by volume) for the 8 leading swine companies, sales revenue for these companies all increased, ranging from 14 percent to 201 percent, compared to the same period a year ago. Incentivized by high profits, both Chinese government and industry sources reported that large farms have led the restocking effort. Since 2019, the first successful recovery efforts were made by large facilities with sufficient capital to invest in the necessary biosecurity and supply chain modifications. Therefore, most of the newly added breeding sows and hog inventories are coming from large companies.

### New Swine Projects Under Construction (as of June 2020)

Company	Zheng Bang	New Hope	Haida Group	Jin Xin Nong	Tian Kang	Ning Te Nong	Dai Bei Nong	Wen's Group
Project location	Shandong	9 Provinces	Shanxi	Jiangxi	Gansu	Ningxia	Hebei	Guizhou
Planned Yearly Hog Capacity (1,000 head)	3,000	2,850	1,000	1,000	1,000	300	250	300

Source: China Feed Industry Association website reports

#### *ASF accelerates structural shifts within the swine industry*

Industry sources have reported shifts within the swine industry as a result of ASF. Large companies are investing more heavily to vertically integrate their operations. For example, a large swine producer in Henan Province reported that part of their ASF mitigation strategy was to achieve control of their feed supply chain. In addition to purchasing a feed mill, the company also acquired their own transportation and slaughtering facilities. Also in Henan Province, one of China's largest swine producers increased its sow inventory to about 1.7 million head by April 2020, up significantly from 1.28 million head in 2019. The company also announced a project to build 100 swine farms in Nanyang, Henan Province. Construction started in June with a total investment of 12 billion RMB (\$ 1.7 billion USD), adding an additional yearly capacity of 10 million head.

#### *Swine genetics imports expected to increase rapidly in 2021*

Due to ASF, many farms are reserving commercial gilts for breeding purposes. The immediate impact has been lower numbers of swine available for slaughter. The longer-term impact has been reduced per-animal productivity. Farmers are reportedly extending the productive life of their sows for up to a year. Finally, young gilts are mated earlier to produce more piglets to take advantage of expansion opportunities. However, the overall production efficiencies lost due to the dilution of the swine gene pool will be offset by the expansion of large-scale facilities using modern animal husbandry equipment and techniques. Industry insiders report that once the sow herd recovers sufficiently, farmers will begin culling these sows for commercial slaughter, as soon as late 2020.

In order to rebuild their genetic stock and meet restocking demand, China's imports of breeding pigs are expected to increase in 2021, to 30,000 head. Industry sources estimate that imports of breeding pigs surged to 9,600 head in the first 5 months of 2020 from the about 1,000 head in the previous year. As discussed in earlier reports, Chinese breeders prefer to inspect prospective animals in person. Due to heightened concerns about ASF transmission, many of these business exchanges did not happen in 2019. Furthermore, MARA veterinarians generally supervise pre-shipment quarantines in the host country. Due to their focus on the internal ASF issues, there were limited personnel to travel and conduct these pre-shipment quarantines. Due to these two factors, live breeding pig imports were very low in 2019,



despite apparent demand. As concerns about ASF prevention are superseded by a drive to expand, these live breeding pig imports should increase.

To facilitate more imports, on June 29, 2020 GACC organized an online meeting with Chinese stakeholders focusing on best practices for importing breeding pigs. For instance, Guizhou (Province) Customs Administration indicated about 9,000 breeding pigs (from overseas) are planned to enter China through their customs in 2020. As of the end of June, about 2,600 head had already been imported through streamlined inspection/quarantine procedures.

#### *Swine feed production growth supports recovering swine production*

MARA data showed growing swine feed consumption since last December. Post expects that animal feed demand will continue to increase through 2020 as more swine operations come online. China's National Grain and Oils Information Center (CNGOIC) estimated total compound feed production will reach 217 MMT in 2020, a net growth of 6.9 MMT from the previous year. Industry data also shows total sow feed sales in the first 5 months of 2020 increased 16.7 percent from the previous year. Shandong Province, one of the largest feed-producing provinces (accounting for 16.5 percent of China's total feed production in 2019), reported total feed production reached 13.1 MMT in the first 4 months of 2020, 19 percent higher from the previous year. In particular, swine feed is up 37 percent while feed for gilts doubled and piglet feed up 56 percent. A Liaoning-based feed company (with yearly production of roughly 3 MMT) reported feed sales up 47 percent in the first months of 2020 as compared to the previous year.

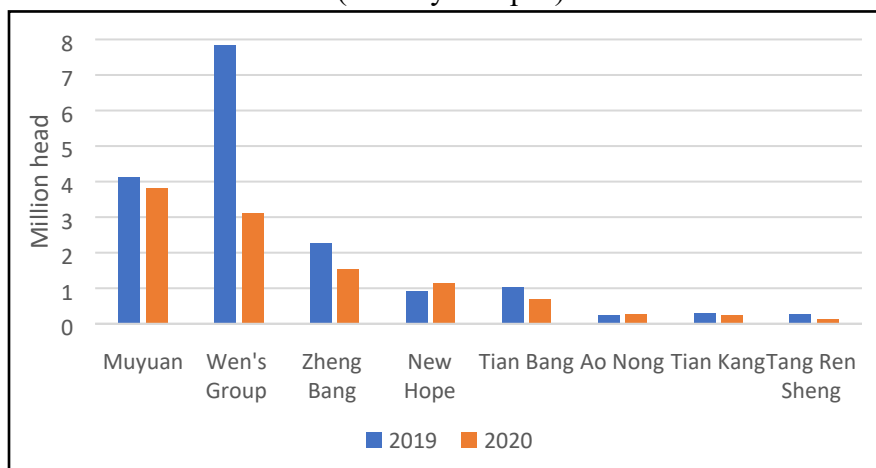
#### *COVID-19 outbreak has limited impact on swine recovery efforts*

As reported in FAS GAIN Report CH2019-0204, the COVID-19 outbreak significantly slowed down overall economic activities from January through early April 2020. From the outbreak of the pandemic, the Chinese government has prioritized several industries, including agriculture, and granted early relief from travel restrictions. While many Chinese slaughterhouses were directly affected by the COVID-19 restrictions for a short while, the disruption was minimal compared to the larger effects of consumption changes (discussed below).

#### *Slaughter numbers low in 2020, but expected to recover in 2021*

Based on the moderate increase of beginning hog and sow inventories resulting in higher pig production, the total slaughter number is forecast up to 505 million head in 2021, 11 percent higher from the estimated 455 million head in 2020. Low sow inventories, depressed PSY (pigs per sow per year), and the practice of retaining gilts for breeding contributed to low numbers of hogs available for slaughter in 2020, particularly in the first half of the year. Slaughter numbers decreased slightly from the first quarter to the second quarter of 2020 (131.3 million head down to 119.7). Most swine companies reported declining hog sales in the first 4 months of 2020.

**Chart 5 - Swine Companies' Sales of Hogs Decline in 2020**  
(January to April)



Source: Industry

However, slaughter is expected to recover slightly in the second half of 2020 due to increasing demand and a larger inventory. The China Academy of Agricultural Science (CAAS) estimated total hog slaughter at about 501.5 million head in 2020, 7.8 percent lower than the previous year. Based on its monitoring of large-scale slaughtering plants, MARA reported that total hog slaughter was 61.7 million head in the first 5 months of 2020, down 34 percent from the previous year. A Chinese industry source estimated hog slaughter in the 3<sup>rd</sup> quarter will decline to a 15-year low at about 100 million head although the estimated slaughter for 2020 is 500 million head.

As the supply approaches pre-ASF levels towards the end of 2020, Post anticipates slaughter will continue to grow, reaching 505 million head in 2021. However, this estimate is lower than forecasts from sources inside China. CAAS forecasts 2021 slaughter at 635 million head.

#### *ASF vaccine clinical trials continue smoothly*

The Chinese government has invested significant resources to support the development of an ASF vaccine. Despite reported research progress, MARA has not yet approved a commercial ASF vaccine. It remains unclear if, or when, a commercial vaccine will be available.

The leading vaccine developer, CAAS, reported that a vaccine strain passed a national review in December 2019 and was approved to carry out environmental release trials. In March 2020, MARA approved the vaccine for clinical trials in three breeding bases in Heilongjiang, Xinjiang, and Henan Provinces. It is reported that the sows are in good condition, with no abnormal clinical manifestations, no abnormal estrus, and no miscarriages. The vaccinated pigs also appear to have no horizontal transmission. At the time this report was published, CAAS continues to expedite the development of this vaccine.

## PORK

### PRODUCTION, SUPPLY, AND DEMAND SITUATION FOR PORK

Meat, Swine	2019		2020		2021		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	YOY Δ
Slaughter (Reference)	544,190	544,190	415,000	455,000	0	505,000	11%
Beginning Stocks*	0	0	0	0	0	0	
Production	42,550	42,550	36,000	38,000	0	41,500	9%
Total Imports	2,451	2,451	4,400	4,300	0	3,700	-14%
Total Supply	45,001	45,001	40,400	42,300	0	45,200	7%
Total Exports	135	135	100	100	0	100	0%
Human Dom. Consumption	44,866	44,866	40,300	42,200	0	45,100	7%
Other Use, Losses	0	0	0	0	0	0	
Total Dom. Consumption	44,866	44,866	40,300	42,200	0	45,100	7%
Ending Stocks	0	0	0	0	0	0	
Total Distribution	45,001	45,001	40,400	42,300	0	45,200	7%

All units in 1,000 MT CWE, unless otherwise specified

#### Production:

Based on the forecast increased hog slaughter at heavier average weights, pork production in 2021 is up 9 percent to 41.5 million tons from 38 million tons in 2020. To offset the production losses during 2020, Chinese central and local governments released frozen pork reserves into the market to tamp down rising prices. However, pork reserves appear to have been mostly depleted by the 3<sup>rd</sup> quarter of 2020. The pork supply during 2020 is expected to remain very tight at about 42.3 million tons, driving continued high prices. Forecast total pork supply in 2021 is up 7 percent to 45.2 million tons, still far below the 55 million tons before the ASF outbreak.

Similar to the swine production numbers, CAAS optimistically forecasts 2021 pork production to increase to 50 million tons, from its estimate of 39.34 million tons for 2020. This rosy forecast aligns with MARA's 3-year swine recovery plan which aims at achieving "normal swine production levels" by 2021.

#### *Effects of ASF will remain even after supplies increase*

While pork production will continue to increase through 2021, the effects of ASF will persist. First, pork production may not return to pre-ASF levels because the overall demand for pork has decreased. While pork has traditionally been the primary meat for Chinese consumers, other proteins like poultry, beef, seafood, and mutton have seen sizeable gains in their share of the Chinese diet. For example, poultry

producers expanded significantly in 2019 and 2020. All of this additional capacity will compete with pork for consumers at traditional markets, retail stores, and on-line. Furthermore, since ASF, the Chinese government has been encouraging consumers to eat more poultry for health reasons. Even with pork prices decreasing, Chinese consumers are increasingly aware of health claims and have associated poultry with a healthy, active lifestyle.

Second, consumers have become more accustomed to eating chilled/frozen pork. In order to combat the transmission of ASF through live animals, China encouraged slaughtering and processing to take place outside of urban areas, limiting the availability of freshly slaughtered “hot meat.” While many municipalities, like Beijing, made this switch years ago, ASF accelerated this shift across the country. Cold-chain capacity continues to improve and Chinese meat producers are increasingly selling branded, pre-packed pork products through supermarkets and online.

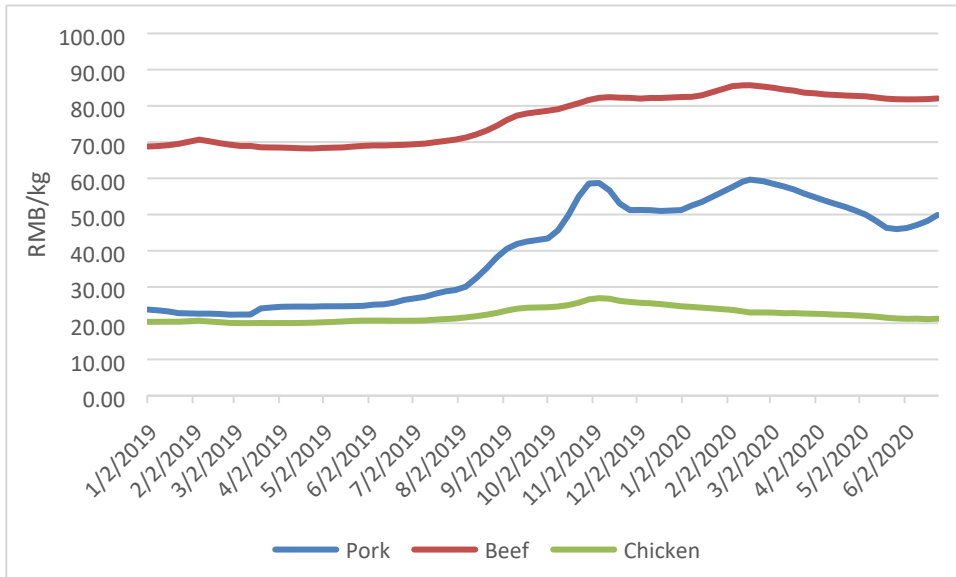
Third, pork prices will likely remain elevated above pre-ASF levels. After reaching record high levels in the latter half of 2019, prices fell for several months in 2019 and 2020, but have resumed an upward march as demand has increased following the reopening of schools and businesses across China. As China head into the peak consumption season this fall, prices will remain high even as more supply becomes available. Even as the “pork supply gap” is eliminated and production reaches equilibrium with demand, prices will remain high due to the increased production costs. Large-scale operations tend to use more expensive commercial feed, while many smaller operations still use food waste. Finally, consumers have shown a willingness to pay more for branded premium products, which will contribute to an overall increase in long-term pork prices.

### **Pork Consumption:**

Pork consumption in 2021 is forecast up to 45.1 million tons, 7 percent higher from the previous year, however, 19 percent lower as compared to 2018—far below pre-ASF levels. This large gap cannot be met by domestically produced substitute proteins, imported pork, or imported substitute proteins.

COVID-19 has been a significant factor in weak pork consumption in 2020. The COVID-19 outbreak slowed China’s GDP growth in the first half of 2020. When Chinese consumers face economic uncertainty, they tend to cut back on unnecessary purchases. For many, this means cutting back on meat consumption. Pork consumption was further reduced when social gatherings, businesses, and schools/universities were partially or fully restricted in most of China from January to early June 2020. Chinese official data shows total catering industry revenue declined 36.5 percent in the first 5 months of 2020 as compared to the previous year. As China reopened schools and businesses, pork prices rebounded in the first week of July, up 19 percent from early June. China’s intensified inspection or suspension of meat imports due to COVID-19 trade restrictions impacted foreign meat plants, pushing pork prices higher

**Chart 6 – Pork, Beef and Chicken Price Trends**  
(Weekly from 2019 to June 2020)

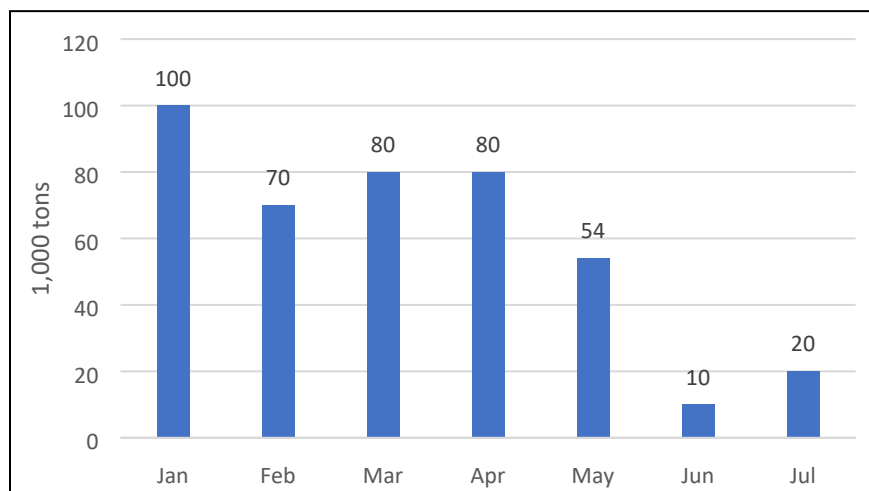


Source: MARA

*Chinese government implements measures to balance meat supply and demand*

Facing soaring pork prices, China’s central and local governments have auctioned off frozen pork from various publicly held reserves. However, due to the limited volumes, these sales are more symbolic and have had a limited, short-term impact on stabilizing high prices. Chinese industry sources reported that 140,000 tons of frozen pork reserves were sold nationwide in December 2019, representing about 4 percent of normal monthly consumption. In 2020, cumulatively another 410,000 tons were sold as of July 10. Notably, these auctions were primarily comprised of imported pork from the EU and United States. The retail price averaged \$8.7 USD per kilogram, or about 40 percent lower than domestically produced chilled pork. The government’s actual pork reserve volumes are a closely held national secret and are not publicly available. An industry source estimated the central government’s pork reserves are depleted and are no higher than 600,000 tons while reserves held by others (likely local governments or industry) is 1 million tons, at their largest. As such, the government’s ability to directly intervene in the pork market will be more limited in the 2<sup>nd</sup> half of 2020 and into 2021. In addition to releasing pork from reserves, provincial governments have used subsidies to control commodity price growth as a social security measure.

**Chart 7 - Central Government Auctions of Pork in 2020**



Source: Industry and Media Reports; Note: May sales included 4,000 tons of beef/mutton

### *Consumption of other animal proteins continue to increase*

Even as China's central government pushes for a faster recovery of the swine sector, it is also actively encouraging consumers to diversify their diets, especially poultry. While the stated reason is that poultry is healthier and more sustainable, it is widely understood that this is also an effort to balance the domestic meat supply. China's poultry production maintained steady growth in the first months of 2020. Official data shows chicken slaughter is 3.53 billion and meat production is 5.65 million tons in the first 5 months of 2020, up 4.3 percent and 5.6 percent, respectively from the previous year. Assuming that China continues to reopen from the COVID-19 related closures, chicken meat consumption is forecast to continue increasing in 2021. According to industry sources, China's duck meat production is also expected to continue growing in 2020 from 9.44 million tons in 2019 (up 34 percent from 2018). Overall, the increasing availability of substitute proteins will continue to compete with pork, even as pork supplies increase and prices fall.

### **Trade**

#### *Pork imports expected to reach a record 4.3 million tons in 2020, but stabilize in 2021*

Pork imports are expected to increase to a record 4.3 million tons in 2020, representing a 76-percent year on year increase, as reduced domestic supplies are unable to meet demand. Pork imports, however, are expected to decline in 2021 as domestic production continues to increase. At a forecasted 3.7 million tons in 2021, pork imports will still be much higher than pre-ASF levels, but will begin to stabilize (i.e., year-to-year changes going forward will be comparable to pre-ASF changes). In addition to competition from increasing domestic supplies, pork import growth may be limited by pork availability on the global market, which usually provides only about 6 million tons for exports annually.

Due to ASF, the types of pork imported by China have changed. Traditionally, China does not import large amounts of pork muscle cuts for direct human consumption; most imported pork is frozen and consumed by the meat processing industry. However, due to tight supplies of pork muscle cuts and the increasing willingness of Chinese consumers to consume frozen/chilled pork, imports going forward will include more muscle cuts. In the first five months of 2020, swine meat imports grew by 156 percent, while offal imports only increased by 27 percent.

#### China's Chilled and Frozen Swine Meat Imports (HS 0203)

Calendar Year	2017	2018	2019	Jan-May 2020	%Δ 2020/2019
World Total	1,216,757	1,192,828	1,994,167	1,682,986	156
Spain	237,514	219,626	381,629	300,136	129
Germany	211,775	228,371	323,162	239,637	111
<b>United States</b>	<b>165,741</b>	<b>85,650</b>	<b>244,973</b>	<b>333,445</b>	<b>531</b>
Brazil	48,716	150,091	222,108	155,818	158
Canada	166,728	160,260	172,092	134,015	27
Denmark	88,733	72,261	164,333	151,108	292
Netherlands	86,419	84,709	159,962	126,208	144

Source: TDM

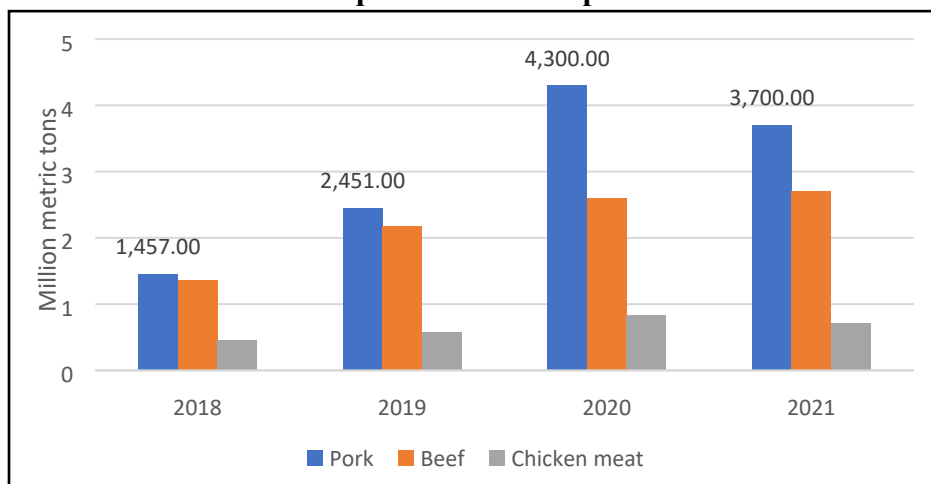
#### China's Imports of Swine Offal (HS Code 020649)

Calendar Year	2017	2018	2019	Jan -May 2020	%Δ 2020/2019
World Total	1,235,919	946,265	1,011,582	518,210	27
<b>United States</b>	<b>416,322</b>	<b>177,041</b>	<b>173,031</b>	<b>99,572</b>	<b>84</b>
Germany	147,107	132,300	168,771	89,503	40
Spain	125,158	108,862	143,894	83,537	68
Denmark	144,250	140,803	140,468	64,793	7
Netherlands	100,603	107,474	118,584	55,533	17
Canada	125,604	119,142	91,993	42,727	-33
France	59,932	56,840	66,243	27,072	6

Source: TDM

As domestic supplies remain constrained and there is more chilled/frozen pork being offered for sale, imported pork will be more competitive. Imported pork is also likely to be viewed by Chinese consumers as safer, due to ongoing news reports of ASF in domestically produced pork.

**Chart 8 - China's Imports of Pork Expected to Soar in 2020**



Source: TDM, USDA Estimates, and Post Forecasts

China continued to diversify its sources of pork imports and other protein products with newly approved market access for meat products for 16 countries and expanded market access for 21 countries in 2019. Currently, 22 countries (based on GACC’s website) are approved to export pork to China.

Additionally, China lowered pork tariffs to facilitate increased imports. China reduced the applied import tariff rate by 4 percentage points effective on January 1, 2020, which is expected to cut pork import cost by about 3.6 percent from the current level.

**Tentative Import Tariff Rates on Select Agricultural Products Effective January 1, 2020**

Serial No.	HS Code	Commodity	MFN rate (%)	2020 tentative applied rate (%)
1	02032200	Frozen hams, shoulders, and cuts of swine, with bone	12	8
2	02032900	Other meat of swine, frozen	12	8

Source: GACC

*GACC takes regulatory action against foreign meat facilities following Beijing COVID-19 outbreak*

Since June 2020, China has begun to restrict food and agricultural trade directly, citing concerns about COVID-19 transmission through food and food packaging materials. Following a COVID-19 outbreak traced back to Beijing’s Xinfadi Wholesale Market, China implemented a series of measures to test for COVID-19 in food and food packaging materials. While China did do some testing of its domestic food supply, the majority of these new measures are aimed at imported foods, especially meat, poultry, and seafood. The extent to which these new trade restrictions affect pork imports continues to evolve. China has already suspended, de-listed, or requested a voluntary suspension for several overseas pork, beef, and poultry exporters. While some facilities have been allowed to resume exports to China, Chinese importers report that the increased regulatory risk has discouraged some importers from placing new orders, at least until the situation becomes clearer.



*U.S. pork exports to China continue to increase*

China’s imports of U.S. pork and swine offal have rapidly increased in 2020, after signing and implementation of the Economic and Trade Agreement between the United States and China (ETA). Commitments to purchase U.S. products, access for a wider scope of pork products, and implementation of tariff exclusions facilitated these increased imports. The ETA also restores access for processed U.S. pork products, which had previously been restricted due to registration-related issues. For more information about how the ETA may affect U.S. exports of pork and pork products, please see GAIN Report CH2020-0039 (Update to the Export Process for U.S. Pork and Pork Products).

The retaliatory duties levied on U.S.-origin pork products remain the largest impediment to increased U.S. pork exports to China. While China has temporarily granted some tariff relief through the tariff exclusion process, most U.S.-origin pork products are still subject to additional Section 232 retaliatory tariffs.

<b>HS Code (8-digit)</b>	<b>Product Description</b>	<b>MFN Rate</b>	<b>232</b>	<b>301</b>	<b>Add'l tariff</b>	<b>Total Applied Tariff</b>
	<b>Implementation Date</b>	<b>Jan 1, 2019</b>	<b>Apr 2, 2018</b>	<b>Jun 1, 2019</b>	<b>Sep 1, 2019</b>	<b>Dec 15, 2019<sup>[1]</sup></b>
02031110	Fresh or chilled, suckling pig: whole or half-carcasses	20%		25%		45%
02031190	Fresh or chilled, other meat of swine: whole or half-carcasses	20%		25%		45%
02031200	Fresh Or Chilled Unboned Hams, Shoulders & Cuts	20%	25%	25%	5%**	75%
02031900	Other Fresh Or Chilled Swine Meat	20%	25%	25%	5%**	75%
02032110	Frozen, suckling pig: whole or half-carcasses	12%		25%		37%
02032190	Frozen Swine, whole or half-carcasses, Nes	12%	25%	25%		62%
02032200	Frozen Unboned Hams, Shoulders & Cuts Thereof Of	8%*	25%	25%	5%**	63%
02032900	Other Frozen Swine Meat	8%*	25%	25%	5%**	63%

Note: \* Tentative tariffs effective on January 1, 2020. \*\*Additional tariffs were adjusted on February 14, 2020 (see GAIN report CH2020-0016)

China opened a new round of tariff exclusions on March 2, 2020 and included many pork and pork products in the announcement as eligible for tariff exclusions. Since this announcement, industry has reported that many importers have successfully applied for and received tariff exemptions, fueling

additional purchases. For more information about the tariff exclusion process, please see the following GAIN reports:

[CH2020-0017 \(China Announces A New Round of Tariff Exclusions\)](#);  
[CH2020-0024 \(China Publishes Step-By-Step Tariff Exclusion Guide\)](#); and  
[CH2020-2032 \(China Publishes Frequently Asked Questions Document on Tariff Exclusion Process\)](#)

## CATTLE

### PRODUCTION SUPPLY DEMAND TABLE FOR CATTLE

	2019		2020		2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Total Cattle Beg. Stocks</b>	89,153	89,153	91,380	91,380	0	92,850
<b>Dairy Cows Beg. Stocks</b>	13,000	13,000	13,500	13,500	0	14,000
<b>Beef Cows Beg. Stocks</b>	52,500	52,500	52,750	52,750	0	53,000
<b>Production (Calf Crop)</b>	50,750	50,750	51,000	51,000	0	52,200
<b>Total Imports</b>	210	210	100	100	0	120
<b>Total Supply</b>	140,113	140,113	142,480	142,480	0	145,170
<b>Total Exports</b>	17	17	15	15	0	15
<b>Cow Slaughter</b>	0	0	0	0	0	0
<b>Calf Slaughter</b>	0	0	0	0	0	0
<b>Other Slaughter</b>	47,500	47,500	48,500	48,500	0	50,405
<b>Total Slaughter</b>	47,500	47,500	48,500	48,500	0	50,405
<b>Loss and Residual</b>	1,216	1,216	1,165	1,165	0	1,200
<b>Ending Inventories</b>	91,380	91,380	92,800	92,800	0	93,550
<b>Total Distribution</b>	140,113	140,113	142,480	142,480	0	145,170
(1000 HEAD)						

### Production

*China's beef cattle inventory to increase slightly in 2021*

China's overall cattle herd inventory is forecast to increase by 1 percent to 92.9 million head beginning in 2021. By the end of 2021, ending inventories will essentially remain flat at 93.6 million head. Due to the slow and steady increase, ruminant feed consumption will increase by 1.4 percent year-on-year to 10.9 million tons in 2020.

### China's 2020 Annual Feed Consumption Forecast

	<b>2019</b>	<b>2020</b>	<b>% change</b>
<b>Total Consumption</b>	226,360	227,220	0.4%
<b>Swine</b>	76,510	70,740	-7.5%
<b>Broiler</b>	84,580	90,700	7.2%
<b>Layer</b>	30,830	30,940	0.3%
<b>Aquaculture</b>	21,400	21,300	-0.4%
<b>Ruminants</b>	10,740	10,900	1.4%

Source: 2020 China Agricultural Outlook Conference; in 1,000 tons

Cattle production in China varies significantly from region to region. Cattle production in Southwest China has been increasing steadily over the last few years, driving the overall increase. Municipal and provincial governments have been very supportive for cattle farmers and the beef industry. For example, in Sichuan and Yunnan Provinces, cattle farming is recognized as a type of poverty alleviation and has access to special development support. Local governments are also providing special loans to cattle farmers to help offset the impact from COVID-19. In Northeast China, based on a Heilongjiang provincial survey, cattle farms reported that COVID-19 had a limited impact on cattle and sheep breeding. Farms saw cattle inventory rise by 7.3 percent driven by strong beef prices. In East China, many small cattle farms have already been shuttered; while large farms persist, their numbers have remained stable. In North China, cattle production is expected to decrease by 10 to 20 percent in 2020.

#### *ASF drives high beef prices, leading to strong beef industry profits in 2020*

Sustained demand growth for beef in China has led to several years of high prices and strong profits for the Chinese beef industry. Pork shortages related to ASF have helped to drive up demand for beef. Despite higher labor costs, increased investments in bio-security, more climate-controlled facilities, and higher feed costs, soaring beef prices enabled beef cattle farms to reap strong profits, encouraging an expansion of beef cattle farming heading into 2021. Industry reports that the average net profit for raising a single beef cow were about 3,082 RMB, up more than 75 percent over the same period in 2019. China's central government has also promised to grant subsidies of RMB 250,000 to 500,000 (\$36,000 to \$71,000 USD) to farms that slaughter 500 or more head of beef cattle or breed more than 50 cows in 2020. However, small farms with less than 100 head, which account for more than 90 percent of the country's total number of cattle farms, are still reporting a cautious approach due to rising feed and calf costs, along with inadequate capital input and disease management knowledge.

The increased demand for beef caused by ASF also resulted in the loosening of certain restrictions on cattle farming. The National Land and Resource Ministry requires that land used for animal farming is zoned for specific agricultural uses. To raise livestock on otherwise arable land used to require government approval. However, a new regulation put in place in 2020 will greatly loosen the restriction on using that land for livestock farming. Environmental protection policies placed on livestock breeding operations were relaxed in 2019 and 2020 to encourage increased production, accelerating the expansion of the large-scale beef cattle sector.

The COVID-19 epidemic has had a limited effect on China's cattle production. From February to July 2020, COVID-19 epidemic control measures made it difficult to transport and sell live cattle. There were also less cattle available for slaughtering due to longer fattening times. However, these disruptions were relatively short-lived, and production is expected to pick up in the second half of 2020. According

to China's National Animal Husbandry Station, beef cattle stocks increased by 1 to 3 percent month-on-month through the first quarter of 2020.

## Imports

Live cattle imports are estimated to increase slightly in 2020 to 120,000 head, primarily due to Chinese government support (subsidies for imported breeding cattle). Australia accounts for over 80 percent of China's live beef cattle imports. On July 3, 2020, almost 2,000 live beef cattle from Australia were imported to Hainan (island) after 10 days at sea. Hainan provincial authorities are preparing to import at least 10,000 more head of live cattle from Australia in the second half of this year, as a concrete step in line with a master plan released on June 1 to build Hainan into a high-level free trade port. Industry projects the trend to continue into 2021. Other notable exporters to China include New Zealand and Uruguay, accounting for another 10 percent of imports.

## BEEF

### PRODUCTION SUPPLY DEMAND TABLE FOR BEEF

	2019		2020		2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Slaughter (Reference)</b>	47,500	47,500	48,500	48,500	0	50,405
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	6,670	6,670	6,780	6,780	0	6,900
<b>Total Imports</b>	2,177	2,177	2,600	2,600	0	2,700
<b>Total Supply</b>	8,847	8,847	9,380	9,380	0	9,600
<b>Total Exports</b>	21	21	15	15	0	20
<b>Human Dom. Consumption</b>	8,826	8,826	9,365	9,365	0	9,580
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	8,826	8,826	9,365	9,365	0	9,580
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	8,847	8,847	9,380	9,380	0	9,600
(1000 HEAD), (1000 MT CWE)						

## Production

Post estimates China's 2020 beef production to increase by less than 2 percent to 6.8 million tons. At China's 2020 Agricultural Outlook Conference, MARA experts similarly estimated domestic beef production in 2020 to grow at 1.6 percent. This rate of growth is expected to continue into 2021, resulting in a 2021 beef production forecast of 6.9 million tons. Notably, Chinese cattle slaughter weights have risen, as ranchers are fattening their cattle to heavier weights to increase the amount of beef produced per animal. Industry reports that this is due to the rising costs of calves and feed. Since 2019, beef wholesale prices started to soar and reached a record high at 85.5 yuan/kg in February 2020,

up 3.9 percent from 2019's highest level, and have remained high after the Spring Festival due to tight supply, lower production, and robust consumption. Rising input costs and the availability of lower-priced imports constrain more robust expansion of domestic beef production, despite strong profits.

## **Consumption**

Beef consumption in 2021 is estimated to increase slightly by 1.8 percent to 9.6 million tons. At China's 2020 Agricultural Outlook Conference, a MARA researcher forecasted beef consumption will increase to 8.45 million in 2020, representing an increase of 1.4 percent, and will keep increasing by 2 to 3 percent year-on-year for the foreseeable future.

In 2020, the primary constraint to increased beef production has been weak demand due to COVID-19. China's overall economy has been affected by COVID-19, especially depressing the HRI sector. Since HRI is the primary outlet for consuming high-end beef in China, the closure of many high-end hotels and standalone restaurants in the first half of 2020 has greatly weakened demand. Even with hotels and restaurants opening back up, individual Chinese consumers tend to limit spending to non-essential items in the face of economic uncertainty. As beef is not a traditional part of the diet for most Chinese consumers and is the most expensive of the available proteins, Chinese consumers have been scaling back their beef consumption. Even in the more economically developed Eastern China region, beef demand from HRI will remain constrained. Industry reported that as of June 2020, the HRI industry in Beijing, Shanghai, and Shenzhen had recovered to 33 percent, 50 percent and 55 percent of pre-COVID-19 levels, respectively.

One bright spot has been the increasing amount of beef being consumed at take-out BBQ restaurants. However, this beef is generally lower-end cuts. Similarly, while Chinese consumers are cooking and eating more beef at home, most of the products for in-home consumption are well-suited to more traditional Chinese cooking styles.

## **Trade**

Post forecasts beef imports will reach a record 2.7 million tons in 2021, representing a 4-percent increase from 2020. This represents a significant slowdown in growth compared to a year before, when year-on-year import growth increased significantly (20 percent) as ASF pushed up pork prices to record levels, stimulating consumption of other proteins, from both domestic and overseas sources. While a significant protein supply gap still exists, 2021 import pace will slow down due to stricter inspection and quarantine measures on imported products, slow recovery of the HRI sector, and high stocks of imported beef carried over from 2020.

In 2020, China announced new market access for a number of countries' beef products, including products from Burma, the United States, and Russia. China also announced new overseas facilities

approved for export. South American countries (Brazil, Argentina, and Uruguay), remained the top suppliers for the China market and accounted for 65 percent of the market in the first five months of 2020.

*COVID-19 creates uncertainty for future beef imports*

COVID-19 disrupted beef imports in 2020 and has created great uncertainty for beef imports in 2021. In the last half of 2019 and the first half of 2020, imports of beef increased at a rapid pace due to strong demand created by high pork prices. For example, in January to May 2020, imports of fresh, chilled, and frozen beef increased 45 percent from the same period in 2019. However, as the impacts of COVID-19 began to be fully realized and demand weakened, traders reported difficulties moving product. In fact, based on unofficial estimates, there may be as much as 700,000 tons of imported beef in cold storage across China.

In addition, due to a detection of COVID-19 in Beijing's largest wholesale market, China implemented a number of restrictive measures nationwide on food and agricultural imports. These measures have limited beef imports in the short-term and have created significant business uncertainty in the longer-term, potentially slowing future beef imports. In the short-term, Chinese regulatory agencies have required additional COVID-19 control measures and certifications as part of the customs clearance process. Chinese regulators are also suspending or requesting overseas facilities to self-suspend based on media reports about COVID-19 in the producing country. In the longer term, Chinese importers report concern for additional COVID-19 related suspensions.

**Attachments:**

No Attachments