

Required Report: Required - Public Distribution

Date: April 16,2020

Report Number: CH2019-0204

Report Name: Livestock and Products Semi-annual

Country: China - Peoples Republic of

Post: Beijing

Report Category: Livestock and Products

Prepared By: Abraham Inouye

Approved By: Michael Ward

Report Highlights:

ASF has devastated China's swine industry since August 2018. Despite low official reported cases of ASF and robust recovery efforts in the second half of 2019, overall swine production and slaughter will remain depressed in 2020. Further complicating matters is the coronavirus outbreak in China, but it is likely that there will be sufficient market incentive and political stimulus to push forward with recovery efforts. As a result, the 2020 ending hog inventory is expected to increase slightly from 2019 as the decline bottoms out. With low pork production in 2020 resulting in high pork prices, many Chinese consumers will seek out beef as an alternative protein. While elevated beef prices will spur some larger facilities to increase cattle production, most smaller facilities will be cautious in the face of uncertain pork prices and rising input costs. Overall, cattle ending inventories are expected to remain basically flat through 2020. The majority of increased beef demand will be satisfied by imports.

Executive Summary:

Swine Inventory: Hog and sow inventory are both starting at low levels, having fallen 27 and 30 percent respectively from 2019's starting inventory. Due to robust restocking efforts in 2020 and fewer losses to ASF, the decline in herd inventory will reverse and year end 2020 inventories are forecast to grow by 9 percent.

Pork Production: Total hogs slaughtered and pork production in 2020 are both estimated to fall further by 24 percent and 20 percent, respectively, from the previous year.

Pork Consumption: High prices will force many Chinese consumers to seek out substitute proteins or decrease net meat consumption. The Chinese government will continue to use multiple market and policy interventions in an attempt to stabilize prices.

Pork Trade: As the pork supply remains tight through 2020, pork imports will increase to a record 3.9 MMT. However, China's pork supply gap vastly outstrips available global supply, resulting in persistent high prices.

Cattle Inventory: Due to the longer life cycle of beef production, overall cattle inventories will not see a significant increase in 2020, as most smaller cattle farmers forego investing to expand operations. However, government stimulus, relaxation of environmental standards, and higher profits will likely incentivize some larger operations to invest in long-term expansion.

Beef Production: With increasing slaughter weights and high demand, domestic beef production will increase to 7 MMT.

Beef Consumption: Persistent high pork prices have decreased the price gap between pork and beef, leading many consumers to increase their beef consumption. Although many traditional Chinese dishes cannot substitute beef for pork, thinly sliced beef for hotpot will likely realize high growth in 2020.

Beef Trade: With very limited capacity to grow domestic production, China's growing appetite for beef will continue to be met by imports estimated at 2.5 MMT in 2020.

Trade Policy: The signing and implementation of the U.S.-China Economic and Trade Agreement (ETA) will open the doors for increased imports of U.S. pork and beef, including processed meat products. Also, tariff exclusions for U.S. meat imports will spur additional purchases in 2020.

PRODUCTION, SUPPLY, AND DEMAND TABLE FOR SWINE

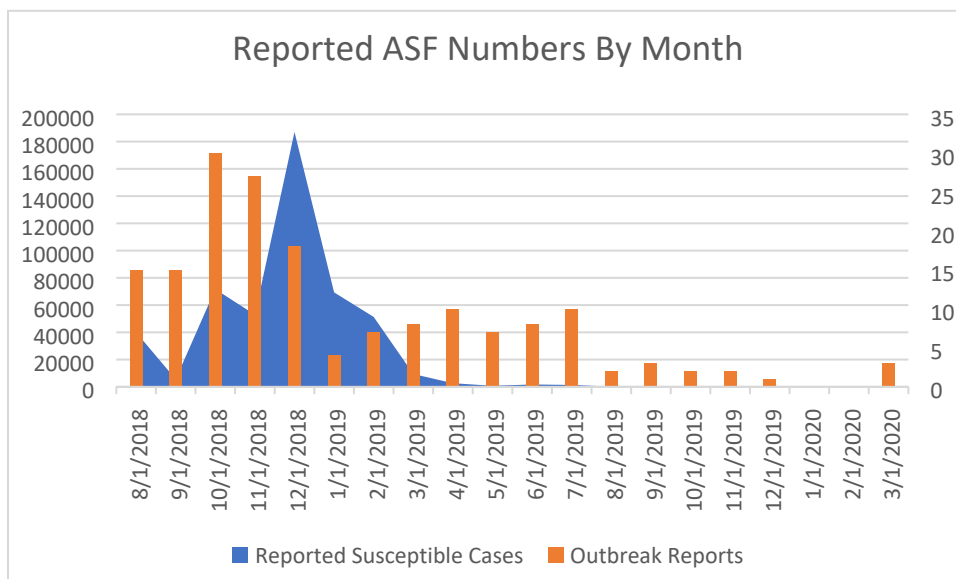
Animal Numbers, Swine	2018		2019		2020		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	YOY Δ
Total Beginning Stocks	441,589	441,589	428,070	428,070	310,410	310,410	-27%
Sow Beginning Stocks	43,610	43,610	37,000	37,000	26,000	26,000	-30%
Production (Pig Crop)	687,500	687,500	440,000	440,000	450,000	450,000	2%
Total Imports	10	10	4	4	25	25	525%
Total Supply	1,129,099	1,129,099	868,074	868,074	760,435	760,435	-12%
Total Exports	1,567	1,567	956	956	600	600	-37%
Sow Slaughter	0	0	0	0	0	0	
Other Slaughter	693,820	693,820	544,190	544,190	422,000	415,000	-24%
Total Slaughter	693,820	693,820	544,190	544,190	422,000	415,000	-24%
Loss and Residual	5,642	5,642	12,1518	12,1518	7,835	7,835	-37%
Ending Inventories	428,070	428,070	310,410	310,410	337,000	337,000	9%
Total Distribution	1,129,099	1,129,099	868,074	868,074	760,435	760,435	-12%
All units in 1,000 head							

Swine Production:

Despite low official reported cases since the second half of 2019, ASF and the resulting complications caused by the virus, continue to persist across China. However, reports from large farms indicate that investments in biosecurity and supply chain measures, implemented to control ASF, have been fairly effective.

Underreporting of ASF has been an obstacle to controlling the disease

Since the first ASF case was reported in August 2018, China's Ministry of Agriculture and Rural Affairs (MARA) officially reported 171 ASF outbreaks to the World Organization for Animal Health (OIE), as of March 20, 2020.



Source: OIE

Citing the decreasing number of reported outbreaks from August to December 2019, Chinese officials have claimed that ASF is being controlled and herd numbers will return to “normal levels” in 2020. Industry sources, however, believe the number of actual outbreaks far exceeds the numbers reported by MARA. Underreporting is rampant as government agencies at all levels face serious challenges in collecting and reporting outbreak information from swine farms. Some farms are reluctant to report outbreaks for fear of economic losses, while others report being actively discouraged from reporting ASF outbreaks. Furthermore, local industry sources have reported that local governments are discouraged from investigating and reporting ASF outbreaks for fear of bringing attention to their region. In addition, continued reporting of ASF outbreaks will negatively impact the government’s efforts to encourage restocking. Regardless of the motivation, the official reported cases do not reflect the continuing severity of the ASF situation in China. Chinese industry sources believe the industry needs to prepare to fight ASF in the foreseeable future although official reporting on ASF outbreaks will continue to be low in 2020 and beyond (for more information on China’s ASF outbreaks in 2019, please see the [China: Livestock and Products Annual](#)).

On March 26, 2020, MARA published Announcement 285, detailing a ten-point plan for continuing to control ASF. The first point on the list is for farmers, slaughterhouses, and even government officials to not conceal the epidemic situation in China. For more information, please see MARA Announcement 285 at: http://www.moa.gov.cn/govpublic/xmsyj/202003/t20200326_6340015.htm (links to a Chinese language website). While this announcement does not contain any new measures, it reinforces the degree to which the Chinese government continues to worry about ASF. In a follow-up press release, MARA points to the lower number of outbreaks this year (as opposed to the same time in 2019) as evidence that the overall epidemic situation is improving, but warns that with the expansion in the swine industry, it is more important than ever to be vigilant about taking precautions.

Lack of epidemiological information hinders effectiveness of countermeasures

Underreporting of ASF outbreaks seriously hinder better epidemiological investigations of the disease and slows the implementation of effective countermeasures. Despite new licensing and certification regulations, a large number of live pigs (fattened hogs, sows, and piglets) continue to be traded in an uncontrolled manner. Large price differences between provinces will continue to drive high profits. For example, Chinese official media reported on the illegal transfer of piglets by private vans/cars in Yunnan province and dead pigs slaughtered for human consumption in Guangdong province in late 2019. China's hog slaughtering industry remains scattered and the market share of small slaughter facilities still accounts for over 50 percent of pork production. Lack of proper monitoring and enforcement in these small slaughtering facilities increases the difficulty of implementing ASF countermeasures across China.

While large farms have sufficient capital to implement many of the recommended biosecurity measures, small farms still face immense challenges. Facing a raft of new regulations, industry sources indicate farms are increasingly handling outbreaks quietly through identification and elimination of infected animals. Because many of these outbreaks go unreported, there is no follow-up investigation to determine the source of the outbreak, leading to rebreaks.

One positive development for the industry is that newly built farms are investing in more science-based biosecurity measures which are expected to reduce the overall transmission of diseases among the swine industry.

Farms focusing on upgrading biosecurity since ASF vaccine still not available

The Chinese government and the swine industry have undertaken various measures to control the spread of ASF since the first outbreak was reported in August 2018. One of the measures taken has been to restrict the movement of live hogs across Chinese provinces. During a pilot program that ended in November 2019, live hogs raised in other provinces were not permitted to be transferred into six provinces (Guangdong, Fujian, Jiangxi, Hunan, Guangxi and Hainan) without being part of an approved "Point to Point" system, where swine were only allowed to be transported from a specific designated location to another designated location. This program did not restrict the movement of breeding sows or piglets.

In December 2019, MARA launched a three-month special operation to combat the illegal slaughtering of hogs. The action requires that local agricultural and rural departments maintain a hotline through their official website for reporting slaughtering problems. The measures also require local law enforcement to strictly crackdown on the sale and processing of sick and dead pigs.

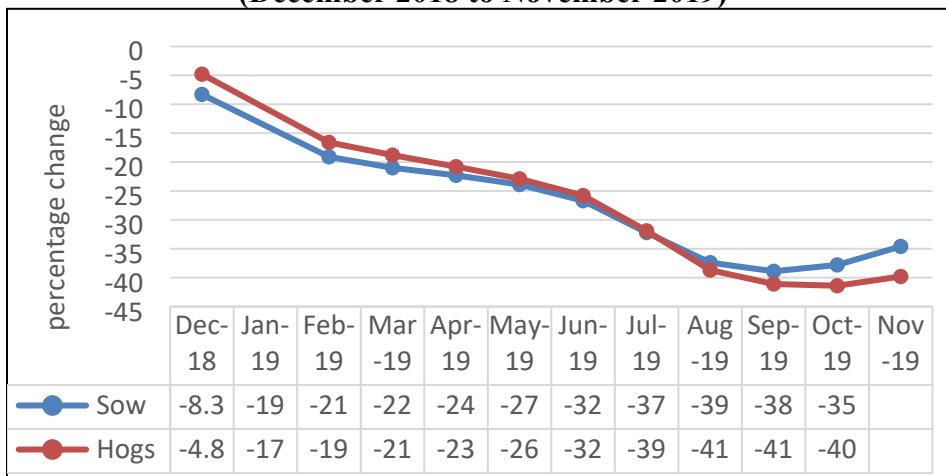
The Chinese government has invested significant resources to support the development of an ASF vaccine. While MARA has not yet approved a commercial ASF vaccine, there have been a number of reports of unapproved products being used in the market. On November 2019, MARA published a notice that warned against the illegal production, marketing, and use of unauthorized "ASF vaccines."

This message was reinforced in the recent Announcement 285. Recently, the Harbin Veterinary Research Institute has reported developing a vaccine that has shown to be safe and effective in laboratory tests. But it is still unclear if, or when, a commercial vaccine will be available.

Nationwide herd inventory remains depressed in 2019, but decline reaches bottom

Estimated beginning sow and hog inventories are both down by about 27 percent and 30 percent respectively in 2020. Despite MARA’s survey results showing moderate recovery of sow and hog inventories since October 2019, the beginning sow and hog inventory continues to be low in 2020. However, based on the current recovery trajectory, hog inventories are expected to be up to 315 million head, a 7-percent year on year increase.

**Sow and Hog Inventories Decline Bottoms Out
(December 2018 to November 2019)**



Source: MARA

MARA’s monitoring data (covering 400 swine-producing counties nationwide) showed November 2019 sow inventory up 4 percent and hog inventory up 2 percent, respectively from October, maintaining the second consecutive month of growth. In November, hog inventory showed growth in 18 provinces and sow inventory reportedly increased in 22 provinces, both up from the 12 provinces and 17 provinces in October. Among large scale farms, the growth was even higher with both hog and sow numbers up 1.9 percent and 6.1 percent, respectively.

Government policy facilitates restocking

In 2019, MARA implemented a three-year mission plan for stabilizing swine production and supply. One of the key principals of this plan is to set specific production targets on a per-province level. Specific targets of slaughtered hogs to be shipped out in 2020 were set for top swine-producing provinces including Henan, Jiangxi, Hunan and Shandong while the hog production targets are also set for hog intake provinces/municipalities. Large companies are encouraged to assist small to medium swine farms resume operation. By the end of 2019, MARA had implemented a program called “Large Agricultural Enterprises Lead 10,000 Households on Swine Farming to Alleviate Poverty” in 16 less-developed cities in provinces including Hubei and Sichuan. With investment of RMB50 billion (\$7.1

billion) by 15 large agricultural enterprises, the program is expected to add 22 million slaughtered hogs per year.

In August 2019, China’s State Council proposed measures on stabilizing swine production to ensure pork supply, including expediting compensation payments to farmers with hogs culled due to ASF, stopping immediately the practice of over-enforcement of the regulation on banning or restricting swine farming and providing land to relocated swine farms, encouraging scale farms and rural households to raise pigs, upgrading animal disease prevention capacity, and increasing local pork reserves.

In November 2019, 20 audit teams were sent to 200 counties which ship out the highest number of hogs to strictly investigate and urge local government to fully implement the delineation of quarantine areas, in cases of potential detections. The audit teams also looked at increasing flexibility of environmental constraints and land use for expansion, relocation, or new construction of swine farms. Specifically, for farms designed to slaughter at least 5,000 hogs annually, the environmental approval process has changed to make it easier for approval based on a farm’s “notification and promise” to local authority and the approval for small farms are subject to “filing” requirements only.

The Ministry of Finance has announced that the subsidy for culling pigs is guaranteed and the rate has been raised gradually to the current RMB1,200 (\$170) per head. China’s central government reportedly paid national subsidies to the swine industry of RMB6.9 billion in 2019, of which RMB814 million was paid as a culling subsidy, an optimized preferential loan policy, and as increased swine insurance coverage.

Subsidies Provided by Central Government and Some Provinces (RMB million)

Central Government/Province	Central Government	Sichuan	Hubei	Guangdong	Jiangsu
Subsidy	6,900	2,000	1,500	200	261

Source: Various Chinese media reports; Exchange rate: \$1=RMB7

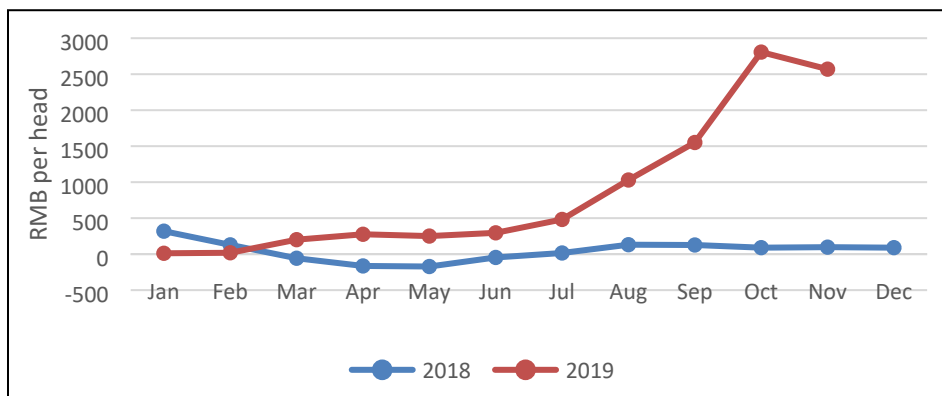
Leading swine provinces have also taken their own measures to stimulate swine recovery. For instance, Sichuan provincial government implemented eight measures, including providing RMB300 per head for newly added sows in order to achieve its target of 60 million head of slaughtering hogs for 2020. The local government said the 435 newly built farms since August will add 9 million hogs for slaughtering per year. This will effectively fill the capacity gap left by small and medium-sized farms and individual farmers, ensuring the stability of hog production and pork supply in Sichuan.

With these combined efforts, MARA expects the pork supply will increase during the second half of 2020 and hog inventories will reach 80 percent of the normal level by the end of 2020.

High prices have triggered large scale restocking since Q3 2019

The pork price surged since September 2019 with hog profits hitting record levels in October. Despite a brief three-month period of decreasing pork prices, pork prices have surged again since the beginning of 2020 and are expected to remain high. Incentivized by high profits, both Chinese government and industry sources reported that many large farms began to re-stock since the 3rd quarter of 2019.

Swine Profits Expected to Remain High in 2020



Source: China JCI Consulting

With various support policies and biosecurity measures being enforced, many large swine companies began to retain a number of their cross-bred gilts for breeding sows and began investing in capacity expansion in mid-2019. Small and medium farms are also increasing production as well, but to a lesser extent. The following table shows large swine companies reduced hog sales considerably in October 2019 as compared to the previous year, implying more gilts were retained for breeding along with an increasing number of hogs kept to be raised larger for the coming holiday season. Industry insiders report that this increasing sow herd is expected to gradually add commercial hogs for slaughter in 2020. Newly added breeding sows are mostly raised by large companies with better biosecurity measures and advanced farm management.

Large Swine Companies' Sales of Hogs Declined in October 2019

Company Name	MY	WS	ZB	TB
Change of Hog Sales	-15%	-45.4%	-35.4%	-37.4%

Source: China JCI Consulting

Industry sources have also reported large companies are capitalizing on the ASF-related downturn to expand business operations and market share. The following table shows development plans from 2020 to 2022 by some large swine companies. This is expected to increase the percentage of hogs being raised by large farms in China and result in a significant advancement of the overall industry.

Company Name	WS*	MY	ZB	ZD	COFCO	XXW	TB
2018 slaughter hogs (million heads)	22.3	11	5.5	5	4	2.6	2.2
Plan target (million heads)	70	25	30	20	10	25	5

Source: Chinese industry sources; *Targeted for 2027

Large Chinese feed mills have been a major source of swine recovery and expansion. Many mills already have integrated swine operations and have expanded those operations. Based on Chinese industry sources, in 2018, a leading Sichuan-based feed company implemented its plan to expand its

swine capacity to 25 million head per year over the next four years; a Guangdong based feed company invested RMB8.9 billion to build swine farms in four locations in Guangdong province since August 2019; and a Jiangxi based large feed producer invested RMB20 billion to pursue a sow inventory of 350,000 head and a hog inventory of 3 million head by the end of 2019, and target 10 million head in 2020.

Swine feed production bottoms out in 2019, begins moderate growth

As a result of ASF outbreaks, China's feed production is expected fall by about 10 percent in 2019 with swine feed down 25 to 30 percent and poultry feed up by about 20 percent from 2018. Swine feed production for the top three swine-producing provinces namely Henan, Sichuan, and Hunan in 2019 is estimated down by about 25 percent, 30 percent and 26 percent, respectively, from the previous year.

For the month of December, MARA data showed growing swine feed production. MARA believes this upward trend will continue through 2020. Industry sources reported feed consumption bottomed out in August 2019 and has been growing ever since.

Coronavirus outbreak will have minimal effect in slowing recovery efforts

While the full extent of the coronavirus outbreak in China is not fully understood, industry has reported some complications related to coronavirus. In an effort to slow the spread of the disease, China implemented a number of travel restrictions, especially for public transportation. Many farm workers had returned to their ancestral homes for the Chinese New Year holiday in late January. With the coronavirus restrictions going into place at the end of January, many workers were unable to return to farms or slaughter facilities until February 10, at the earliest. Depending on where they were located, some workers were quarantined away from their place of work for much longer periods of time, resulting in a general slowdown of on-farm activity. However, the Chinese government has prioritized several industries, including agriculture, and has granted some relief from the travel restrictions. As China reports less coronavirus cases and lifts movement restrictions, it is likely that the overall effect of coronavirus on the 2020 Chinese swine industry will be minimal.

Slaughter numbers expected to fall significantly in 2020

Based on lower sow and hog beginning inventories, commercial hogs in 2020 are forecast down to 415 million head, or down 24 percent from 2019. Low sow inventories, depressed PSY, and the practice of retaining gilts for breeding will all contribute to reduce the number of hogs available for slaughter in 2020. Thus, hogs available for slaughter will remain tight in 2020.

Chinese sources vary on estimated slaughter numbers for 2019 but agree this number will continue to fall in 2020. Based on the average hog inventory from May to September, the China Academy of Agricultural Science (CAAS) estimated total slaughtered hogs at about 520 million head in 2019. Furthermore, MARA's survey data shows that total slaughtered hog numbers were 17 percent lower in the first 10 months of 2019 compared to the previous year. Industry sources also report that large

slaughtering facilities operated at an average of 25 percent of slaughter capacity in December 2019, compared to about 55 percent in January 2019.

Pork Production

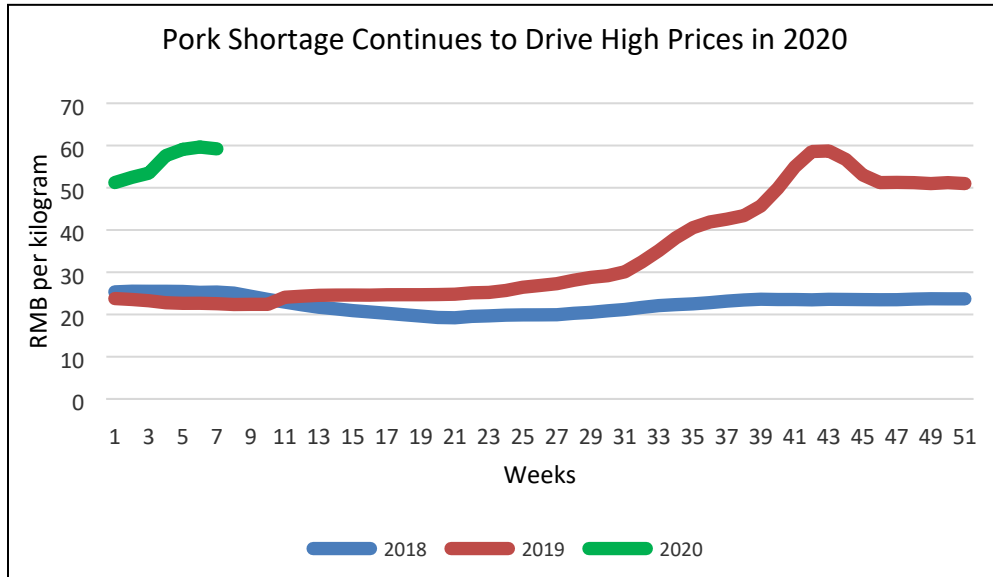
PRODUCTION, SUPPLY, AND DEMAND SITUATION FOR PORK

Meat, Swine	2018		2019		2020		YOY Δ
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Slaughter (Reference)	693,820	693,820	544,190	544,190	415,000	415,000	-24%
Beginning Stocks	0	0	0	0	0	0	-
Production	54,040	54,040	42,550	42,550	34,000	34,000	-20%
Total Imports	1,561	1,561	2,451	2,451	3,850	3,850	57%
Total Supply	55,601	55,601	45,001	45,001	37,850	37,850	-16%
Total Exports	203	203	135	135	100	100	-26%
Human Dom. Consumption	55,398	55,398	44,866	44,866	37,750	37,750	-16%
Other Use, Losses	0	0	0	0	0	0	
Total Dom. Consumption	55,398	55,398	44,866	44,866	37,750	37,750	-16%
Ending Stocks	0	0	0	0	0	0	
Total Distribution	55,601	55,601	45,001	45,001	37,850	37,850	-16%
All units in 1,000 MT CWE, unless otherwise specified							

Production:

Decreased production means high prices will persist into 2020

Pork production in 2020 is down significantly to 34 million tons, 20 percent lower than 2019. To offset the production losses during 2019, Chinese central and local governments released frozen pork reserves into the market to tamp down rising prices. The pork supply during 2020 is expected to remain very tight, driving continued high prices.



Source: MARA

Pork Consumption:

Pork consumption in 2020 is estimated to fall another 16 percent, or almost 30 percent from normal levels (in 2018) due to decreased pork production. Compared to pre-ASF consumption levels, there is an estimated pork supply gap of about 18 million tons. This massive gap cannot be met by domestically produced substitute proteins, imported pork, or imported substitute proteins. Although China's GDP growth has slowed, it is expected to grow at least 6 percent in 2020. The tight pork supply will force a significant drop in pork consumption due to record high pork prices which have persisted since September 2019 and will continue through 2020.

Due to the sustained record high prices, pork consumption has noticeably declined in large cities such as Beijing where consumers have multiple protein options and can afford to seek out substitutes. A Beijing-based large slaughter facility complained that its daily sales of hog carcasses to the largest wholesale market declined by 50 percent since November 2019. Hotels and restaurants have had to reduce the amount of pork on the menu, or adjust prices up, serving to constrain pork consumption. Swine industry experts are increasingly worried about losing market share to other meats or imported pork which may have a long-term impact on Chinese domestic hog production. Chinese consumers are increasingly concerned that the high pork prices will continue throughout all of 2020.

Chinese government implements measures to balance meat market

Facing soaring pork prices, the central and local governments have auctioned off frozen pork from various publicly held pork reserves. However, due to the limited volumes, these sales are more symbolic and have had a limited short-term impact on stabilizing high prices. One industry source reported that 140,000 tons of frozen pork were sold nationwide in December 2019, representing about 4 percent of normal monthly consumption. 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. It is believed that these publicly held reserves have not been completely exhausted yet.

Examples of Recent Government Sales of Pork Through 2020

Year	Sep 2019	Dec 12, 2019	Dec 19, 2019	Dec 23, 2019	Dec 27, 2019	Jan 3, 2020
Released volume (in tons)	30,000	40,000	40,000	40,000	20,000	30,000

Source: Ministry of Commerce and Chinese media reports

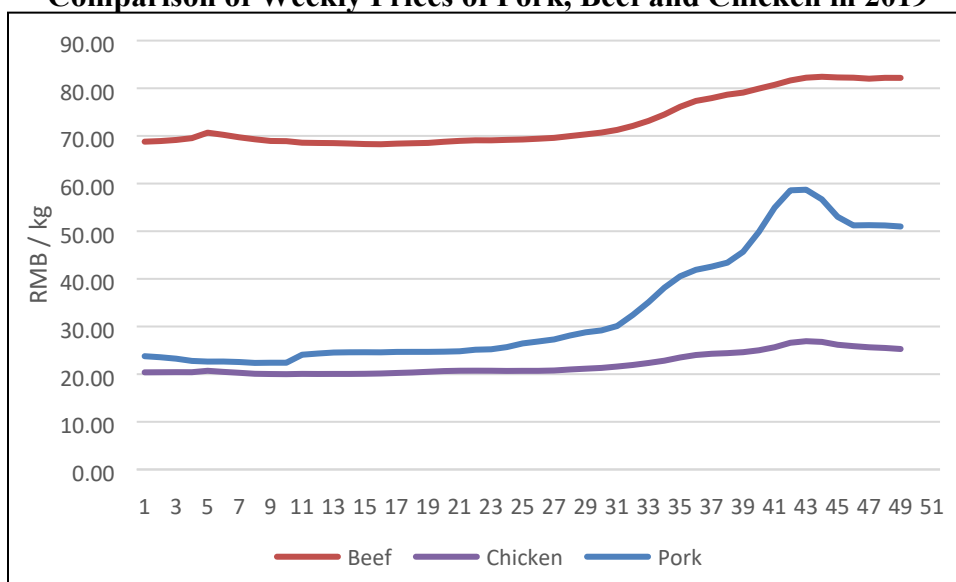
In addition to releasing pork from government reserves, since April 2019 29 provinces used price subsidies to control commodity price growth as a social security measure. The most common mechanism covers consumers who receive a national pension subsidy, an urban or rural minimum living allowance, or unemployment insurance. Nationwide, these food price subsidies collectively reached RMB5.5 billion (\$7.9 billion) with 220 million people receiving benefits.

MARA acknowledged the pork price will remain high in 2020. However, MARA also claims that the tight supply can be alleviated temporarily by the increased slaughter of larger pigs, larger imports of pork, and continued releases from the pork reserve. Additionally, domestically produced or imported substitute meats will also fill part of protein supply gap.

Consumption of other animal proteins continue to increase

China’s central government is actively encouraging consumers to eat more poultry to help balance the domestic meat supply. According to MARA statistics, in the first 10 months of 2019, broiler slaughter increased 16 percent; egg production increased 6 percent; milk production increase 6 percent from the previous year. Additionally, the National Bureau of Statistics (NBS) data also shows beef and mutton production increased by 3.2 percent and 2.3 percent, respectively, in the first 9 months of 2019. Industry sources expect this growing trend to continue in 2020 as increased prices for these replacement proteins continues to drive high farming profits. An estimated additional 8 million tons of poultry meat and eggs, beef and mutton will be produced in 2020, milk and cultured seafood production are likely to increase as well.

Comparison of Weekly Prices of Pork, Beef and Chicken in 2019



Source: MARA

Trade

Pork imports expected to hit record 3.5 million tons

Pork imports are expected to increase to a record 3.9 million tons in 2020, representing a 57-percent year over year increase, as reduced domestic supplies are unable to meet demand.¹ Pork import growth will be limited by pork availability on the global market, which usually provides about 6 million tons for exports annually.

The types of pork imported in 2020 will include a larger ratio of muscle cuts than before. Imported pork muscle cuts are typically not as competitive as domestic cuts because Chinese consumers generally prefer hot/fresh meat to chilled/frozen. But in the first two months of 2020, swine meat imports grew by 163 percent, while offal imports only increased by 7 percent.

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

Partner	January-February					%Δ 2019 - 2020
	2017	2018	2019	2019	2020	
Total Imports	1,216,808	1,192,828	1,994,167	207,041	543,901	163
EU	748,185	701,463	1,184,039	124,942	327,982	163
United States	165,741	85,650	244,973	10,917	104,771	860
Brazil	48,716	150,091	222,108	20,220	43,920	117
Canada	166,755	160,260	172,092	33,117	21,527	-35

¹ Note, USDA does not include variety or offals in its PS&D trade estimates. Total numbers of pork imports, including offals, variety meats, and processed products will be higher.

Rest of World	87,411	95,364	170,955	17,845	45,701	156
---------------	--------	--------	---------	--------	--------	-----

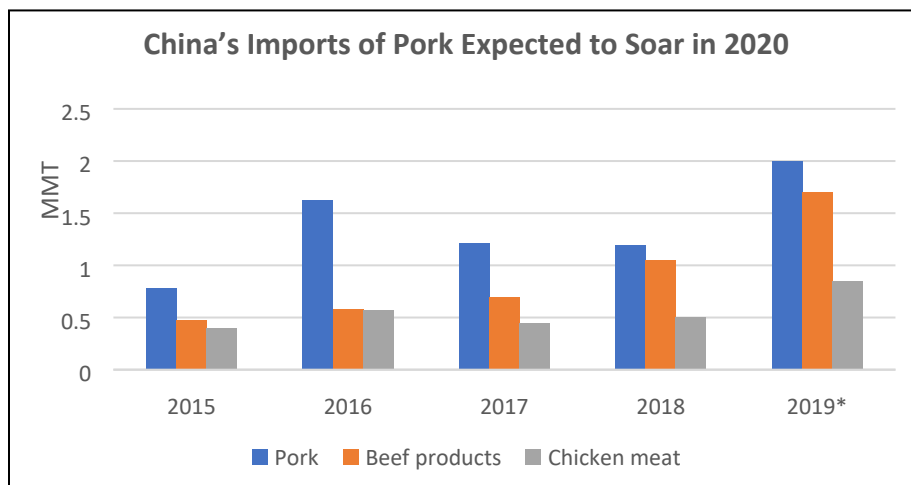
Source: TDM

China’s Imports of Swine Offal (HS Code 020649)

Partner	Calendar Year (Units in Tons)					January-February		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020 - 2019
Total Imports	775,174	1,321,352	1,235,942	946,265	1,011,607	134,791	144,183	7
EU	538,513	723,849	641,226	592,539	670,423	89,266	100,303	12
United States	140,024	424,152	416,322	177,041	173,031	12,212	25,177	106
Canada	50,088	119,020	125,604	119,142	91,993	22,192	7,588	-66
Rest of World	46,549	54,331	52,790	57,543	76,160	11,121	11,115	1

Source: TDM

As domestic supplies remain constrained and there is more chilled/frozen pork being offered for sale, imports 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.



Source: TDM

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, 20 countries are approved for exports of pork to China.

Additionally, China lowered pork tariffs to facilitate increased imports. China reduced the 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: General Administration of Customs of China

U.S.-China trade agreement opens the doors for will increased imports of U.S. pork

China's imports of U.S. pork and swine offal are expected to increase in 2020, due to the 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 will facilitate these increased imports.

The ETA also restores access for U.S. processed pork products, which have been unable to enter China due to registration-related restrictions. For more information about how the ETA may affect U.S. exports of pork and pork products, please see [GAIN Report CH2020-0039 \(Update to the Export Process for U.S. Pork and Pork Products\)](#).

Finally, China levied retaliatory tariffs on U.S. pork and pork products in several rounds. In April 2018, China imposed an additional tariff of 25 percent on many pork products in retaliation for the U.S. Section 232 Action. By the end of 2019, China had imposed additional tariffs on most U.S. pork and pork products in retaliation for the U.S. Section 301 Action.

HS Code (8-digit)	Product Description	MFN Rate	232	301	Add'l tariff	Total Applied Tariff
	Implementation Date	Jan 1, 2019	Apr 2, 2018	Jun 1, 2019	Sep 1, 2019	Dec 15, 2019 ²
02031110	Fresh or chilled, suckling pig: whole or half-carasses	20%		25%		45%
02031190	Fresh or chilled, other meat of swine: whole or half-carasses	20%		25%		45%
02031200	Fresh Or Chilled Unboned Hams, Shoulders & Cuts	20%	25%	25%	10%	80%
02031900	Other Fresh Or Chilled Swine Meat	20%	25%	25%	10%	80%

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%	10%	68%
02032900	Other Frozen Swine Meat	8%*	25%	25%	10%	68%

Note: * Tentative tariffs effective on January 1, 2020.

While China has not removed the additional tariffs that have been levied on U.S. pork and pork products since 2018, China opened a new round of tariff exclusions on March 2, 2020. China included many pork and pork products in the announcement as eligible for tariff exclusions. Since this announcement, industry has reported that many Chinese 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

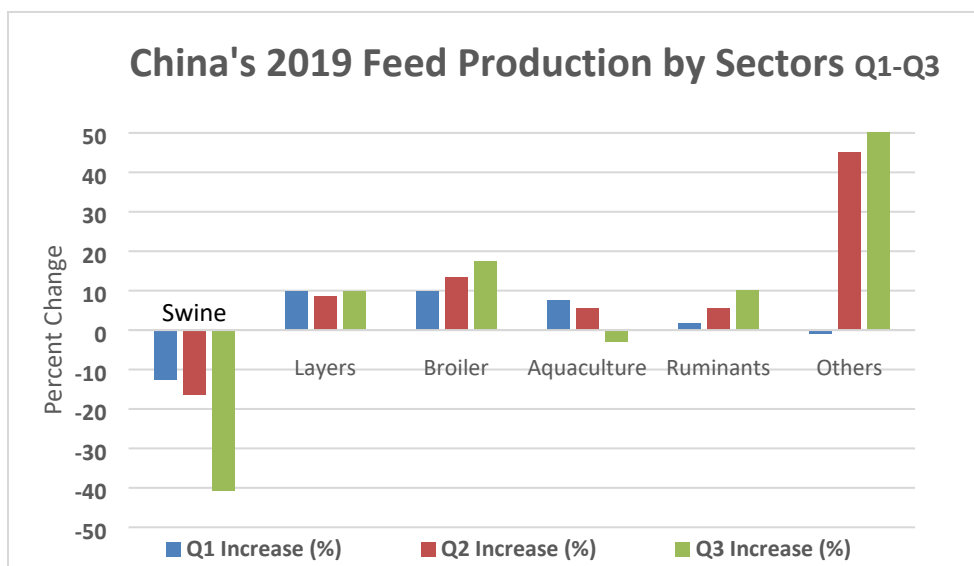
Cattle	2018		2019		2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	90,387	90,387	89,153	89,153	91,380	91,380
Dairy Cows Beg. Stocks	12,000	12,000	13,000	13,000	13,500	13,500
Beef Cows Beg. Stocks	52,000	52,000	52,500	52,500	52,750	52,750
Production (Calf Crop)	47,500	47,500	50,750	50,750	51,000	51,000
Total Imports	168	168	210	210	100	100
Total Supply	138,055	138,055	140,113	140,113	142,480	142,480
Total Exports	19	19	17	17	15	15
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	47,700	47,700	47,500	47,500	50,000	50,000
Total Slaughter	47,700	47,700	47,500	47,500	50,000	50,000
Loss and Residual	1,183	1,183	1,216	1,216	1,165	1,165
Ending Inventories	89,153	89,153	91,380	91,380	91,300	91,300
Total Distribution	138,055	138,055	140,113	140,113	142,480	142,480
(1000 HEAD)						

Production

China's beef cattle inventory to slightly increase

China's cattle herd inventory will increase 2 percent to 91 million head 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 continue driving up beef prices and subsequent

profits. Industry reported that net profits for raising a beef cattle were about 2,000 RMB in 2019, up more than 20 percent over 2018. The government has also promised to grant subsidies of RMB250,000 to 500,000 to farms that slaughter 500 or more head of beef cattle or breed more than 50 head of cows in 2020. Environmental protection policies on livestock breeding were relaxed in 2019 to encourage increased production, accelerating ongoing expansion within the large-scale beef cattle sector. 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. MARA feed production data supports the moderate rise of cattle breeding. Beef cattle feed production was up 25 percent in the 3rd quarter of 2019 compared with the same period in 2018. However, as the cattle breeding period is long, the capacity expansion will not lead to an immediate increase of cattle stocks or slaughter in 2020.



Source: NBS (data available for 2019 Q1 – Q3)

Imports

China’s live cattle imports drop due to limited availability

Live cattle imports are expected to drop to 100,000 head in 2020, primarily due to limited supplies from Australia, the primary source of live cattle imports. Australia accounts for over 80 percent of cattle imports. Other notable importers include New Zealand and Uruguay, accounting for another 10 percent of imports. Industry reports that it is customary to take 10 days to deliver live cattle from Australia to East China, by ship. In 2018, over 4,000 live Australian cattle entered China via Zhejiang’s Zhenhai ports. The main Zhejiang importer planned to increase live cattle imports from two boats per year to one boat per 45 days in the second half of 2019. However, the supply of Australian beef cattle available for export was constrained by continued drought conditions in major cattle production regions.

BEEF

Production Supply Demand Table for Beef

Beef and Veal	2018		2019		2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	46,800	46,800	47,500	47,500	50,000	50,000
Beginning Stocks	20	20	0	0	0	0
Production	6,440	6,440	6,670	6,670	6,950	6,950
Total Imports	1,369	1,369	2,177	2,177	2,500	2,500
Total Supply	7,829	7,829	8,847	8,847	9,450	9,450
Total Exports	21	21	21	21	21	21
Human Dom. Consumption	7,808	7,808	8,826	8,826	9,429	9,429
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7,808	7,808	8,826	8,826	9,429	9,429
Ending Stocks	0	0	0	0	0	0
Total Distribution	7,829	7,829	8,847	8,847	9,450	9,450
(1000 HEAD), (1000 MT CWE)						

Production

Rising input costs and availability of lower-priced imports constrain production despite strong profits

Post estimates China's 2020 beef production to slightly increase to 7 MMT representing a 4-percent annual increase. MARA data showed production increased by 3 percent in 2019 and this level of growth is expected to continue in 2020. Notably, Chinese cattle slaughter weights have risen, as Chinese 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.

Consumption

Consumer demand for beef increases, in part driven by ASF-related concerns with pork

China's total beef consumption is estimated to continue increasing in 2020, reaching 9.4 million tons, a 7-percent year-on-year increase. Both wholesale market and restaurant demand have been strong. The popular e-commerce business-to-consumer model is not preferred by importers because selling individual packages on e-commerce is a slow procedure compared to selling large volumes to distributors. Furthermore, many suppliers report being unsatisfied by the online promotion platforms of large e-commerce retailers.

Within China, the most popular cuts vary from region to region based on culinary traditions. In East China, the front parts of the cattle are more popular than the round, with rib, ribeye, strip steak, brisket, and shank as popular cuts. The sirloin and round are two common cuts used as substitutes for pork in Southwest China. Round and short plate are the two most popular cuts in Northeast China. Secondary beef cuts such as beef shank, chuck roll, and flat iron are reportedly substituted for pork in South China.

Under normal conditions, the relatively high price of beef is an obstacle to more widespread consumption. However, with record high pork prices, this is an opportunity for more Chinese consumers to begin eating beef more regularly. For many traditional Chinese dishes, beef is not a suitable replacement for pork. However, hot pot is one style of preparation where imported beef has huge potential growth. Hot pot restaurants, especially high-end ones and chain restaurants like using imported beef because of the more consistent quality control.

China's per capita beef consumption will continue to increase in 2020. However, it is still well below the world average of 8.6 kg. The market demand for beef will continue to surpass the available domestic supply for the foreseeable future, creating strong opportunities for imported beef to fill the supply gap.

Imports

China continues to diversify overseas beef suppliers as domestic demand outstrips supply

Post forecasts beef imports will reach 2.5 million tons in 2020, representing a 15-percent increase from 2019. 2019 beef imports increased significantly as ASF pushed up pork prices to record levels, stimulating consumption and imports of beef. China mainly imports beef from South America because of the lower price, high volumes, and leaner cuts. High beef inventories around the world, especially from South America, have contributed to a decrease in worldwide beef prices. Chinese importers also consider packaging, quality, reputation, and supply consistency when sourcing overseas product.

Since 2017, China has announced new market access for a number of countries, including the United States, France, Ireland, the United Kingdom, Ukraine, Holland, Ireland, South Africa, Belarus, Namibia, and Japan, and approved more overseas facilities. South American countries (Brazil, Argentina, and Uruguay), remained the top suppliers for the China market and accounted for 65 percent of the market in 2019.

U.S.-China trade agreement establishes a foundation for record U.S. beef imports

Following China's action to restore U.S. beef access in June 2017, imports of U.S. beef have slowly but surely grown. But trade has been limited by a number of unscientific and unnecessary requirements. In accordance with the ETA, China has aligned its standards to reflect a science-based approach and incorporate international standards when possible, allowing more Chinese consumers broader access to safe, high-quality, high-value U.S. beef and beef products. Please see [GAIN Report CH2020-0038](#) for a detailed guide on exporting U.S. beef to China.

In addition to increased access, China has also opened a new round of tariff exclusions, possibly offering some relief from the multiple rounds of additional retaliatory tariffs levied by China. In the exclusion announcement, China listed several HS codes for beef as eligible for an exclusion from the additional 301-related tariffs, leaving only the MFN tariff. Industry reports that many tariff exclusions for U.S. beef have been granted.

Coronavirus not likely to have a big effect on China's beef imports

Similar to pork imports, China's beef imports have been temporarily affected by the nationwide outbreak of coronavirus in China. Since the end of January, large facilities have temporarily closed and many workers were required to self-quarantine. Cross-border transportation has been especially problematic, since the majority of domestic beef is produced away from densely populated areas. Industry reported that imported meat shipments were not being cleared through customs quickly, creating a backlog of frozen and chilled meat products. However, current reports are that trade is flowing smoothly through almost all Chinese ports. Given the continued demand for substitute proteins, it is unlikely that the recent outbreak of coronavirus will have a noticeable impact on annual trade volumes.

Attachments:

No Attachments