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Oilseeds and Products

Annual

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Report Highlights:

Overall production of oilseeds is forecast to rise in MY 02. China's biotech rules will have a significant impact on oilseed imports, however it is difficult to predict exactly what the impact will be at this point, as both the rules and the recently announced interim measures remain unclear.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

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Oilseeds and Products Situation and Outlook

General Summary

Production and crush of oilseeds is forecast to grow in MY 01 and 02. Production increases reflect the long-term restructuring of China's agricultural sector, with farmers moving away from grains and into cash crops, including oilseeds. Consumption of both oilseed meal and oil is forecast to continue growing. Demand for protein meal from the livestock sector will continue to grow, as will demand for oil. Per capita oil consumption remains relatively low, leaving ample room for growth. Oil imports are likely to increase during MY 01, but are unlikely to skyrocket as the domestic crushing industry is now sufficiently large to meet most of the domestic demand. Growth in the crushing industry appears to have cemented the trend favoring imports of oilseeds for crushing over imports of oil and meal. In fact, China has recently become a significant exporter of soybean meal during the first half of MY 01, though this trend is likely to subside in the coming months.

Volatility is the watchword for MY 01. Of particular concern are two policy issues that will affect trade: China's biotech regulations and the TRQ for oil imports. In June, 2001 the Chinese government issued rules requiring safety certification, registration and labeling of biotech food and feed products and some products derived from them. The key concerns for the soybean trade involve the requirement that all biotech products receive a safety certification from the Chinese government, and that each shipment have an import permit. With no supporting regulations to describe the application processes, exporters were unable to meet the regulation's requirements. However, the Ministry of Agriculture (MOA) later ruled that shipments on contracts signed prior to June 6 could continue to enter under the old rules, which allowed trade to continue after a brief interruption. On January 7, MOA issued the implementing regulations, stating that the rules would go into effect on March 20, with no exceptions. Unfortunately, the implementing regulations remain unclear on several issues, including the exact documents necessary to apply for safety certification.

The biotech regulations could pose a serious barrier to trade. Several items are of particular concern. For the import permits, the rules allow MOA to take up to 270 working days to decide whether to issue the certificate or not, and do not specify the basis on which permits could be refused. The regulations also fail to specify what documents are necessary to receive the initial safety certification for biotech cargoes. In addition, there is no threshold set for biotech content in biotech-free cargoes, effectively setting the tolerance at zero. More recently, Chinese officials have also stated that testing for biotech materials could extend to foreign matter included in the shipment. If true, a single grain of an unregistered biotech corn variety in a shipment of soybeans would be sufficient to reject the entire cargo. There is no indication of how testing is to be conducted on processed products, particularly as it relates to those products which contain no genetic material, such as oil. The list of problems goes on. If enforced as written, the rules could shut down trade in soybeans, soybean products, canola and canola oil and other products for an uncertain length of time. The damage of such a shutdown would extend far beyond traders and Chinese crushers, raising costs for Chinese feed millers, livestock producers and food manufacturers, not to mention consumers.

U.S. officials recently met with the Chinese government to discuss these issues in an attempt to ensure that trade would continue. Shortly thereafter, MOA published a circular outlining interim measures for implementation of the rules. These measures will allow biotech companies to obtain an interim safety certificate while they await the processing of their application for safety certification of their product. To apply for the interim certificate, they must submit an

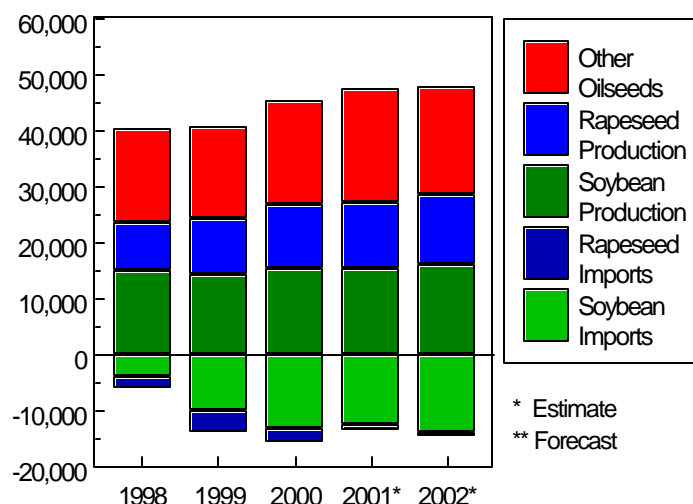
Application Form for an Interim Certificate to Import Agricultural GM Products, which will be provided by MOA, along with valid documents from the safety evaluation authorities in the country of origin or a third country, and MOA will issue the interim certificate within 30 days. Once the biotech company has submitted its application, importers may apply for import authorization for the biotech product. There is still much about the rules themselves and the interim agreement that remains unclear. U.S. officials are working to obtain further clarification.

Total Oilseeds

In the current policy environment, forecasting is extremely difficult. Many of the details of both the biotech rules and the interim agreement remain unresolved. Forecasts included in this report for MY 01 are based on the assumption that the biotech rules will cause a short-term disruption in trade, but that trade will resume relatively quickly. Forecasts for MY 02 assume that the trade is able to adapt to the biotech rules and move into a pattern of moderate growth. This is only one of numerous possibilities.

Production of oilseeds in general continued to rise during MY 01 and further gains are forecast for MY 02. Although gains for MY 02 appear small, this is deceptive as it includes cottonseed production, which is forecast to fall sharply due to declining demand for cotton fiber. Cottonseed is the only oilseed for which a decline in production is forecast. For other oilseeds, increases in area are coming at the expense of grains, and reflect the long-term restructuring of Chinese agriculture. Overall oilseed crush is forecast to continue growing, as crushers have continued to pursue aggressive expansion plans. Once again, crush numbers are distorted by the inclusion of cottonseed. With cottonseed included, total crush is estimated to grow by 5.9% in MY 01 and by a mere 1.0% in MY 02. Excluding cottonseed, however, growth rates for oilseed crush for MY 01 and 02 stand at 3.1% and 4.3%, respectively. Total imports of oilseeds are forecast to fall by 1.6 MMT in MY 01, with a partial recovery forecast for MY 02. The decline is a reflection of the impact of the biotech rules, which will affect both soybeans and Canadian rapeseed. Although still unclear, most domestic crushers expect trade in oilseeds to slow down for as much as three months before returning to normal. This will likely be followed by a surge in imports to compensate for depleted commercial stocks. Increased imports during MY 02 are likely to be led by soybeans rather than rapeseed, as the primary demand will be for meal rather than oil.

Production and Imports of Major Oilseeds
MY 1998 - 2002, Thousand MT



Soybeans

Soybean production is forecast to increase during MY 02 as the result of falling prices for grains and aggressive promotion of soybean production by the MOA. Imports are forecast to stagnate during MY 01, due to the effects of the biotech rules. Despite the drop in imports, oilseed crush is forecast to continue growing during MY 01. This is due to a reversal in the accumulation of soybean stocks seen in the previous year. Where stocks increased by roughly 1.7 MMT in MY 00, they are forecast to drop by 860 TMT in MY 01, for a net shift of over 2.5 MMT in the balance

sheet. The capability of crushers in East and South China to switch to domestic oilseeds remains limited by the high cost of transportation and inability of domestic sellers to consolidate large cargoes.

Rapeseed

According to government and industry sources rapeseed area is continuing to grow, primarily at the expense of winter wheat. With good weather and record planted area, production is forecast to hit a record high for the fourth year in a row. Imports of rapeseed have fallen sharply, and are likely to continue doing so. Rapeseed is imported primarily for its high oil content, as opposed to soybeans, which are crushed primarily for meal. Since the value of oil relative to meal has fallen, crushing rapeseed has become less profitable. Imported rapeseed is also losing some of its advantage over domestic rapeseed as Chinese low acid (also called 'double low') rapeseed becomes increasingly common. Oil prices are likely to sink further as high TRQs for soybean, palm and rapeseed oil allow more oil to be imported.

Total Oilmeal

Oilmeal production is forecast to increase during both MY 01 and MY 02. This is due in part to increased oilseed crush, and in part to the increased proportion of soybeans in the crush mix. Demand is now weighted heavily toward protein meal rather than oil, leading to greater demand for soybeans relative to rapeseed, as soybean meal is more valuable than rapeseed meal. This is a reversal of the situation several years ago, when high oil prices drove demand for oilseeds. Total consumption of oilmeals, excluding cottonseed

Estimates for Growth in Overall Oilseed Crush (derived from Post PSD data)			
	2000	2001*	2002*
Increase in total crush of OS (MT)	4,725	2,317	223
Increase in total crush of OS (%)	11.9%	5.2%	0.5%
Increase in crush excl. cottonseed (MT)**	3767	859	1,430
Increase in crush excl. cottonseed (%)**	11.3%	2.3%	3.8%

meal, is forecast to increase by 6.8% in MY 01 and again by 3.8% in MY 02, as compared to 12.8% in MY 00. The slowdown in the rate of consumption growth is not so much related to the impact of the biotech rules as to the fact that protein meal markets in China appear to be approaching saturation, as demonstrated by rising exports of soybean meal. This is not surprising, given the explosive growth in the crushing industry during recent years. Although the potential exists for continued rapid growth in meal consumption, for the time being growth is forecast to remain moderate. Any growth in exports of oilseed meal will be more heavily dependant on the policy environment. If the biotech rules or other policies limit access to imports soybeans, growth in meal exports is unlikely to happen.

Total Vegetable Oil

Total production of vegetable oil is forecast to climb steadily through MY 01 and MY 02 due to increased production and imports of oilseeds, and the continued growth in the crushing industry. Production growth in MY 02 comes despite a sharp decline forecast for cottonseed oil production. Consumption is forecast to grow as increased production and imports cause prices to fall further. The long-expected restructuring of the oil crushing industry does not appear to be underway to any great degree. Medium and small-sized rapeseed crushers continue to operate, albeit on a seasonal basis. Although razor thin margins make it extremely difficult for these plants to upgrade or even replace equipment, heavy segmentation in rural markets seems to provide enough cover to keep these plants in business.

Oil imports face an enormous amount of uncertainty. As one of the conditions of China's accession to the WTO, China agreed to open TRQs that would allow fixed quantities of vegetable oil to be imported at a reduced tariff of 9%. The initial quantities to be issued include 2.118 MMT of soybean oil, 2.1 MMT of palm oil and 739 TMT of rapeseed oil. Offsetting the impact of the TRQs, however, are several factors that may prevent a flood of oil imports. Most important are low domestic oil prices. These are a direct result of the rapid growth in the crushing industry and in oilseed imports, which have greatly increased the supply of domestically produced oil and driven down prices. A second factor are delays in the issuance of the TRQs. Rules governing the quotas were only recently released, and awards to individual users have yet to be announced. It does not seem likely that trade will take place under the TRQs until late spring, leaving only a few months in the marketing year to import oil. Imports are likely to be significantly higher in MY 02, when the system for handling TRQ imports is better understood. Another potential problem for imports are the biotech rules, which apply to oil produced from biotech oilseeds as well as the oilseeds themselves. The impact of these rules is difficult to estimate. Post assumes that this will also prevent a major expansion in oil imports during MY 01. One possible exception is palm oil, imports of which are not restricted by the biotech rules.

A recent government survey maps out oil consumption in rural China. For urban areas, per capita consumption of vegetable oil is 8.16 kg, as compared to 12 kg. for the U.S. (salad oil only). Average rural consumption is 5.45 kg/capita, for a total of 4.4 MMT. Of this, only 52% is purchased on the market. The remaining 2 MMT appears to consist of in-kind trade, wherein farmers trade oilseeds to local crushers in exchange for oil. This arrangement is common in rural China, and it is likely that even these statistics fail to capture the full amount of oil produced this way. Due to the lack of convenient outlets for mass-marketed products in rural China, these arrangements are likely to persist for some time to come. The provincial breakdown of the figures includes a few surprises: consumption is not necessarily a function of income. Rural per capita consumption is highest in

Rural Consumption of Vegetable Oil, by Region						
Region	Rural Population (1,000)	Oil Consumption (MT)	Per Capita Cons. (Kg)	Oil Sales (MT)	Direct Cons. (MT)	Direct Cons. %
Nation	807,390	4,400	5.45	2,309	2,091	47.5%
Northeast	6,462	345	5.34	290	55	16.0%
Northwest	6,381	417	6.53	228	189	45.3%
North	20,459	1,292	6.32	782	510	39.5%
East	11,269	765	6.79	356	409	53.4%
Central	11,122	739	6.65	188	552	74.6%
South	9,613	389	4.04	167	222	57.1%
Southwest	14,355	417	2.90	178	239	57.3%

* Total may not add up due to rounding.

** Regions are as follows. Northeast: Heilongjiang, Jilin, Liaoning, Inner Mongolia. Northwest: Xinjiang, Qinghai, Gansu, Ningxia, Shaanxi. North: Shanxi, Hebei, Beijing, Tianjin, Henan, Shandong. East: Jiangsu, Anhui, Shanghai, Zhejiang; Central: Hubei, Jiangxi, Hunan; South: Fujian, Guangdong, Guangxi, Hainan. Southwest: Sichuan, Xizang, Guizhou, Yunnan

Xinjiang, Jiangsu and Jiangxi. Jiangxi and Xinjiang are not regarded as wealthy provinces, and a number of other relatively poor provinces rank among the highest per capita oil consumers as well. More predictably, in-kind trade of oil appears to be more dominant in rural inland provinces such as Qinghai and Hunan. In Qinghai, market sales of oil account for a mere 17.2% of consumption. In-kind trade tends to be highest in areas where rapeseed is the dominant oilseed. The fact that a significant amount of in-kind trade takes place even in relatively wealthy provinces such as

Jiangsu indicates that rural markets for oil are indeed heavily segmented.

Statistical Tables

Total Oilseeds, Oil and Meal

Table 1. Total Oilseeds

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Total Oilseeds					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	26806	26806	27916	28061	0	28320
Area Harvested	26776	26776	27916	28061	0	28320
Beginning Stocks	3170	3170	4910	4910	3960	3850
Production	47304	47304	49217	49257	8236	49588
MY Imports	15614	15614	14611	13508	0	14608
MY Imp. from U.S.	6228	6228	6209	5006	0	6306
MY Imp. from the EC	156	156	250	250	0	200
TOTAL SUPPLY	66088	66088	68738	67675	12196	68046
MY Exports	872	872	836	970	0	1000
MY Exp. to the EC	235	235	205	239	0	244
Crush Dom. Consumption	44422	44422	47738	46739	7412	46962
Food Use Dom. Consump.	11653	11653	11838	11727	0	11995
Feed Waste Dom.Consum.	4231	4231	4366	4389	824	4384
Total Dom. Consumption	60306	60306	63942	62855	8236	63341
Ending Stocks	4910	4910	3960	3850	0	3700
TOTAL DISTRIBUTION	66088	66088	68738	67675	8236	68041
Calendar Year Imports	0	2969	0	1724	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	1	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Table 2. Total Meal

PSD Table						
Country:						
Commodity:	Total Meal					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin						
Crush	44422	44422	47738	46739	7412	46962
Extr. Rate	0.68619152 672	0.6828148	0.6923834	0.6899805	0.6204803	0.69075
Beginning Stocks	0	0	0	0	0	0
Production	30482	30332	33053	32249	4599	32439
MY Imports	1025	1025	1054	1050	0	930
MY Imp. from U.S.	43	44	60	61	0	61
MY Imp. from the EC	1	0	0	0	0	0
TOTAL SUPPLY	31507	31357	34107	33299	4599	33369
MY Exports	741	741	663	570	0	772
MY Exp. to the EC	22	22	50	20	0	30
Industrial Dom. Consum	8390	7940	8764	8334	3219	7799
Food Use Dom. Consump.	0	0	0	0	0	0
Feed Waste Dom.Consum.	22376	22676	24680	24395	1380	24798
Total Dom. Consumption	30766	30616	33444	32729	4599	32597
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	31507	31357	34107	33299	4599	33369
Calendar Year Imports	0	1242	0	902	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	980	0	478	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Table 3. Total Vegetable Oil

PSD Table						
Country:						
Commodity:	Total Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin						
Crush	44422	44422	47738	46739	7412	46962
Extr. Rate	0.24645445 95	0.2491558	0.2366668	0.2410835	0.1520507	0.2431115
Beginning Stocks	280	280	230	230	270	210
Production	10948	11068	11298	11268	1127	11417
MY Imports	1841	1733	2273	1931	0	2392
MY Imp. from U.S.	16	16	52	19	0	46
MY Imp. from the EC	6	1	33	31	0	52
TOTAL SUPPLY	13069	13081	13801	13429	1397	14019
MY Exports	140	143	121	126	0	157
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	0	0	0	0	0	0
Food Use Dom. Consump.	12699	12708	13410	13093	1127	13552
Feed Waste Dom.Consum.	0	0	0	0	0	0
Total Dom. Consumption	12699	12708	13410	13093	1127	13552
Ending Stocks	230	230	270	210	0	310
TOTAL DISTRIBUTION	13069	13081	13801	13429	1127	14019
Calendar Year Imports	65	1524	0	49	0	0
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	1	55	0	54	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Oilseeds

Table 4. Soybeans

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Soybean					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	9200	9200	9100	9100		9300
Area Harvested	9200	9200	9100	9100		9300
Beginning Stocks	3170	3170	4910	4910	3960	3850
Production	15401	15401	15450	15450		16100
MY Imports	13246	13246	13500	12500		14000
MY Imp. from U.S.	6222	6222	6200	5000		6300
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	31817	31817	33860	32860	3960	33950
MY Exports	208	208	200	200		210
MY Exp. to the EC	5	5	0	0		0
Crush Dom. Consumption	18900	18900	21700	20800		21900
Food Use Dom. Consump.	6223	6223	6450	6420		6540
Feed Waste Dom.Consum.	1576	1576	1550	1590		1600
Total Dom. Consumption	26699	26699	29700	28810	0	30040
Ending Stocks	4910	4910	3960	3850		3700
TOTAL DISTRIBUTION	31817	31817	33860	32860	0	33950
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.						

Table 5. Rapeseed

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Rapeseed					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	7750	7750	8050	8050		8500
Area Harvested	7750	7750	8050	8050		8500
Beginning Stocks	0	0	0	0	0	0
Production	11381	11381	11760	11760		12500
MY Imports	2361	2361	1100	1000		600
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from the EC	156	156	250	250		200
TOTAL SUPPLY	13742	13742	12860	12760	0	13100
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Crush Dom. Consumption	12592	12592	11710	11610		11850
Food Use Dom. Consump.	0	0	0	0		0
Feed Waste Dom.Consum.	1150	1150	1150	1150		1250
Total Dom. Consumption	13742	13742	12860	12760	0	13100
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	13742	13742	12860	12760	0	13100
Calendar Year Imports		2969		1724		
Calendar Yr Imp. U.S.						
Calendar Year Exports		1		0		
Calndr Yr Exp. to U.S.						

Table 6. Peanuts

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Peanut					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	4600	4600	4800	4945		5020
Area Harvested	4600	4600	4800	4945		5020
Beginning Stocks	0	0	0	0	0	0
Production	10611	10611	10660	10700		10895
MY Imports	1	1	1	1		1
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	10612	10612	10661	10701	0	10896
MY Exports	627	627	601	730		750
MY Exp. to the EC	216	216	190	225		230
Crush Dom. Consumption	5066	5066	5060	5060		5100
Food Use Dom. Consump.	4300	4300	4380	4305		4426
Feed Seed Waste Dm.Cn.	619	619	620	606		622
Total Dom. Consumption	9985	9985	10060	9971	0	10148
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	10612	10612	10661	10701	0	10898
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.						

Table 7. Sunflowerseed

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Sunflowerseed					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	1230	1230	1180	1180		1200
Area Harvested	1200	1200	1180	1180		1200
Beginning Stocks	0	0	0	0	0	0
Production	1954	1954	1770	1770		1857
MY Imports	6	6	10	7		7
MY Imp. from U.S.	6	6	9	6		6
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	1960	1960	1780	1777	0	1864
MY Exports	37	37	35	40		40
MY Exp. to the EC	14	14	15	14		14
Crush Dom. Consumption	703	703	649	650		700
Food Use Dom. Consump.	1130	1130	1008	1002		1029
Feed Waste Dom.Consum.	90	90	88	85		88
Total Dom. Consumption	1923	1923	1745	1737	0	1817
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1960	1960	1780	1777	0	1857
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.					0	0

Oilseed Meals/Fish Meal

Table 8. Soybean Meal

PSD Table						
Country:						
Commodity:	Soybean Meal					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	18900	18900	21700	20800	0	21900
Extr. Rate	0.7910053	0.7830688	0.7911982	0.7867788	ERR	0.7853881
Beginning Stocks	0	0	0	0	0	0
Production	14950	14800	17169	16365		17200
MY Imports	96	96	200	150		100
MY Imp. from U.S.	0	1	10	1		1
MY Imp. from the EC	1	0	0	0		0
TOTAL SUPPLY	15046	14896	17369	16515	0	17300
MY Exports	113	113	250	300		350
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	1000	550	1000	570		600
Food Use Dom. Consump.	0	0	0	0		0
Feed Waste Dom.Consum.	13933	14233	16119	15645		16350
Total Dom. Consumption	14933	14783	17119	16215	0	16950
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	15046	14896	17369	16515	0	17300
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.						

Table 9. Rapeseed Meal

PSD Table						
Country:						
Commodity:	Rapeseed Meal					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	12592	12592	11710	11610	0	11850
Extr. Rate	0.6210292	0.6210292	0.6208369	0.6261843	ERR	0.6160338
Beginning Stocks	0	0	0	0	0	0
Production	7820	7820	7270	7270		7300
MY Imports	0	0	50	50		30
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	7820	7820	7320	7320	0	7330
MY Exports	611	611	400	250		400
MY Exp. to the EC	22	22	50	20		30
Industrial Dom. Consum	4280	4280	4020	4020		3980
Food Use Dom. Consump.	0	0	0	0		0
Feed Waste Dom.Consum.	2929	2929	2900	3050		2950
Total Dom. Consumption	7209	7209	6920	7070	0	6930
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	7820	7820	7320	7320	0	7330
Calendar Year Imports		56		0		
Calendar Yr Imp. U.S.						
Calendar Year Exports		978		476		
Calndr Yr Exp. to U.S.					0	

Table 10. Fishmeal

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Fish Oil and Meal					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Catch for Reduction	0	0	0	0	0	0
Extr. Rate, 999.9999	ERR	ERR	ERR	ERR	ERR	ERR
Beginning Stocks	0	0	0	0	0	0
Production	500	500	500	500		550
MY Imports	929	929	800	850		800
MY Imp. from U.S.	43	43	50	60		60
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	1429	1429	1300	1350	0	1350
MY Exports	1	1	1	2		2
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	0	0	0	0		0
Feed Waste Dom.Consum.	1428	1428	1299	1348		1348
Total Dom. Consumption	1428	1428	1299	1348	0	1348
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1429	1429	1300	1350	0	1350
Calendar Year Imports		1186		902		
Calendar Yr Imp. U.S.						
Calendar Year Exports		2		2		
Calndr Yr Exp. to U.S.						

Table 11. Peanut Meal

PSD Table						
Country:						
Commodity:	Peanut Meal					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	5066	5066	5060	5060	0	5100
Extr. Rate, 999.9999	0.5465851	0.5465851	0.5466403	0.5466403	ERR	0.5470588
Beginning Stocks	0	0	0	0	0	0
Production	2769	2769	2766	2766		2790
MY Imports	0	0	4	0		0
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	2769	2769	2770	2766	0	2790
MY Exports	16	16	12	18		20
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	0	0	0	0		0
Feed Waste Dom.Consum.	2753	2753	2758	2748		2770
Total Dom. Consumption	2753	2753	2758	2748	0	2770
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2769	2769	2770	2766	0	2790
Calendar Year Imports						
Calendar Yr Imp. U.S.					0	0
Calendar Year Exports						
Calndr Yr Exp. to U.S.					0	0

Vegetable Oil

Table 12. Soybean Oil

PSD Table						
Country:						
Commodity:	Soybean Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	18900	18900	21700	20800	0	21900
Extr. Rate	0.1666667	0.1714286	0.1668203	0.1721154	ERR	0.173516
Beginning Stocks	280	280	230	230	270	210
Production	3150	3240	3620	3580		3800
MY Imports	76	76	400	150		400
MY Imp. from U.S.	13	13	40	15		40
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	3506	3596	4250	3960	270	4410
MY Exports	60	60	90	90		100
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	3216	3306	3890	3660		4000
Feed Waste Dom.Consum.	0	0	0	0		0
Total Dom. Consumption	3216	3306	3890	3660	0	4000
Ending Stocks	230	230	270	210		310
TOTAL DISTRIBUTION	3506	3596	4250	3960	0	4410
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.					0	0

Table 13. Rapeseed Oil

PSD Table						
Country:						
Commodity:	Rapeseed Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	12592	12592	11710	11610	0	11850
Extr. Rate	0.3414867	0.3414867	0.3373185	0.3402239	ERR	0.3400844
Beginning Stocks	0	0	0	0	0	0
Production	4300	4300	3950	3950		4030
MY Imports	100	85	200	100		200
MY Imp. from U.S.	2	2	7	2		3
MY Imp. from the EC	5	0	30	30		50
TOTAL SUPPLY	4400	4385	4150	4050	0	4230
MY Exports	65	68	15	20		40
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	4335	4317	4135	4030		4190
Feed Waste Dom.Consum.	0	0	0	0		0
Total Dom. Consumption	4335	4317	4135	4030	0	4190
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	4400	4385	4150	4050	0	4230
Calendar Year Imports		68		49		
Calendar Yr Imp. U.S.						
Calendar Year Exports		54		54		
Calndr Yr Exp. to U.S.					0	0

Table 14. Palm Oil

PSD Table						
Country:						
Commodity:	Palm Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	0	0	0	0	0	0
Extr. Rate, 999.9999	ERR	ERR	ERR	ERR	ERR	ERR
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0		
MY Imports	1600	1481	1600	1600		1700
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	1600	1481	1600	1600	0	1700
MY Exports	0	0	0	0		0
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	1600	1481	1600	1600		1700
Feed Waste Dom.Consum.	0	0	0	0		0
Total Dom. Consumption	1600	1481	1600	1600	0	1700
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1600	1481	1600	1600	0	1700
Calendar Year Imports		1391				
Calendar Yr Imp. U.S.						
Calendar Year Exports		0				
Calndr Yr Exp. to U.S.						

Table 15. Peanut Oil

PSD Table						
Country:						
Commodity:	Peanut Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	5066	5066	5060	5060	0	5100
Extr. Rate, 999.9999	0.4441374	0.4500592	0.4486166	0.4505929	ERR	0.4509804
Beginning Stocks	0	0	0	0	0	0
Production	2250	2280	2270	2280		2300
MY Imports	8	8	13	10		11
MY Imp. from U.S.	1	1	5	2		3
MY Imp. from the EC	1	1	3	1		2
TOTAL SUPPLY	2258	2288	2283	2290	0	2311
MY Exports	15	15	16	16		16
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	2243	2273	2267	2274		2295
Feed Waste Dom.Consum.	0	0	0			0
Total Dom. Consumption	2243	2273	2267	2274	0	2295
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2258	2288	2283	2290	0	2311
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.					0	0

Table 16. Sunflowerseed Oil

PSD Table						
Country:						
Commodity:	Sunflowerseed Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	703	703	649	650	0	700
Extr. Rate	0.227596	0.227596	0.2280431	0.2276923	ERR	0.2285714
Beginning Stocks	0	0	0	0	0	0
Production	160	160	148	148		160
MY Imports	0	0	0	1		1
MY Imp. from U.S.	0	0	0	0		0
MY Imp. from the EC	0	0	0	0		0
TOTAL SUPPLY	160	160	148	149	0	161
MY Exports	0	0	0	0		1
MY Exp. to the EC	0	0	0	0		0
Industrial Dom. Consum	0	0	0	0		0
Food Use Dom. Consump.	160	160	148	149		160
Feed Waste Dom.Consum.	0	0	0			0
Total Dom. Consumption	160	160	148	149	0	160
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	160	160	148	149	0	161
Calendar Year Imports						
Calendar Yr Imp. U.S.						
Calendar Year Exports						
Calndr Yr Exp. to U.S.						

Table 17. Coconut Oil

PSD Table						
Country:						
Commodity:	Coconut Oil					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Crush	0	0	0	0	0	0
Extr. Rate	ERR	ERR	ERR	ERR	ERR	ERR
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
MY Imports	70	189	80	180	0	190
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	70	189	80	180	0	190
MY Exports	0	0	0	0	0	0
MY Exp. to the EC	0	0	0	0	0	0
Industrial Dom. Consum	0	0	0	0	0	0
Food Use Dom. Consump.	70	189	80	180	0	190
Feed Waste Dom.Consum.	0	0	0	0	0	0
Total Dom. Consumption	70	189	80	180	0	190
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	70	189	80	180	0	190
Calendar Year Imports	65	65				
Calendar Yr Imp. U.S.	0	0	0	0	0	0
Calendar Year Exports	0	0	0	0	0	0
Calndr Yr Exp. to U.S.	0	0	0	0	0	0

Table 18. Taxes and Duties

China's Oilseeds and Oilseed Products Tariffs as of January 1, 2002				
HS Code	Description	In Quota	Out of Quota	
		Duty(%)	MFN (%)	VAT(%)
Seed				
12010010	Soybeans, seed			13
12010091	Yellow soybean		3	13
12010092	Black soybean		3	13
12010093	Green soybean		3	13
12010099	Other soybean		3	13
12021010	In shell peanut, seed			13
12021090	In shell peanut, other		15	13
12022000	Shelled peanut		15	13
20081110	Peanut kernels, in airtight containers		30	17
20081120	Roasted peanuts		30	17
20081130	Peanut butter		30	17
20081190	Other processed peanuts		30	17
12051010	Low erucic acid rape seed, seed			13
12051090	Low erucic acid rape seed, other		9	13
12059010	Other rapeseed, seed			13
12059090	Other rapeseed, other		9	13
12060010	Sunflower seeds, seed			13
12060090	Sunflower seeds, other		15	13
12072010	Cottonseeds for cultivation			13
12072090	Cottonseeds, other		15	13
12074010	Sesame seeds for cultivation			13
12074090	Sesame seeds, other		10	13
Oil				
15071000	Crude soybean oil	9	52.4	13
15079000	Other soybean oil	9	52.4	13
15081000	Crude peanut oil		10	13
15089000	Other peanut oil		10	13
15091000	Olive Oil, virgin		13.2	13
15099000	Olive oil, other		13.2	17
15111000	Palm oil, crude	9	52.4	13

15119010	Palm oil, liquid	9	52.4	13
15119020	Stearin		8	13
15119090	Palm oil, other	9	52.4	17
15121100.10	Crude sunflower seed oil		9.6	13
15121100.90	Crude safflower seed oil		9.6	13
15121900.10	Other sunflower seed oil		9.6	17
15121900.90	Other safflower seed oil		9.6	17
15122100	Crude cottonseed oil		10	13
15122900	Other cottonseed oil		10	17
15131100	Crude coconut oil		10	13
15131900	Other coconut oil		10	13
15132100	Crude palm kernel oil		10	13
15132900	Other palm kernel oil		10	17
15141110	Crude low erucic acid rape oil	9	52.4	13
15141190	Crude low erucic acid mustard oil	9	52.4	13
15141900	Other crude low erucic acid rape oil	9	52.4	13
15149110	Crude rape oil	9	52.4	13
15149190	Crude mustard oil	9	52.4	13
15149900	Other rape oil	9	52.4	17
Meal				
12081000	Soyflour		9	17
23012010	Fish meal		2	13
23025000	Legume sweepings		5	13
23040010	Soy meal, oil cake		5	13
23040090	Soy meal, other		5	13
23050000	Peanut meal		5	13
23061000	Cottonseed meal		5	13
23064100	Low erucic acid rapeseed meal		5	13
23064900	Other rapeseed meal		5	13
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Table 19. Tariff Rate Quotas

Product	Quotas and Tariffs	Other terms and conditions
Soybean Oil	Initial Quota: 2,118,000 MT Final Quota: 3,587,100 MT	1) STE share = 42% to 10% (See Notes 1 and 2)
15071000	Tariff: 9%	2) Staging of TRQ for soybean oil:
15079000	Tariff: 9%	Year: TRQ quantity:
		2002 2,518,000 mt
		2003 2,818,000 mt
		2004 3,118,000 mt
		2005 3,587,100 mt
		Staging of STE share:
		Year: Share:
		2002 34%
		2003 26%
		2004 18%
		2005 10%
		Tariff rate quotas to be eliminated on 1 January 2006.
Rapeseed Oil	Initial Quota: 739,200 MT Final Quota: 1,243,000 MT	1) STE share = 42% to 10% (See Notes 1 and 2)
15141010	Tariff: 9%	2) Staging of TRQ for rape-seed oil
15141090	Tariff: 9%	Year: TRQ quantity:
15149000	Tariff: 9%	2002 878,900 mt
		2003 1,018,600 mt
		2004 1,126,600 mt
		2005 1,243,000 mt
		Staging of STE share:
		Year: Share:
		2002 34%
		2003 26%
		2004 18%
		2005 10%
		Tariff rate quotas to be eliminated on 1 January 2006.

Palm Oil	Initial Quota: 2,100,000 MT Final Quota: 3,168,000 MT	1) STE share = 42% to 10% (See Notes 1 and 2)
15111000	Tariff: 9%	2) Staging of TRQ for palm oil
15119000	Tariff: 9%	Year: TRQ quantity:
		2002 2,400,000 mt
		2003 2,600,000 mt
		2004 2,700,000 mt
		2005 3,168,000 mt
		Staging of STE share:
		Year: Share:
		2002 34%
		2003 26%
		2004 18%
		2005 10%
		Tariff quotas to be eliminated on 1 January 2006.
		3) China agrees to provide adequate opportunities in increasing the established import quota levels of TRQs for palm oil in case of an excessive demand for palm oil within China that is over and above that of the present TRQs as evidenced by the complete utilisation of TRQs for palm oil in the previous year.
		4) Any adjustments to tariffs, import quota levels of TRQs, import rights (when respect to state trading enterprises) and implementation period resulting from the conclusion of future bilateral negotiations with other oils and fats exporting countries.

Narrative on Supply, Demand, Policy and Marketing

Soybeans and Products

Production

Soybean planted area fell slightly during MY 01 due to low soybean prices. Government efforts to encourage farmers in Jilin Province to plant soybeans instead of corn caused area in that province to increase. This increase was more than offset by reductions in other provinces, particularly in Inner Mongolia and Anhui. Although Heilongjiang remains China's undisputed leader in soybean production, rapid growth in the neighboring province of Jilin has vaulted it into second place, ahead of the provinces of Henan and Shandong. The quality of soybeans in Heilongjiang is reported to be lower than last year, with a larger number of green beans and broken beans, and lower oil content. Officials at the Ministry of Agriculture (MOA) and the Jilin provincial government have announced their intention to raise soybean planted area in Jilin to as much as 1 million hectares from the current 560 thousand during the next five years, as part of the Soybean Recovery Plan.

Such a rapid increase would further cement Northeast China's dominance in soybean production, but would place a substantial burden on Northeast China's transportation and marketing systems. This system is already blamed for the inability of China's soybean sector to take advantage of growing demand for soybeans. In 2001, during the height of the soybean harvest, rail officials doubled freight rates for soybeans. Industry analysts also report that local rail lines often require extra 'fees,' paid off the books, to secure boxcars during the peak freight season in fall. One source estimates the cost of shipment from Heilongjiang to the port of Dalian at over \$96/MT, and shipments frequently arrive late. These difficulties are somewhat curious, given the lack of similar problems in transporting corn and wheat in these areas. The difference may be related to government involvement in the procurement, marketing and storage of grains as compared to soybeans. Added to transportation difficulties is the lack of an organized marketing system. Given the extremely small scale of production in China, such a system is critical: a conservative estimate indicates that putting together a single load of 50,000 MT of soybeans requires consolidating the production output of at least 10,000 farmers. With no system of local silos to do the consolidating, the task is most often carried out by independent buying agents. These agents generally have little or no capability to separate or grade soybeans. Enforcement of contract terms is nearly impossible under these circumstances, and domestic crushers report serious problems with variations in quality or delivery time for domestic soybeans.

Given these problems, and given the convenience of importing soybeans, the problem of finding buyers for a much larger domestic soybean crop could be significant. This may be the reason that the MOA has listed 'regulation' of soybean imports as a key component of the Soybean Recovery Plan. In statements to the Chinese press, MOA officials have openly announced their intention to use the biotech rules to limit imports as a means of protecting domestic soybean producers. On the more constructive side, MOA has also committed to improving the transportation and marketing infrastructure, though plans for accomplishing this appear to be undefined. Past efforts of this kind have been stymied by the government's insistence that the crushing plants themselves take responsibility for organizing the marketing system. With imports vastly more convenient, crushers have little incentive to expend resources in establishing an extensive procurement system. Some Chinese experts have proposed organizing producer coops among Chinese farmers, but these efforts are opposed by local officials, who oppose independent peasant organizations. MOA is now reported to be taking a greater interest in the crushing industry, and has sent teams to visit

crushing plants to gain a better understanding of their needs. It is possible that such efforts will lead to policies that take the processing industry's needs into account.

Soybean planted area is forecast to increase in MY 02, largely in response to the government's efforts to promote production. In addition to Jilin, it is rumored that MOA plans to increase production in the North China province of Hebei, most likely with the intent of supplying feed ingredients to poultry and egg producers in neighboring Henan and Shandong provinces. Heilongjiang is also reported to be a target of the Soybean Recovery Plan, but expansion of soybean production in this province will be more difficult, as soybeans are already a primary crop, whereas Jilin's production is more heavily weighted toward corn. Total soybean production for MY 02 is forecast at 16.1 MMT.

Consumption

Forecasts of soybean consumption are contingent on the impact of the biotech rules on imports. Virtually all imported soybeans are crushed, whereas a substantial proportion (roughly 40%) of the domestic crop is consumed directly as food. Thus, any effort to limit imports will have a disproportionate impact on crush. The forecast for soybean crush used in this report is based on import levels noted in the section on trade. Total soybean consumption is forecast to rise in MY 01 and 02, despite a slowdown in soybean imports during MY 01. Crush levels can be maintained at this level through a drawdown in stocks. Growth in soybean crush is expected to slow somewhat in MY 01 and 02, compared to the 25% growth experienced during MY 99 and MY 00. For MY 01 growth is forecast to drop to 10%, then down to 5.8% in MY 02, as Chinese markets for meal appear to be nearing saturation. Growth in the crushing industry has been concentrated primarily in coastal East and Southeast China, where the intensive livestock industry is concentrated. (Livestock production tends to be located near consuming regions due to the Chinese consumer's preference for fresh meat). Nearly all of the growth in soybean demand has been filled by growing soybean imports, a fact that has become a sore point with Chinese officials. The strength of imports is due largely to the location of crushing facilities far from main soybean producing areas in Northeast China, and to poor marketing and transportation infrastructure within China. Food use of soybeans continues to rise, as the Chinese government is promoting consumption of soybean milk in schools and in the military as a means of improving nutrition and increasing demand for soybeans.

Consumption of soybean meal is forecast to grow during both MY 01 and MY 02, although at a slower rate than in previous years. Increased exports of soybean meal in early MY 01 indicate that domestic meal markets are beginning to approach the saturation point. However, it should be kept in mind that these exports are a small fraction of domestic consumption. An increase of just 2% in consumption would be more than sufficient to soak up exportable supplies, and a recovery in the world economy during the coming year could spur a return to rapid consumption growth. In addition, high prices for fishmeal are likely to reduce the options available to feed producers during the coming year. Industrial use numbers for soybean meal have been revised based on more accurate estimates available from industry analysts.

Consumption of soybean oil is forecast to rise in MY 01, offsetting a reduction in the consumption of rapeseed oil during that period. The opening of TRQs for soybean oil imports are unlikely to have a large impact on consumption in the short term, as domestic soybean oil prices are already at record low levels. Consumption is forecast to continue climbing in MY 02 as a larger domestic soybean crop and increased imports of both soybeans and soybean oil cause prices to fall further.

Trade

Soybean trade is facing a great deal of uncertainty, due to the biotech regulations. (The details of the rules and the interim measures are noted in the General Overview on page 1). Any forecasts made at this point must be based on a number of assumptions about how the issue will develop over the next few months. The forecasts included in this report are based on the assumption that Chinese officials intend to slow the pace of imports, but do not plan to stop them, and will stop short of imposing limits that will do serious harm to their own soybean processing, feed and livestock industries. Public statements by Chinese government officials support this position. Even with the interim measures recently announced by the MOA, trade will be interrupted for at least one to two months, as new shipments have already ceased and the interim measures allow MOA up to one month to issue interim certificates. How quickly trade will resume after the interim certificates are issued is also unclear, as there are a number of details missing from the interim measures. In this scenario, however, it is assumed that major crushing plants are able to obtain the imports they need to stay in operation, while traders that specialize in reselling small batches of imported soybeans to medium-sized mills will have considerably more difficulty. The next major hurdle will occur 270 days later when the interim measures expire.

Taking these assumptions into account, soybean imports are forecast to drop to 12.5 MMT in MY 01, compared to roughly 13.25 MMT in MY 00. This is a somewhat optimistic estimate, and represents the level at which a reduction in imports will not cause serious harm to China's own processing industries: crush will continue to grow, albeit at a slower pace. It also takes into account the fact that the biotech rules will affect imports of many potential substitutes, such as Canadian rapeseed, rapeseed oil, soybean oil and soybean meal.

There are a number of other possibilities that have been floated by analysts in China. One of the more popular also works from the assumption that officials plan to limit, but not stop, imports, but do so more aggressively, bringing imports down to 10 MMT. Assuming that higher prices draw some 1.5 MMT of soybeans out of commercial and domestic stocks, this results in a drop of less than 200 TMT in domestic soybean crush over MY 00. It should be kept in mind, however, that considerable capacity has been added during the past year. Any decline in crush will result in the idling of expensive equipment and financial losses. Another possibility has been suggested by the statements of Chinese officials that imports should be limited to between 6 and 8 MMT. The recent interim agreement and high level of imports to date already make this unlikely. Reduction to this level could do serious damage to the processing and livestock industries. Even if 2 MMT of domestic soybeans are drawn from storage (a huge task, given the problems with rail transport), reduction of imports to even 8 MMT would cause a drop of roughly 1.3 MMT in the supply of soybean meal available for feed use.

For MY 02, imports are forecast to rebound to 14 MMT. Although the increase appears large, it results in an increase of only 4.3% in consumption, as compared to 7.9% in MY 01 and 16.6% the year before. This forecast assumes that, as the procedures for the biotech rules are established and become better understood, trade will begin to move more smoothly. Such problems as there are will most likely appear early in the marketing year, when the interim measures expire and the biotech rules go into full effect. A strong recovery in the world economy could drive MY 02 imports much higher than this, but officials are likely to raise new barriers to imports if they increase too quickly. It is equally likely that officials will attempt to use the biotech rules and other measures to keep imports under 13 MMT.

U.S. soybeans continue to hold the largest share of China's imports, but Argentina is rapidly gaining ground, having

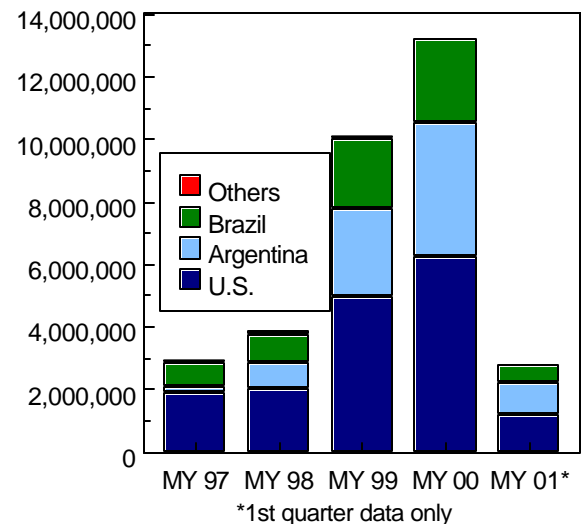
passed Brazil in MY 99. According to China Customs data for first quarter of MY 02, imports from the U.S. stand at 1.2 MMT, while imports from Argentina have already reached 1.0. This is likely to change as the year moves on, however. Although the peak season for imports from South America is still to come, announcement of the biotech rules led to a sudden surge in shipments from the U.S., all scheduled to arrive before the rules go into effect on March 20. The rules will go into effect immediately before the peak shipping season for South American soybeans. Even if the interim agreement allows imports to resume by summer, a considerable amount of damage will already have been done. The effects of Argentina's economic problems on soybean trade remain unclear. The biggest victim of the biotech rules may be Brazil. In addition to the unfortunate timing of the biotech regulations, Brazil's refusal to approve planting of biotech soybeans has placed it in a dilemma. Most trade sources believe that biotech soybeans are widely planted in Brazil, despite the ban. If so, the Brazilian

government cannot certify its soybeans as being biotech-free without facing the risk that testing will prove otherwise. On the other hand, Brazilian companies cannot apply for the biotech safety certificates, because the Chinese rules appear to require that the product be approved for use in the country of origin. As a result, the U.S. seems likely to maintain its current market share during MY 01. This situation could change in MY 02. The interim measures will expire in December, likely causing some disruption in trade early in the marketing year, when U.S. exports are relatively strong. Another possible factor is the devaluation of the Argentine Real, which may make Argentine soybeans relatively cheap. Should the Brazilian government approve the planting of biotech crops, this could also become an important factor.

Soybean exports are forecast to fall during MY 01 as domestic soybeans are diverted to meet domestic crush needs due to the slowdown in imports. Assuming that the problem is largely resolved by MY 02, exports are forecast to rebound as larger domestic supplies and aggressive efforts to increase exports begin to have an impact. The provincial government of Heilongjiang is committed to increasing exports of high-quality soybeans for food use in markets in Japan and Korea. These efforts face an uphill battle as exporters will be competing with well-established contract producers in other soybean exporting countries. Success in this specialized market will require greater control over production conditions and quality than has been the case in the past. On the other hand, the Chinese transportation system is reasonably well adapted to handling identity-preserved products, and the quality of Chinese soybeans for food use is highly regarded.

Exports of soybean meal were extremely strong during the first quarter of MY 01, but are not likely to maintain this pace, due to the effects of the biotech rules. MY 01 exports are forecast at 300 TMT. The State Development and Planning Commission (SDPC) has taken an active interest in promoting exports, and recently announced a full rebate of the 13% VAT for soybean meal on soybean exports. At the current pace, exports could exceed 400 TMT. However, SDPC appears to be working at cross-purposes to MOA, which seeks to limit soybean imports through the biotech rules. Soybean exports are likely to dry up in the second half of the year, as concerns about the biotech rules cause soybean imports to drop. The biotech rules will also affect soybean meal imports from most suppliers. Should meal supplies tighten during the summer it is possible that feed millers will begin experimenting with imports of Indian soybean meal.

Soybean Imports by Origin
MY 97 - MY 01*, Metric Tons



Although such experiments have proven unsatisfactory in the past it is possible that tight domestic supplies and high fishmeal prices could change the equation, albeit briefly. In MY 02, exports are forecast to increase as growing domestic demand is not quite sufficient to offset a resumption of soybean imports and continued growth in crushing capacity. In discussing meal trade, it should be kept in mind that the quantities involved amount to a small fraction of domestic consumption. Under these circumstances, even small changes in domestic demand could result in wide variations in trade.

Under China's WTO accession agreement, the Chinese government will issue tariff-rate quotas for several vegetable oils, including a quota of 2.118 MMT for soybean oil. Imports do not appear likely to skyrocket, however. The government has only recently published the legislation needed to get the TRQs under way, and has yet to announce the amounts and recipients of TRQs. In addition, the Chinese government still plans to apply the biotech rules to oil, even though there is no way to test oil for biotech origins. Even without these problems, low oil prices are likely to keep soybean oil imports from flooding in. Prices for soybean oil stood at less than \$570/MT in February, 2002, 43% lower than January, 1999. The fall in prices reflects the growth of China's own crushing industry, which appears to have shifted trade permanently away from processed products and into oilseeds. Imports are forecast to increase in MY 02, reflecting further refinement in the TRQ process as well as a better understanding of the requirements of the biotech rules.

Stocks

Soybean stocks are forecast to drop by slightly over 1 MMT, as the interruption in soybean imports leads to a drawdown in commercial stocks and pulls more domestic soybeans out of government reserves. Once trade resumes, importers are likely to seek to rebuild their stocks, but it remains uncertain as to how quickly and under what conditions trade will resume, making it likely that more soybeans will be drawn out of domestic stocks through the end of the marketing year. Ultimately the amount of domestic soybeans that can be drawn out of stocks may be limited by the same transportation and marketing problems that limit distribution of soybeans during the harvest. Price is also likely to be a limiting factor, as many of the soybeans in government stocks were purchased when prices were significantly higher. For MY 02, the drawdown of domestic stocks is forecast to slow down. Oil stocks, on the other hand, are forecast to increase as rising domestic oil production and increased imports under the TRQ results in a larger oil supply.

Policy

For China's soybean market, economics are being driven by policy, most specifically, the biotech rules. As noted in the general summary (page 1), China has agreed to interim measures, which should reduce the near-term impact on trade. Under these measures, once biotech companies submit their applications for the safety certificate, traders will be able to apply for an interim import permit. The measures allow up to 30 days to approve the permit. There are a number of unresolved details in the interim measures, however, leaving considerable room for harassment of imports. One possible source of difficulty is MOA's recent assertion that it will test for biotech content even in the foreign matter included in a shipment. Even under the interim rules this could pose a problem, as shipments of soybeans routinely include extremely small quantities of corn, some of which may be biotech. Should one of those prove to be a variety for which a safety certificate application has not been received, the entire shipment could be rejected. Quarantine officials recently demanded biotech-free certification for a shipment of Australian wheat. While this may be an isolated incident, the fact that certification was requested on a commodity and an origin for which there are no commercially approved biotech products may indicate that quarantine officials plan to take a hard line.

Once the interim measures expire, the rules will go into full effect. These rules require the registration of each biotech product for health and environmental safety, including the submission of large quantities of technical data. The exact nature of the submission is not defined in the rules, creating a great deal of uncertainty for companies trying to register their products. For soybeans, this hurdle causes fewer problems than for commodities such as rapeseed and corn, as there is only one type of biotech soybean in general use. The second requirement is for an import certificate for individual shipments of biotech commodities. As written, the rules allow officials up to 270 working days to review each application for an import certificate and provide a response; a potential delay of up to one year. There is also nothing in the rules to define the conditions under which officials will or will not issue import certificates.

Since the rules effectively set a zero-tolerance for biotech material, they render shipment of biotech-free cargoes risky, as few exporters are willing to guarantee 100% biotech free soybeans. Should foreign matter be included in the testing as noted above, shipment of biotech free products will become even more difficult. Labeling requirements may also provide some difficulties, as there are many unresolved details. It appears that, for bulk commodities, a statement accompanying the shipment may be sufficient. As noted before, labeling of oil presents a number of problems, as there is no means to test oil for biotech origins.

Some Chinese government officials have made it clear that the biotech rules could be used to protect domestic producers from imports: rural incomes have become a major issue in China. Even if the interim measures resolve most problems with the biotech rules, other problems for soybean trade could arise if officials believe imports are growing too rapidly. For example, during September 2001, there was a temporary surge in soybean imports after MOA announced that shipments on contracts signed before June 6 would not be subject to the biotech rules. Responding to the surge in imports, quarantine officials revived a long-disused practice of requiring ships to anchor outside the port to await the results of an initial quarantine inspection, then were not allowed to take the cargo out of port until a second, more detailed, round of testing was completed. Delays were substantial, until complaints caused officials to moderate their practices. Should soybean imports begin to climb, it is likely that similar efforts will be made to curb them. Quarantine officials have raised a number of issues in the past such as Johnsongrass and dirt included in shipments as foreign matter, any of which could resurface as a trade barrier in the future.

Rapeseed and Products

Rapeseed production increased by slightly over 3% in MY 01, with another increase of roughly 6% forecast for MY 02. Although official statistics have not been published yet, most sources place planted area for MY 01 at slightly over 8 million ha., and MY 02 area is estimated to be roughly 8.5 million ha. Weather to date has been favorable, and the crop is reported to be in good condition. Expansion of rapeseed area comes primarily at the expense of low quality winter wheat and early rice, which no longer receive support from the government. Although prices for rapeseed oil are extremely low, farmers have found that rapeseed can always be sold for cash, which is not always the case with grains. Also, rapeseed plays a major role in the production of oil for on-farm use. The quality of rapeseed crops continues to improve as high-yielding, low-acid varieties become more prevalent. Low-acid varieties have increased from less than 9% of planted area in MY 99 to an estimated 22% in MY 01. According to Chinese government sources, low-acid rapeseed accounts for almost 43% of the rapeseed crop in Zhejiang province. Jiangsu, Hubei, Hunan and Anhui are

also major producers of low-acid rapeseed, with double-low accounting for 20% to 27% of the crop. Spring planted rapeseed production also appears to be growing more rapidly, primarily in inland provinces of Northwest China. One industry newsletter reports a sharp (48%) increase in rapeseed area in Henan this year, but other sources have failed to confirm this. Since Henan is a relatively minor rapeseed producer, this is not likely to have a major impact on overall production.

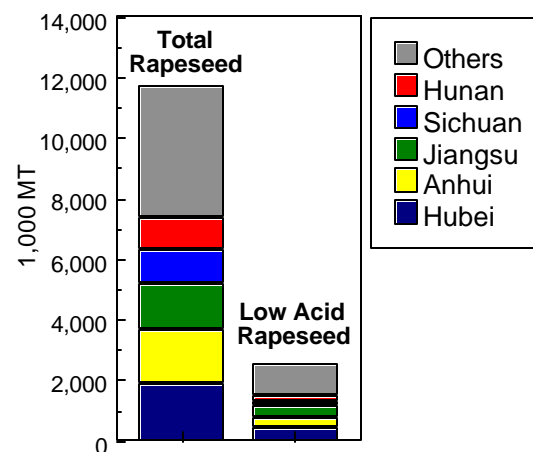
The rapeseed crushing industry is continuing to operate effectively, despite extremely low prices for rapeseed oil. Compared to soybean crushers, most rapeseed mills are relatively old, and have long since paid off their capital costs, making it possible for them to operate on narrower margins. A comparatively large proportion of rapeseed crushers are small-scale operations in inland areas, crushing locally produced rapeseed. These plants frequently operate on a seasonal basis following the local rapeseed harvest. This arrangement provides a number of advantages, as the mills tend to operate during the post-harvest season when both labor costs and rapeseed prices are low. Since inland rural markets remain highly segmented, these plants are less affected by changes in nationwide market conditions. The exception to the rule are coastal rapeseed crushers, which produce oil for sale in urban markets. These mills compete directly with larger, more modern soybean crushers and tend to be concentrated provinces such as Jiangsu and Zhejiang. Unlike inland crushers, these larger plants must operate year-round, and therefore rely on imports to stay in operation much of the year, after domestic rapeseed supplies are used up. Their situation is likely to get worse, as the biotech rules are likely to have a stronger impact on rapeseed imports than on soybeans.

Overall crush of rapeseed is forecast to fall in MY 01, due to a sharp reduction in imports from 2.3 MMT in MY 00 down to 1 MMT in MY 01. Crush is forecast to stabilize in MY 02, as increases in domestic production catch up with the fall in imports. The decline in imports is related, in part, to the biotech rules. China imports over 75% of its rapeseed from Canada, which cultivates several different biotech varieties, as compared to one biotech variety for soybeans. The need to register (and test for) multiple varieties is likely to hamper rapeseed imports even more than soybeans. Even without the biotech rules, however, rapeseed imports are likely to fall, due to low domestic prices for oil as compared to meal. This situation is likely to get worse, as TRQs for vegetable oil allow increased imports, driving oil prices down even further.

Increased crush of imported canola rapeseed from Canada allowed China to increase rapeseed meal exports to record levels, peaking at 998 TMT in MY 99. Since then, rapeseed imports have fallen, and rapeseed meal exports have experienced a corresponding decline. This trend is forecast to accelerate in MY 01. In addition to limiting rapeseed imports, the biotech rules may affect soybean imports, reducing the amount of soybean meal available domestically. With demand continuing to grow, this is likely to result in a redistribution of meal supplies, with increased use of rapeseed meal in industries where its use has been favored in the past, such as aquaculture and duck production. Exports are forecast to increase in MY 02 due to larger soymeal supplies and as the improved quality of domestic rapeseed meal makes it easier to export.

Rapeseed oil prices have continued to fall. In addition to growing supplies of vegetable oil, industry analysts attribute

Rapeseed Production by Province, MY 2001



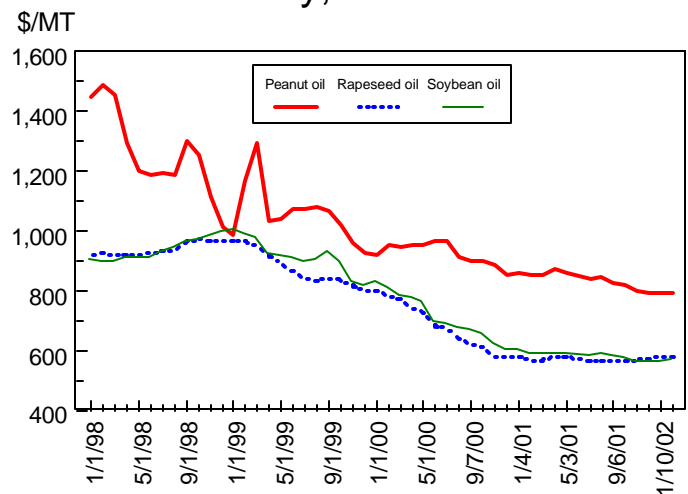
declines to small-scale crushers, who are under pressure to market oil as quickly as possible in order to pay back loans and reduce storage costs. Like soybean oil, rapeseed oil has received a substantial TRQ under China's WTO accession agreement: 739 TMT. Also like soybean oil, the impact of this TRQ is likely to be relatively modest in MY 01. There are several factors that may limit imports. The first are the biotech rules, which will apply to oil produced from biotech products, thus limiting rapeseed oil imports in the same manner as rapeseed. The second problem is the late release of the TRQs. The Chinese government has still not formally announced quota awards. Once the quotas are available, low vegoil prices are likely to keep imports relatively low. As a side note, discrepancies between China Customs data and Hong Kong data indicate that internal smuggling of rapeseed oil is continuing. According to Customs, China exported 67.7 TMT of rapeseed oil while importing 85 TMT during MY 00. Virtually all exports (67.4 TMT) are destined for Hong Kong. Hong Kong import data, however, indicate that only 47 TMT of rapeseed oil was shipped from China. The balance most likely consists of oil declared for export to avoid taxes, then reimported into China. The quantities involved are small, however, and not likely to have much impact on supply and demand.

Other Oilseeds and Products

Peanuts and Products

Peanut planted area and production is forecast to increase in both MY 01 and MY 02, albeit much more slowly than in MY 00. MY 01 production is estimated at 10.7 MMT, rising to 10.9 MMT in MY 02. Peanuts remain more profitable than most other crops, particularly other oilseeds. However provincial officials believe that peanut area is beginning to approach the limits of suitable land, and is therefore likely to plateau in coming years. Prices for peanut oil continued to decline gradually over the past year. Sharper declines in the prices for other vegoils have restored most of the traditional price spread between peanut oil and soybean and rapeseed oil. Low prices are attributed to cutthroat competition among crushers, poor peanut exports and a growing tendency to adulterate peanut oil with cheaper oils to bring prices down. Post does not expect the biotech rules to have much impact on markets for peanuts or peanut oil. Prices for peanut oil are substantially higher than for soybean or rapeseed oil: \$792/MT versus \$569/MT for soybean oil in February. As a result, peanut oil tends to be used for specialized cooking purposes where the distinct flavor is an important consideration. Prices for soybean and rapeseed oil would have to rise by quite a bit before peanut oil became a direct substitute.

Domestic Prices for Vegetable Oil
Monthly, 1998 - 2002



Chinese sources claim that low peanut prices are caused by a slowdown in exports to the EU. This slowdown is the result of restrictions placed on imports of Chinese peanuts due to aflatoxin concerns. Aflatoxin is generally a minor concern for peanuts produced in inland China, but the bulk of China's peanut exports come from coastal areas, where the problem is more pronounced. Close examination of China Customs data does not reveal any slowdown in exports, however. Quarterly exports from the first quarter of MY 00 through the first quarter of MY 01 show total exports increasing, and exports to the EU are relatively stable. As a result, MY 01 exports are forecast to reach 730 TMT (an

increase of 16% over MY 00), and MY 02 exports are forecast at 750 TMT.

Fishmeal

Fishmeal production is expected to remain stable, as growing restrictions on domestic fish catch will likely prevent any significant expansion of the industry. Imports are forecast to fall significantly, as the effects of a poor catch in South America have already become apparent in China, with prices for imported fishmeal rising sharply. Although limited imports of oilseeds and oilmeals under the biotech rules could provide some support for fishmeal imports, it would take a fairly large increase in meal prices to make up the difference with high fishmeal prices. Fishmeal imports are forecast to remain low during MY 02, assuming that current poor fishing conditions carry over into the next year.

Sunflowerseed

Reliable data on sunflowerseed is difficult to come by and frequently unreliable. MY 01 planted area and production dropped by 1.6% and 9.4%, respectively, after a record crop caused prices to crash during MY 00. A partial recovery in production is forecast for MY 02 as sunflowerseed remains a reliable source of cash income in remote parts of Northwest China. As with peanuts, sunflowerseed is not expected to benefit significantly from the biotech rules, as it tends to compete in a different market segment. Sunflowerseed imports are forecast to stabilize at about 7 TMT in MY 01 and remain there through MY 02. Although U.S. sunflowerseeds are quite popular as snacks in China, the number of alternative snack foods is growing and may be undercutting further growth in demand. The U.S. is forecast to remain by far the largest supplier, as U.S. sunflowerseed has built a strong reputation with Chinese consumers. Sunflowerseed imports are heavily weighted toward in-shell imports, as they are used primarily as snacks, and Chinese consumers prefer to snack on in-shell nuts. Confectionary use of sunflowerseed remains relatively low. Exports of sunflowerseed kernels are forecast to grow during MY 01, reaching 40 TMT, then stabilize during MY 02. Recent growth in exports of kernels is related to growth in the hulling industry, particularly in Northeast China. A large proportion of these kernels are exported to Germany at low prices.

Cottonseed

Cottonseed production is driven by demand for cotton fiber. Cotton production jumped sharply during MY 01 as a large number of farmers in East and North China planted more cotton. There are several factors behind this increase. First, relatively low cotton crops in recent years (particularly MY 99) helped cotton prices stabilize during a time when prices for other commodities fell. Additionally, even when prices are poor, cotton can be sold for cash, whereas grain crops are sometimes unsaleable. A third factor is the widespread adoption of biotech pest-resistant cotton. Use of biotech cotton has increased yields by reducing losses to bollworm. The effect is particularly noticeable in East and North China, where severe infestations of cotton bollworm had reduced the returns on cotton production. Farmers in particular are pleased with the results, as biotech cotton producers higher yields while reducing the need to use pesticides.

While the introduction of biotech cotton has proven to be a boon to the cotton fiber industry, it bodes poorly for cottonseed processing. Biotech cotton is widespread in North and East China, where the cottonseed processing industry is most developed. Even in provinces where biotech cotton is not approved for use, anecdotal evidence indicates that farmers are purchasing biotech cottonseed in neighboring provinces. China has no system for separating biotech cottonseed from non-biotech cottonseed. Government officials do not appear to have taken the cottonseed

processing industry into account in drafting the biotech laws. This inconsistent treatment of one type of biotech oilseed could cause problems later on, as a potential violation of national treatment under the WTO. A second concern is for China's exports of cottonseed meal. The bulk of these exports go to South Korea, with some also shipping to Japan and Switzerland. With biotech legislation underway in South Korea, China's cottonseed meal exports could face significant difficulties. This will be particularly true if South Korea requires registration of Chinese biotech cotton varieties, as it is rumored that there are a number of varieties being planted in China that have been approved by provincial governments but not by the central government.

Palm Oil

Palm oil is likely to be one of the few import commodities to benefit should the biotech regulations cause a serious disruption in trade. Regardless of the impact of the biotech regulations, palm oil imports are likely to rise, and imports are forecast at 1.6 MMT for MY 01 and 1.7 MMT for MY 02. It is difficult to determine what the relative market demand for each type of oil is at present, since the Chinese government controls imports through an opaque and arbitrary quota system. While there is definitely some substitution between the different oils, palm oil is preferred in certain types of food manufacturing, particularly instant noodles. Government officials have been significantly more generous with palm oil import quotas than with soybean or rapeseed oil quotas during the past year. Imports of palm oil reached 1.48 MMT, as compared to 161 TMT for soybean and rapeseed oil combined. Nonetheless, even with greater access for other types of oil under the TRQs, oil refiners claim that the market is capable of absorbing significantly more palm oil than is allowed under the current quota system. Post's forecast is relatively conservative, making the assumption that unmet demand is relatively low. This is based on reports from the trade indicating that smuggling of palm oil is relatively low. Smuggling is frequently an indicator of unmet demand in China. Since palm oil is not subject to the biotech regulations, there are not likely to be any interruptions in trade.

Production of Oil From Imported Oilseeds vs. Oil Imports

