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Report Highlights:

China's poultry production is forecast to grow at a slower pace in 2021 as high feed prices, low poultry meat prices, and swine herd rebuilding affect the sector. Poultry producers anticipate expanding partially cooked and fully cooked production lines to meet demand for processed chicken in more cities across China for quick service restaurants and convenience food outlets. Consumption will be driven by increased purchases through e-commerce platforms and be accompanied by a decline in fresh meat sales as live bird markets close in 1st and 2nd tier cities. Imports are forecast to decline from high volumes in 2020 but remain above prior year levels, such that U.S.-origin poultry will compete with Brazilian imports.

EXECUTIVE SUMMARY

Production: Production is forecast to rise nearly 3 percent in 2021. Expansion will be driven by white broiler production and producers' ability to adapt to consumer purchases through e-commerce and home delivery. Yellow broiler production is forecast to decline due to closure of live poultry markets. Growth is stymied by higher feed prices but the industry will gain from further vertical integration.

Consumption: Consumption is forecast to rise only 2 percent in 2021 due to stronger demand for partially cooked and fully cooked poultry, convenience food and e-commerce sales. Additionally, demand is moderated by the continued restocking of China's hog herd. As pork is China's preferred meat, increased swine supplies depress poultry demand.

Imports: Imports are forecast 16 percent lower at 840,000 MT in 2021, as domestic production growth outpaces moderate gains in consumption.

Exports: Exports will rise 3 percent to 400,000 MT in 2021 as demand recovers in Japan and Hong Kong.

TABLE 1: CHINA'S PRODUCTION SUPPLY AND DEMAND FOR CHICKEN MEAT

Meat, Chicken	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	13750	13800	14600	14600	14900	15000
Total Imports	580	625	1000	999	925	840
Total Supply	14330	14425	15600	15599	15825	15840
Total Exports	428	445	400	388	420	400
Human Consumption	13902	13980	15200	15211	15405	15440
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	13902	13980	15200	15211	15405	15440
Total Use	14330	14425	15600	15599	15825	15840
Ending Stocks	0	0	0	0	0	0
(1000 MT)						

Not Official USDA Data

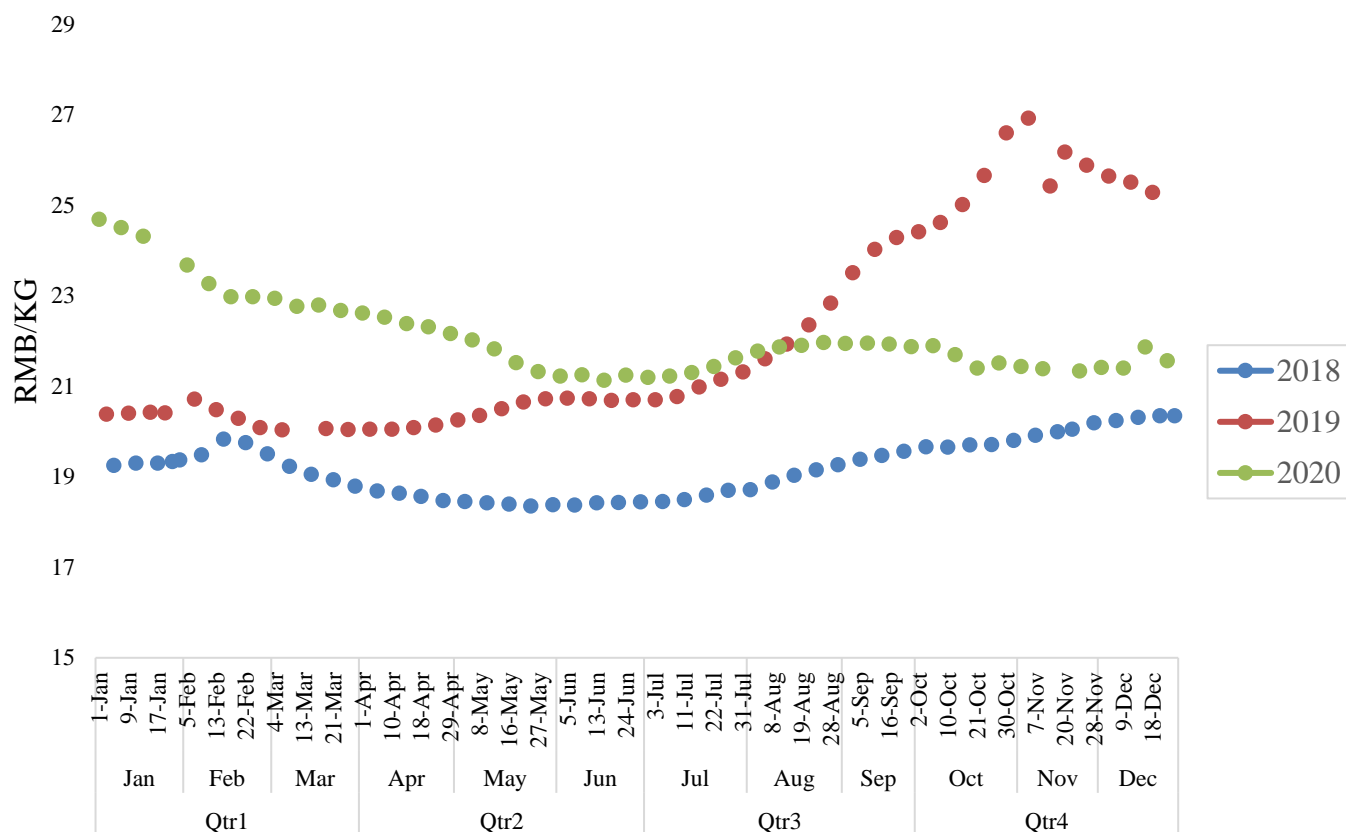
PRODUCTION

Production rate of growth slows in 2021

China's chicken production expansion is forecast to slow in 2021 due to higher feed costs and slower paced consumer demand despite greater vertical integration by major producers. As pork is China's preferred meat, an increase in pork supplies will limit demand growth in 2021.

In 2020, following the outbreak of SARS-CoV-2 ("COVID-19"), an abundant supply of poultry meat coupled with decreased HRI sector demand caused domestic poultry prices to decline. China's National Bureau of Statistics (NBS) reported that year-on-year prices for live poultry fell by 7.1 percent in 2020. Industry sources report that larger producers, including those with partially cooked or fully cooked chicken processing, have been better able handle the price fluctuations in China's poultry market. On the other hand, in 2020 some poultry producers focused solely on production or slaughter incurred high costs, even bankruptcies.

Figure 1: China's Average White Broiler Meat Price



Source: China's Ministry of Agriculture and Rural Affairs (MARA)

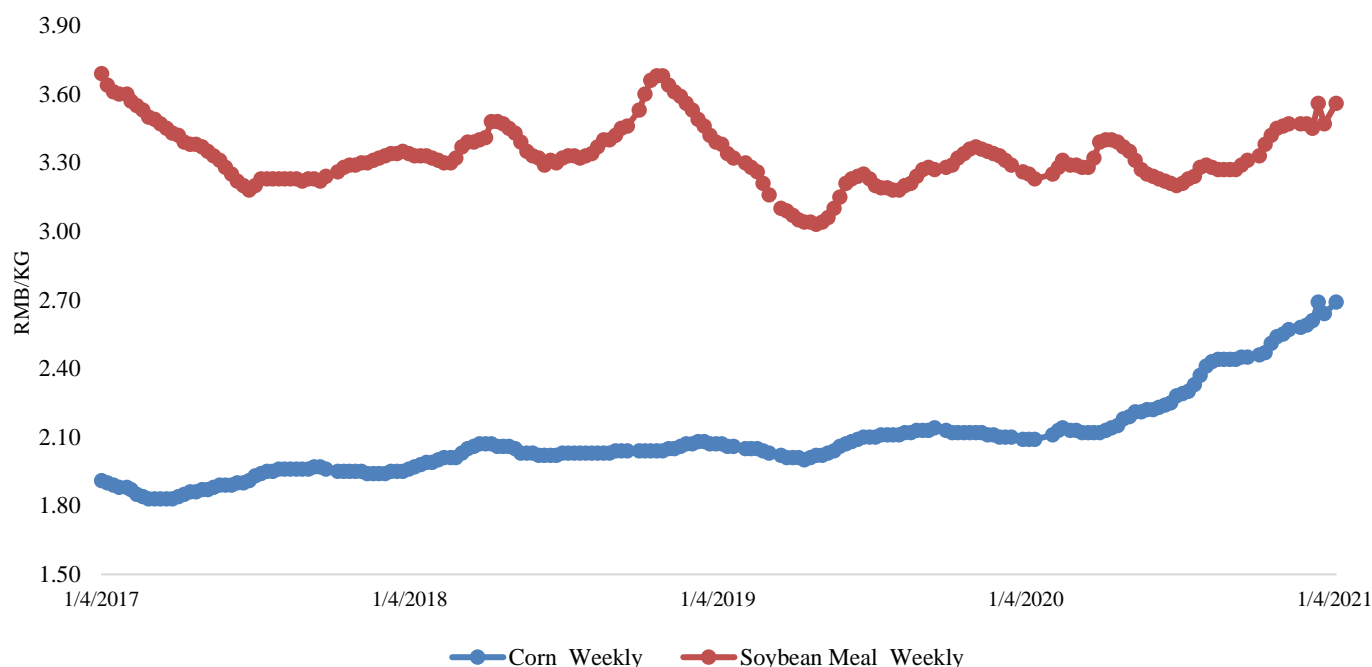
Feed price increases in 2021 will further cut poultry producers' profit margin

In 2021, feed and residual use for all coarse grains, feed-quality wheat and rice are estimated to increase from the previous marketing year due to forecast recovery of swine production and overall growth in feed demand. In 2020, feed production for layers and broilers increased 11.7 percent and 12 percent respectively, over the prior year.

In 2021, high feed input costs will force small and medium sized poultry producers to continue to change feed ratios, slightly lowering productivity. In 2020, feed mills and poultry producers adjusted grain ratios to include other feed grains, such as sorghum, rice, barley and wheat.

Throughout 2020, the rising cost of feed inputs such as corn and soybean meal squeezed profit margins (See Figure 2). China suffered severe weather events effecting their corn crop and other major exporters faced weather related shortages in their annual production. These weather events coupled with China's expansion of its hog herd and large poultry inventory exacerbated feed input costs. See [January Grain and Feed Update](#) for more information.

Figure 2: China's Average Corn and Soybean Meal Prices (2017-2020)



Source: MARA

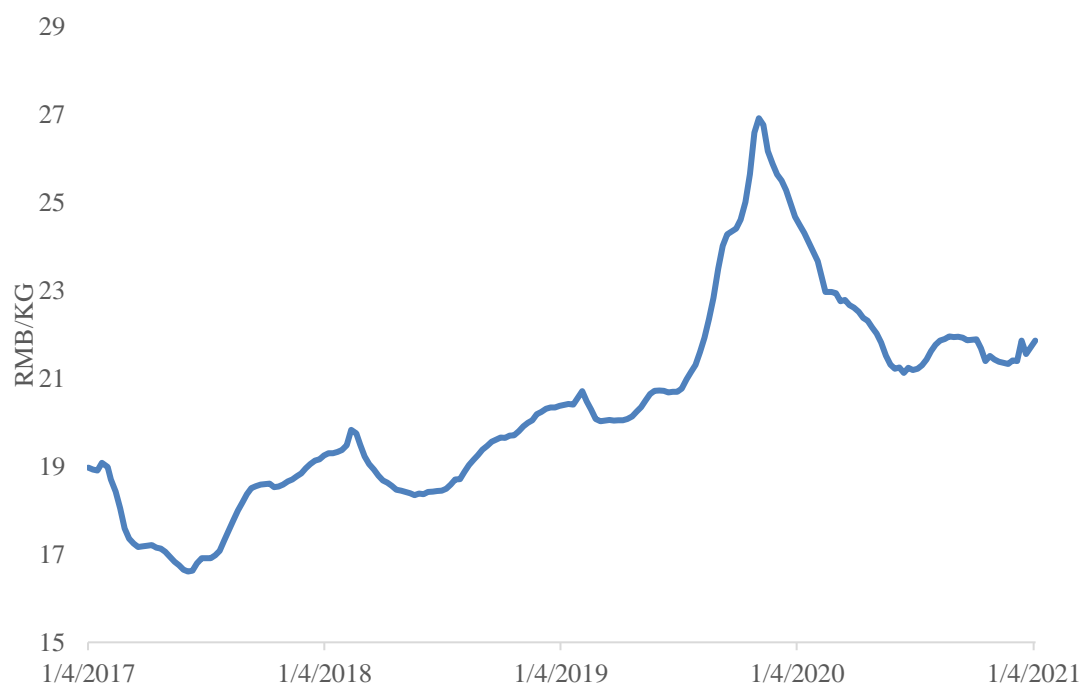
White broiler chick production will stabilize and use imported commercial genetics in 2021

In 2021, China's production of chicks will level off after slipping to record lows in the third quarter of 2020 due to oversupply. Producers cut chick production in the end of 2020, which caused prices to rebound. In 2021, imported broiler genetics from the United States, New Zealand and Canada will decrease due to relatively strong imports in 2019 and 2020. However, the high quality and cost effectiveness of imported poultry genetics will continue to dominate commercial breeding. Some poultry producers are investing in hatcheries for commercial breeding, however investment in broiler genetics and commercial production remain long term goals. The Government of China has also noted the importance of self-sufficiency in animal genetics.

Vertical integration bolsters expansion

In 2021, expansion in China's white broiler production will largely result from efficiency gains due to vertical integration by top poultry producers. Smaller broiler producers who contract with slaughter facilities to raise or sell white broilers have been less able to mitigate increased feed costs causing some to exit the market. Industry contacts report low poultry prices (*see Figure 3*) caused some farmers to decrease production, which caused some slaughter facilities to run below full capacity eating into profits.

Figure 3: China's Average White Broiler Meat Price



Source: MARA

In China, large poultry producers have increasingly expanded into full-service poultry production from feed, to raising, slaughtering and further processing (*see Picture 1 below*). On the other hand, some slaughter facilities are only expanding partially cooked and fully cooked poultry production lines driven by a growing demand from quick service restaurants, convenience stores, and institutional clients for these products.

Picture 1: Chinese Cooked Poultry Product Line in Operation



E-commerce will continue to be a growing channel for broiler meat distribution in 2021

As COVID-19 halted offline and other face-to-face markets, consumers increased purchases of food products through e-commerce and delivery services. Even when lockdowns eased, many consumers continued to use these services. Rabobank reported that in 2020 the share of online sales of food products compared to the total retail sales rose above previous years. Separately, the shutting down of live poultry markets has led to consumers switching from fresh chicken to online purchases of processed, chilled, and frozen chicken. This shift is most apparent in China's 1st tier cities like Beijing and Shanghai. Analysts rank Beijing, Shanghai, Guangzhou and Shenzhen as 1st tier cities. Up-and-coming cities colloquially known as 2nd tier cities (also known as the "New Tier 1") include up to 15 large and economically vibrant cities such as Chengdu, Wuhan, Chongqing, and Hangzhou.

Yellow feather poultry meat production will continue to decline in 2021

Yellow feather poultry meat production will decline in 2021 due to oversupply, the closure of live bird markets, and a gradual shift by consumers toward purchasing packaged white broiler products. According to industry sources, yellow broiler meat production was already down 10 percent in 2020.

Traditionally, yellow broilers are purchased at live bird markets and wholesale wet markets. Following the COVID-19 outbreaks, China's central and local governments have aggressively limited and largely closed live poultry markets negatively impacting yellow broiler sales. In order to adjust, yellow broiler slaughter may transition to resemble the white broiler production model. Industry contacts doubt the switch to cold-chain channels could be successful as yellow broiler meat is tied to customers selecting live birds for slaughter and a preference for fresh meat. Some white broiler slaughter facilities have considered processing yellow broiler to meet unused production capacity. Once slaughtered and packaged for sale, customers cannot tell the difference between yellow broiler and white broiler products, making the comparatively higher cost of yellow broiler birds less attractive.

Production of hybrid chickens is forecast to expand on rising popularity

Hybrid chicken (also known as 817 chicken) production is forecast to expand by 10 percent in 2021. Hybrid chickens are a domestically produced variety in China and have continued to gain popularity through e-commerce and institutional clients like canteens and universities. Hybrid chickens have a shorter production cycle than yellow broiler chickens, smaller size, and are more adapted to retail sales as a whole chicken. Hybrid chicken production has not yet outpaced yellow broiler production.

CONSUMPTION

Chicken consumption is forecast to grow only at 2 percent in 2021

Consumption will continue to rise in 2021, albeit at a slower rate (2 percent). After growing in the past decade, consumption expanded on the heels of the African Swine Fever (ASF), which reduced pork

supplies. While the poultry industry was able to swiftly respond to provide low-cost animal protein, a rebound in pork production will limit poultry consumption growth in 2021.

COVID-19 has made e-commerce and home delivery commonplace in China. As e-commerce grows, more consumers are focusing on product packaging and branding for meat and poultry products. For example, white broiler and hybrid chicken products are sold through online channels as ready-to-eat products. On the other hand, yellow broiler sales declined as China's 1st tier cities closed live bird markets. For this reason, while overall poultry consumption will increase in 2021, yellow broiler consumption will decline.

HRI and institutional sectors will return to full capacity in 2021

Recovery of the HRI sector will continue in 2021, especially in 1st tier cities where the sector has already largely recovered. According to the NBS, the catering industry recorded a 30 percent drop in revenue during the first half of 2020. According to Rabobank, in October 2020, food service recorded the first uptick in sales (0.8 percent) since the start of COVID-19.

Demand by quick service restaurants for white broiler meat will rise in 2021

The recovery of fast-food restaurants, school canteens, and workplace institutions in 2021 will support consumption of white broiler meat. Established western-branded convenience restaurants continue to expand their presence beyond developed markets in 1st tier cities, while a growing number of local quick service restaurants have also entered lower tier cities increasing the absolute number of restaurants serving processed chicken products. As new COVID-19 cases emerged in January 2021 China's Cooking Association recommended restaurants focus on ready-to-eat set dishes for quick delivery to increase sales. Processed poultry such as partially cooked and fully cooked products will be best positioned to meet these demands.

The closure of live poultry markets will reduce yellow broiler meat consumption

COVID-19 quickened the closure of many live poultry markets and wet markets in 1st tier and 2nd tier cities. On July 3, 2020 the State Administration for Market Regulation (SAMR) announced that China will gradually shut down live poultry markets. Live poultry markets have received additional media attention for the spread of H5N6 avian influenza to workers. Industry sources suggest China will close all live poultry markets within the next 5 to 10 years.

Yellow broiler chickens, which traditionally are sold live at wet markets will be most affected by this trend (*see Picture 2 below*). For example, in Southeast China live bird trade is limited to centralized markets, typically outside of densely populated city centers. Guangzhou City in Guangdong Province has already banned markets where customers purchase and slaughter birds on premises.

Pictures 2-4: Live Poultry Market and Slaughter Stalls in Yunnan Province



TRADE

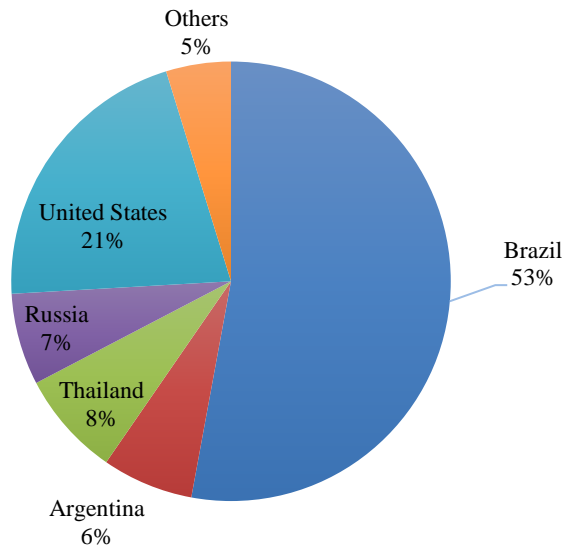
Weak prices will depress imports in 2021

In 2021, production expansion by large producers will spur low domestic prices. Producers of partially cooked and fully cooked chicken are expected to meet much of the market demand created by the food service sector. Additionally, consumers increased purchases of chilled and frozen chicken (through e-commerce and quick service restaurants) will support consumption of poultry meat, as compared to the pre-ASF period. In 2021, imports will decline from the exceptionally high volumes seen in 2020 but exceed prior years.

Industry notes that China's poultry prices are higher than imported poultry prices. China's HRI demand for chicken wings, chicken paws (HS 02071422, not included in chicken meat PSD table) and bone-in chicken will mean continued imports but at a lower rate than in 2020.

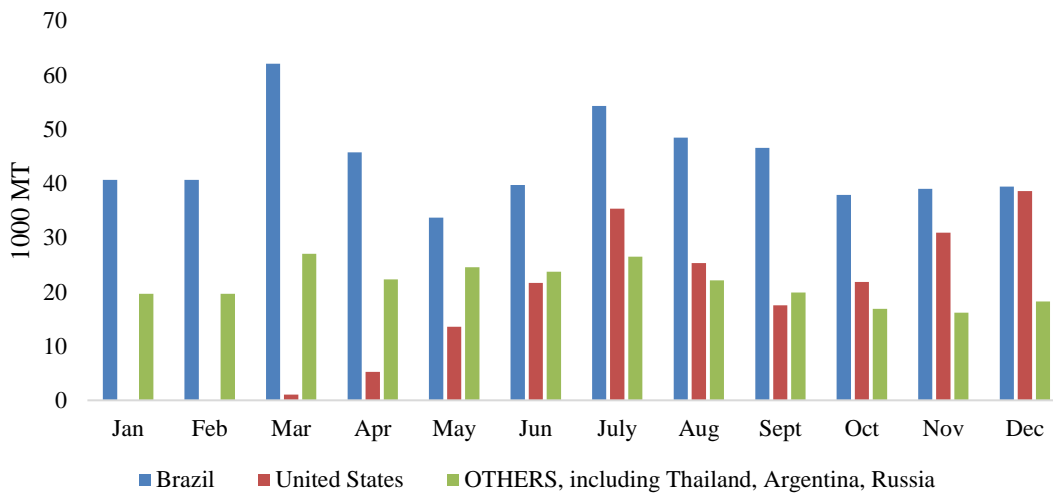
In 2020, imports of nearly all poultry products to China doubled in volume. Brazil and the United States were China's top two poultry suppliers (*see Figure 4*). The United States regained market access to China in November 2019, since then U.S. imports have seen tremendous growth rates. In 2020, the United States became China's number two importer by volume for chicken products (excluding paws) (*see Figure 5*) with Brazil retaining the number one spot. Brazil also specializes in individually frozen products that meet Chinese specifications for retail distribution.

Figure 4: Chicken Imports by Country in 2020 (Excl. Paws)



Source: China Customs

**Figure 5: China's Monthly Imports by Country (2020)
(Excl. Paws)**

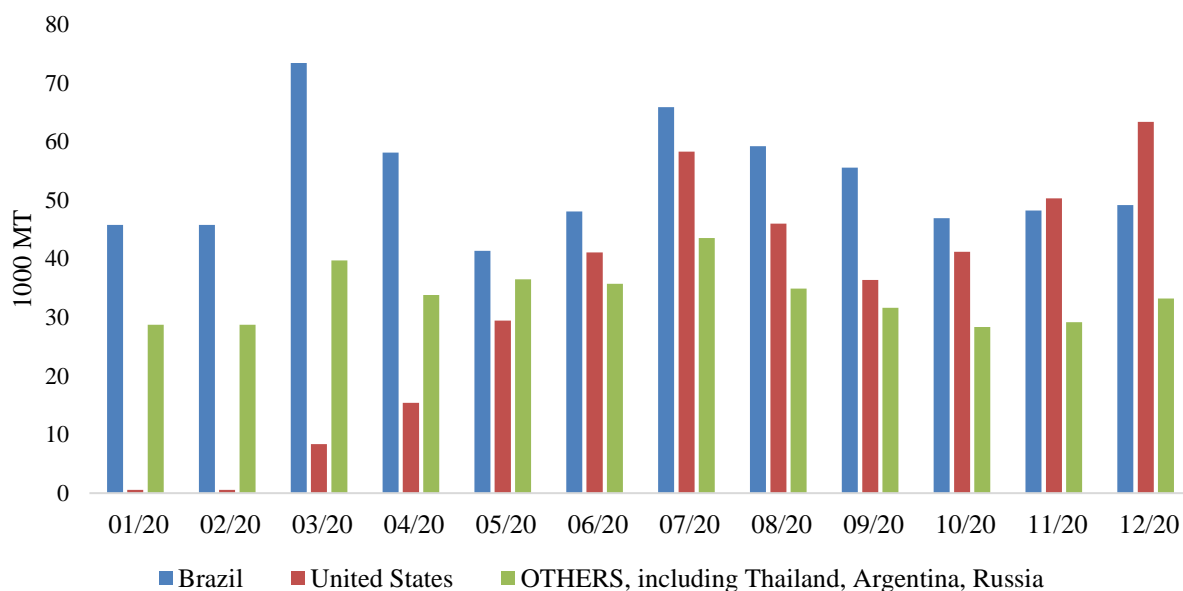


Source: China Customs

Chicken feet (paws) imports from the United States

The United States is the supplier of choice for chicken feet (paws).¹ In the end of 2020, with chicken paws included, the United States exceeded Brazil in total chicken volume imports (see Figure 6). Imported “jumbo paws” supplied by the United States are in demand by the HRI sector.

Figure 6: China's Monthly Imports by Country (2020) (Incl. Paws)



Source: China Customs

*Including HS 02071422 (chicken paws HS 02071422 is not included in PSD calculations)

In 2020 HPAI global events did not affect China's imports of poultry products

In the event a trading partner reports a highly pathogenic avian influenza (HPAI) outbreak in domestic commercial production, China usually responds by suspending market access to the Chinese market for that country. Under the [regionalization agreement](#) signed between the U.S. Department of Agriculture's Animal Plant Health Inspection Service (APHIS) and China, the United States will maintain market access for poultry products to China, though the region where an HPAI outbreak occurs will be temporarily suspended and the United States will regain market access for this region once mitigation measures have been completed.

In April 2020, the United States swiftly notified an incidence of HPAI in a turkey flock to China and the World Organization for Animal Health (OIE). By August 2020, the United States successfully resolved the HPAI outbreak. In September 2020, China resumed poultry market access for the United States from this region.

¹ Chicken paws are excluded from the PSD table

In 2020, the OIE reported over 120 incidences globally of highly pathogenic avian influenza (HPAI) in wild and commercial production. However, these incidents did not impact Chinese imports as the outbreaks were not in key supplying countries.

Other issues effecting U.S. poultry trade to China

APHIS has requested testing updates to the health certificates that accompany breeding chicken and hatching eggs, which are still under discussion among the relevant Chinese competent authorities. Trade of live poultry may continue based on the current health certificate while the discussions are ongoing. For more information see APHIS [Export Live Animals by Country](#) webpage.

COVID-19 testing and disinfection

China has published multiple central and local government regulations on the testing and disinfection of imported cold chain products, without WTO notification, domestic notice or comment periods. These measures have added market uncertainty for the importation of cold chain products, including meat and poultry. Industry sources indicate that retailers and wholesalers are avoiding imported cold chain products to mitigate the burdensome documentation requirements and additional costs associated with these regulations. To date, multiple country facilities have either been suspended or voluntarily delisted, following alleged positive COVID-19 detections. China has not published laboratory results, testing methodology or other detailed information regarding alleged positive tested products. Some delisted facilities have been unable to successfully relist their facilities, even after providing extensive documentation of mitigation measures. The current list of approved global exporter facilities is available on <http://jckspj.customs.gov.cn/spj/zwgk75/2706880/jckrljgzyxx33/2812399/index.html>

China's retaliatory tariffs on U.S. products

China maintains Section 301 retaliatory tariffs on U.S. poultry products. However, on February 18, 2020, the State Council Tariff Commission (SCTC) announced a tariff exclusion process for U.S. agricultural commodities impacted by the retaliatory Section 301-tariffs levied by China. Importers may apply for tariff exclusions which are approved on a case-by-case basis. These exclusions do not automatically extend to all importers. Please refer to FAS GAIN report [Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process for US Products](#) for more information on the exclusion process. Many chicken importers have applied, and received, a tariff exclusion. Previously, on February 6, 2020, SCCTC reduced the additional 301-tariffs on certain commodities, including all poultry products. This reduction was effective from February 14, 2020 (see the Tariff Schedule for U.S. Chicken Meat below).

TABLE 2: Tariff Schedule for U.S. Chicken Meat

HS Code (8-digit)	Product Description	MFN Rate	301	Add'l tariff (adjusted on Feb. 14, 2020)	Total Applied Tariff
	Implementation Date	Jan 1, 2019	Jun 1, 2019	Feb. 14, 2020	Dec 15, 2019
02071100	Chickens, Not Cut in Pieces, Fresh or Chilled	20%	25%	5%	50%
02071200	Frozen Whole Chickens	¥ 1.3/kg	25%	5%	30% + MFN
02071311	Fresh Or Chilled Cuts Of Chicken, With Bone	20%	25%	5%	50%
02071319	Fresh or Chilled Cuts of Chicken, Other	20%	25%	5%	50%
02071321	Fresh or Chilled Wing of Chicken (Excluding Wingtips)	20%	25%	5%	50%
02071329	Fresh or Chilled Offal of Chicken, Other	20%	25%	5%	50%
02071411	Frozen Chicken Cuts, With Bone	¥ 0.6/kg	25%	5%	30% + MFN
02071419	Frozen Chicken Cuts, Nes	¥ 0.7/kg	25%	5%	30% + MFN
02071421	Frozen Midjoint Wing of Chicken	¥ 0.8/kg	25%	5%	30% + MFN
02071422	Frozen Chicken Paws	¥ 1.0/kg	25%	5%	30% + MFN
02071429	Frozen Offal of Chicken, Nes	¥ 0.5/kg	25%	5%	30% + MFN
16023210	Preparations of Chicken, In Airtight Containers	5%		2.5%	7.5%
16023291	Other Prepared Chicken Breast Filets	5%	10%		15%
16023292	Other Prepared Meat of Chicken Legs	5%		2.5%	7.5%
16023299	Other Prepared Chicken, Chicken Offal or Blood	5%		2.5%	7.5%

Source: Customs Import and Export Tariff of China

China's exports will return to prior levels

Exports will grow by 3 percent in 2021 buoyed by shipments to Japan, China's largest market. Demand recovery is expected in the Japanese food service sector as the economy gradually reopens. Chinese exports of prepared chicken products (the only poultry products eligible for export) will rise as foodservice ramps up in 2021.

Attachments:

No Attachments