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# **Report Name:** Poultry and Products Semi-annual

**Country:** China - Peoples Republic of

**Post:** Beijing

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**Report Highlights:**

Chicken meat production, consumption, and imports are forecast to increase in 2020 due to the massive pork supply gap created by African Swine Fever. However, annual 2020 growth in all three categories will be constrained by three factors: first, production volatility due to reports of recovering pork production; second, a lack of consumer willingness to switch from pork to chicken; and third, production and transportation slowdowns caused by the novel coronavirus outbreak in China.

**Executive Summary:**

Production: Chicken meat production in China is forecast to increase to approximately 15.8 million metric tons (MMT) in 2020. Higher pork prices have driven many consumers to substitute pork for lower-priced chicken, driving strong production increases all across the country, but especially in Central China. However, industry reported that the influx of new producers entering the broiler industry has resulted in quality issues and many of these new entrants have already exited the market. In addition, the white broiler industry lost access to one of its few remaining live bird suppliers when China closed off imports due to highly pathogenic avian influenza in Poland.

Consumption: Consumption is forecast to increase to 16.1 MMT in 2020 due to consumers substituting chicken meat for pork due to high pork prices. However, demand from restaurants, canteens, school cafeterias, and other industrial consumers has slowed dramatically since January due to the coronavirus outbreak in China.

Imports: Imports of chicken meat are also forecast to increase to 675,000 MT due to high domestic prices. Although imports of U.S. poultry have resumed, the initial volume is expected to be limited; most current imports from the United States are chicken paws, which are not included in this forecast.

Exports: Exports are forecast to drop to 375,000 MT due to tightened domestic supplies and trade disruptions related to the coronavirus outbreak.

**CHICKEN MEAT**

**Production Supply and Demand Table**

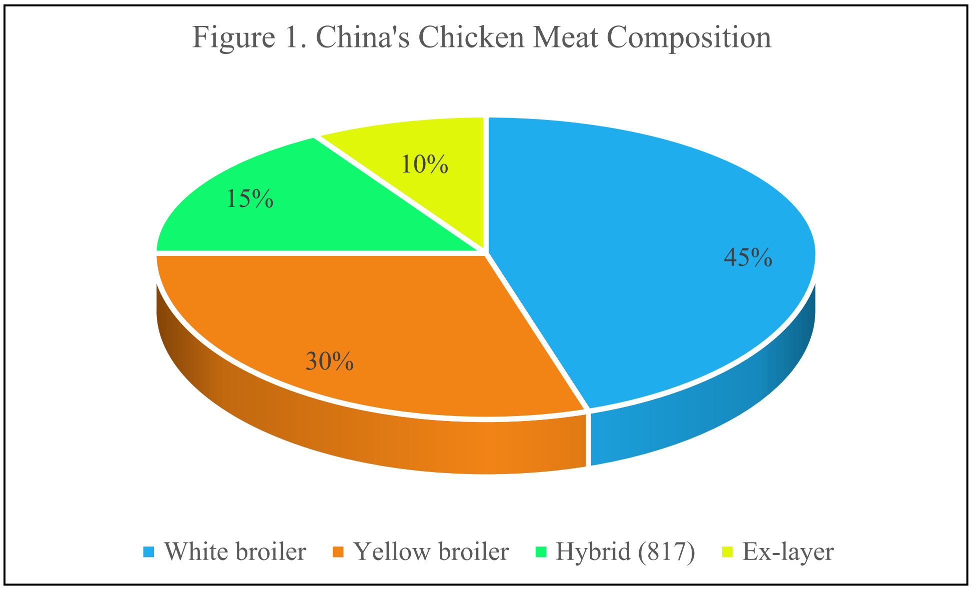
| **Market Begin Year** | **2019** | | **2019** | | **2020** | |
|---|---|---|---|---|---|---|
| **China** | **USDA Official** | **New Post** | **USDA Official** | **New Post** | **USDA Official** | **New Post** |
| **Beginning Stocks** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Production** | 11700 | 11700 | 12650 | 13750 | 14800 | 15750 |
| **Total Imports** | 342 | 342 | 575 | 580 | 750 | 675 |
| **Total Supply** | 12042 | 12042 | 13225 | 14330 | 15550 | 16425 |
| **Total Exports** | 447 | 450 | 425 | 428 | 430 | 375 |
| **Human Consumption** | 11595 | 11592 | 12800 | 13902 | 15120 | 16050 |
| **Other Use, Losses** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** | 11595 | 11592 | 12800 | 13855 | 15120 | 16050 |
| **Total Use** | 12042 | 12042 | 13225 | 14300 | 15550 | 16425 |
| **Ending Stocks** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Distribution** | 12042 | 12042 | 13225 | 14300 | 15550 | 16425 |

Note: Not official USDA data

**PRODUCTION**

*Demand for alternative protein drives chicken meat production increases into 2020*

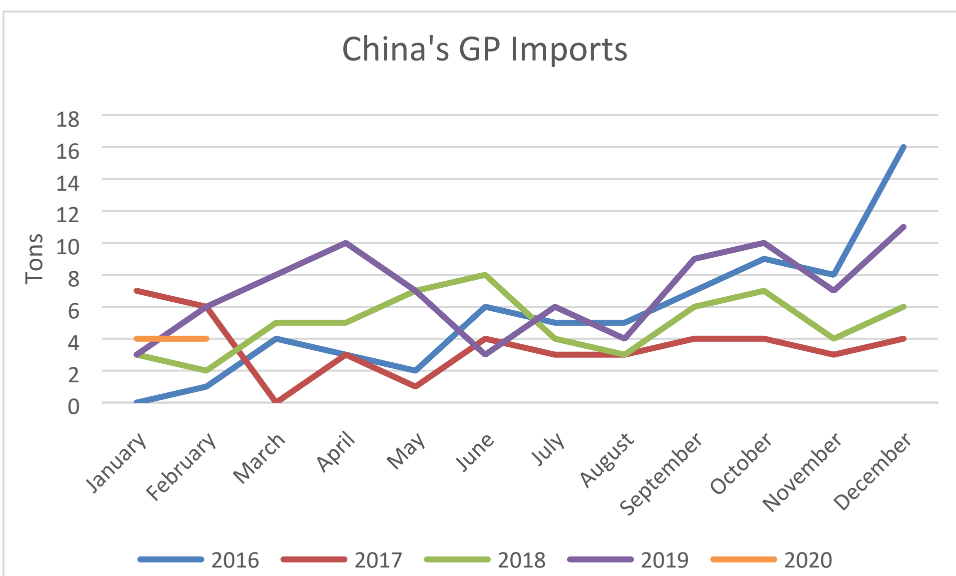
With ASF continuing to drive high pork prices, China's chicken meat production is forecast to increase to 15.8 MMT in 2020, representing a 15 percent annual increase. In 2019, white broiler and hybrid chicken (also known in China as an "817" chicken) production saw the largest increases, contributing to an overall 18 percent annual increase. These two categories have the shortest production times and were able to ramp up production more quickly. With China's pork supply forecast to remain tight throughout 2020, demand for replacement protein will continue to be the main driver for increased chicken meat production, but this growth will be constrained by a number of factors discussed below.



Source: Chinese poultry industry

*White broiler production is expected to continue strong expansion in 2020 as a direct replacement for pork*

The white broiler sector is expected to continue its expansion in 2020 due to strong returns in 2019. Industry reported a sufficient genetic supply for white broilers in 2020. According to China Customs, China imported 84 tons of Grandparent (GP) birds in 2019—a 40 percent increase over 2018. While New Zealand continues to be the largest source of new live poultry, Poland's exports to China grew by 200 percent in 2019. However, Poland's live chick and poultry access was cut off by China in January 2020 due to reports of HPAI in commercial flocks. Potentially offsetting the current loss of the Polish supply, China restored access for U.S. live bird access in 2020, including a regionalization protocol that should contribute to long-term sustainability of the U.S.-China live poultry trade.



Source: China Customs

In addition, domestic breeding programs have continued to grow. For example, Chinese local media reported that one of China's largest poultry companies has announced a breakthrough in white broiler genetics. Its newly-developed genetics were sent to China's National Poultry Testing Center for performance testing in September 2019. Industry reported that once the genetics pass MARA's variety registration, it can supply grandparent (GP) stock domestically and internationally.

*Perceptions of an early pork recovery weaken chicken meat production*

However, just as the existing pork deficit drives chicken meat production, chicken meat production (and trade) will be affected by actual or perceived improvements to the Chinese swine herd. In the last two months of 2019, nationally reported pork prices fell and stabilized. Chinese government officials attributed this trend to a "bottoming out of the swine herd reduction" and "recovery momentum from swine production."[1] Furthermore, top government leadership claimed that by 2021, China's hog production would "fully recover." These statements along with price signals suggesting that swine and pork production was on the path to recovery sent broiler prices tumbling in the last two months of 2019.

However, in the first two months of 2020, pork prices have risen again, hitting a record high of 59.64 RMB/kg in mid-February. While poultry prices have not followed the recent increase in pork prices, it is clear that the pork-poultry price dynamic remains volatile.

*Consumer willingness to switch to chicken another limiting factor*

With pork prices at or near record highs, many consumers are substituting pork for chicken. However, the 2019 data from the Ministry of Agriculture and Rural Affairs shows there have been only incremental increases to chicken meat prices, indicating weaker demand (than for pork). In fact, chicken prices have steadily fallen since November 2018. This divergence in pricing dynamics suggests Chinese consumers still prefer pork to chicken and changes to the diet will not happen quickly.

*Disease concerns also serve to constrain production*

A nationwide outbreak of a novel coronavirus will likely have a noticeable slowing effect on Chinese chicken meat production. Government restrictions on interprovincial travel via public conveyance prevented many farm workers who had had traveled to their hometowns for Chinese New Year from returning to work. In addition, many local governments ordered businesses to stay closed following the Chinese New Year and workers returning from their home provinces were ordered to self-quarantine for 14 days. Finally, transportation blockages due to coronavirus have disrupted the flow of breeding chicks, animal feed, and live birds for slaughter. Although many of the coronavirus restrictions have been rolled back to support continued food production, industry reports that many enterprises are still operating below normal capacity.

In 2019, there were only two reported avian influenza outbreaks reported by China to the World Organization for Animal Health (OIE). One was reported in April from Liaoning Province, and the other in June from Inner Mongolia. More information can be found in the OIE reports here and here.

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[1] http://www.moa.gov.cn/xw/zwdt/201912/t20191203_6332762.htm (Link in Chinese)

Although these outbreaks resulted in a total of 35,000 birds killed or disposed of, overall, these avian influenza outbreaks have had little effect on Chinese's 2019 poultry production.

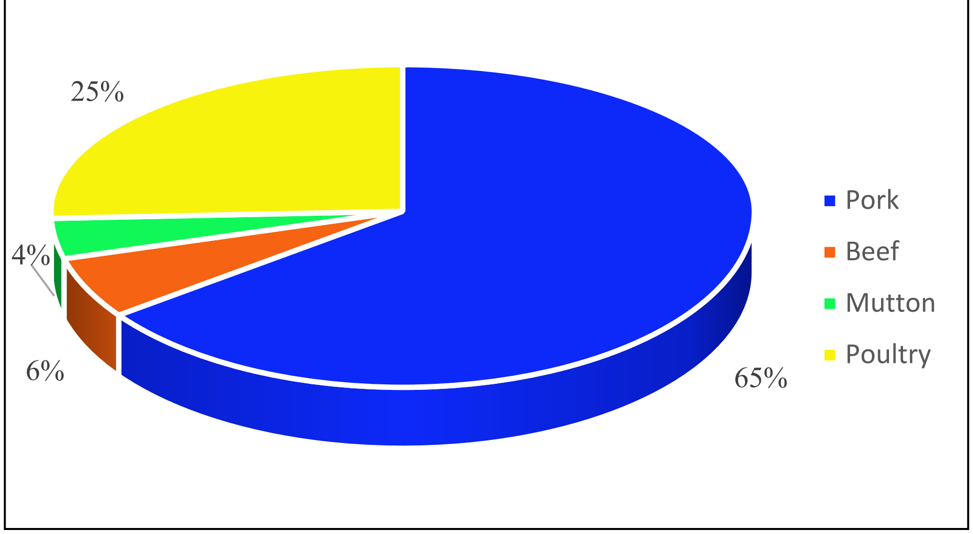
In the first three months of 2020, China reported three avian influenza outbreaks, including a commercial broiler farm in Hunan Province. However, compared to the effect of coronavirus in 2020, it is likely that these isolated outbreaks of avian influenza will continue to have a limited effect on Chinese chicken meat production.

## CONSUMPTION

*Chicken consumption will increase in 2020 as Chinese consumers seek out pork substitutes*

Chicken meat consumption in China is forecast to increase to 16.1 MMT in 2020, representing a 15.5 percent increase from 2019. As the pork shortage continues into 2020, eating poultry will become a more regular part of the Chinese diet. According to National Bureau of Statistics, pork is still the most widely consumed meat in China, but industry has reported that ASF is accelerating a gradual shift from pork to poultry. Since the ASF outbreaks, the Chinese government also encouraged increased poultry consumption claiming that poultry meat is healthier and more sustainable.

Figure 3: China's Per Capita Meat Consumption in 2018




(Source: National Bureau of Statistics of China)

Looking at the largest category of chicken meat, white-feathered chicken is mostly processed then sold frozen and in cuts. As the cheapest meat, white-feathered chickens are the primary replacement for cheap pork and are mainly consumed at institutional entities (educational, military and state facilities) and western style fast food restaurants. In 2020, due to coronavirus-related measures, many of these institutional consumers have curtailed their operations as workers have had to stay away. While many more Chinese consumers have been cooking and eating at home, white broiler chicken is not popular with most Chinese households, resulting in a slight weakening in demand for white broiler meat.

Yellow-feathered chickens are mostly sold whole and live (where allowed). Compared to white-feathered chicken and pork, yellow-feathered chicken is more expensive. However, the number of live poultry markets is gradually decreasing in China, in large part due to concerns about zoonotic diseases. The coronavirus outbreak not only shut down a number of live bird markets, but highlighted the health concerns of selling live animals in crowded urban areas. Some live bird markets will resume operations as the effects of the coronavirus outbreak dissipate in China, but the long-term decline in these live bird markets will force the yellow broiler industry to adopt more practices from the white broiler industry.

Hybrid (817) chicken consumption is likely to increase in 2020 because of growing consumer awareness for this bird. The hybrid chicken is fast growing and smaller in size than a white broiler, making it the right size for the typical three-person Chinese family. Its popularity as an e-commerce item will likely increase its relative popularity among other poultry as more families choose to order in or dine at home due to coronavirus concerns.

## TRADE

### Imports

*High domestic pork prices drive increased chicken meat imports*

Imports of chicken meat[2] are forecast to increase 16.4 percent to 675,000 MT in 2020 driven by strong market demand. This increase comes on the heels of a massive 70-percent increase from 2018 to 2019. While imports will continue to increase in 2020, the total amount will be constrained by the same factors constraining production.

The price volatility caused by speculation about a recovering pork market have already caused importers to cancel existing poultry orders, especially in last two months of 2019 when pork prices dropped roughly 20 percent. Several Chinese traders reported that cargoes they had procured at high prices overseas sat waiting in bonded warehouses at port. While there is still demand for imported chicken meat, importers reported low trade volumes in the beginning of 2020 in part due to cash flow problems resulting from the sudden drop in prices.

Furthermore, the coronavirus outbreak in China caused a massive disruption at the ports. Due to government and company mandated restrictions, port operation staff were severely restricted in the customs clearance process. While there are reports that stuck shipments are being cleared at a faster rate, many Chinese ports are still working through a backlog of shipments. Based on normal trade patterns, the height of Chinese meat and poultry imports generally occurs in the last quarter of the year. As such, it is possible that the coronavirus complications will have a minimal effect on the yearly import totals. However, ongoing outbreaks of coronavirus around the world may exacerbate the trade disruptions, further constraining trade.

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2 Chicken meat in this report includes H.S. codes 020711, 020712,020713,020714, and 160232, and does not include paws (02071422).

Brazil: Brazil will continue to be China's leading supplier in 2020, but will see its market share (over 80 percent for the last three years) shrink due to a minimum pricing agreement its major producers struck with China's government in 2019, combined with new competition.

Argentina: Argentina is the second largest supplier of chicken meat to China in 2019, with exports doubling to 57,000 MT. About 70 percent of chicken meat from Argentina is frozen midjoint wing (HS code 02071421) and is priced 27 percent cheaper than midjoint wings from Brazil.

Thailand: China imported 52,000 MT of chicken meat from Thailand in 2019. The top three import categories were frozen bone-in chicken, midjoint wings, and chicken paws.

*Restored access and signed trade agreement pave way for increased imports from United States*

China banned U.S. poultry and poultry products in 2015 due to reported high pathogenic avian influenza outbreaks in the United States. On November 14, 2019, China lifted the ban on poultry meat for human consumption. Soon after, China's General Administration of Customs listed several U.S. poultry slaughter and processing facilities, opening the doors for commercial trade. Within a month, China also listed a number of warehouses and cold-storage facilities, further opening the doors to U.S poultry trade. The recently signed U.S.-China Economic and Trade Agreement (ETA) sets forth a number of requirements that could affect China's imports of U.S. poultry, poultry meat, and poultry products.

Chinese importers report strong demand for U.S. poultry based on the product's reputation for high quality and reliable supply. However, there are two major challenges for U.S. chicken meat products. First, over the course of the last 18 months, China has applied retaliatory tariffs on many U.S. products, including poultry. The median tariff is an additional 35 percent, on top of the existing weight-based applied MFN tariff. Due to the additional tariffs, importers report that U.S. muscle cuts are not price competitive and most shipments to date have been chicken paws. Although the ETA does not contain specific details about tariff reductions, China opened another tariff exclusion application period in March covering almost all U.S. products affected by the Chinese Section 301 tariffs. Several Chinese poultry importers have reported successfully applying for and receiving exclusions. These exclusions will remove the additional Section 301 tariffs levied by China, leaving most chicken meat imports at the prior applied MFN level.

In addition, after having been out of the market for a number of years, U.S. producers are having to form new business relationships and accommodate new product requirements. Furthermore, the Chinese poultry import market has changed significantly in the last five years. Not only are there more suppliers (the United States had a roughly 80 percent market share prior to the 2015 ban), but Chinese importer requirements have changed. For example, some Chinese distributors indicated a preference for individually quick frozen (IQF) products to block frozen products because they seemed more retail friendly.

**Schedule of tariffs on U.S. chicken meat products**

| HS Code (8-digit) | Product Description | MFN* Rate | Retaliatory Section 301 tariffs |
|---|---|---|---|
| | **Implementation Date** | **Jan 1, 2019** | **As of Dec 15, 2019** |
| 02071100 | Chickens, not cut in pieces, fresh or chilled | 20% | 35% |
| 02071200 | Frozen Whole Chickens | ￥1.3/kg | 35% |
| 02071311 | Fresh Or Chilled Cuts Of Chicken, With Bone | 20% | 35% |
| 02071319 | Fresh or chilled cuts of chicken, other | 20% | 35% |
| 02071321 | Fresh or chilled wing of chicken (excluding wingtips | 20% | 35% |
| 02071329 | Fresh or chilled offal of chicken, other | 20% | 35% |
| 02071411 | Frozen Chicken Cuts, With Bone | ￥0.6/kg | 35% |
| 02071419 | Frozen Chicken Cuts, Nes | ￥0.7/kg | 35% |
| 02071421 | Frozen Midjoint Wing Of Chicken | ￥0.8/kg | 35% |
| 02071422 | Frozen Chicken Claw | ￥1.0/kg | 35% |
| 02071429 | Frozen Offal Of Chicken, Nes | ￥0.5/kg | 35% |
| 16023210 | Preparations Of Chicken, In Airtight Containers | 5% | 5% |
| 16023291 | Other Prepared Chicken Breast Filets | 5% | 10% |
| 16023292 | Other Prepared Meat Of Chicken Legs | 5% | 5% |
| 16023299 | Other Prepared Chicken, Chicken Offal Or Blood | 5% | 5% |

## Exports

Overall, China's chicken meat exports are forecast to slow slightly in 2020 due to limited domestic supply and trade disruptions stemming from the coronavirus outbreak. China's primary export markets are Hong Kong and Macau. While exports to these markets grew from 2018 to 2019, exports in the first two months of 2020 have been down 13 percent, most likely due to coronavirus-related disruptions.

## Attachments:

No Attachments