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Report Highlights:

As China's swine herd recovers from African Swine Fever, China's chicken meat production will continue to grow in 2021, yet at a slower pace than the rapid expansion in 2019. However, gains in broiler production and chicken meat consumption will not be erased and the long-term trend of chicken displacing pork will continue. Imports in 2021 are forecast to fall by as much as 16 percent due to a high base in 2020, but remain at almost double the pre-ASF level. COVID-19 has affected poultry consumption demand in many ways, but overall, consumption growth will not slow in 2021. U.S.-origin poultry imports have seen strong success since access was restored in November 2019. In the first five months of 2020, China became the third-largest destination for U.S. chicken meat exports.

Executive Summary

Production: China's chicken meat production will continue to expand in 2021, but at a slower pace of 3 percent, compared to the double-digit growth in 2019. The primary reason for this slowing growth is the recovery of China's swine herd from African Swine Fever.

Consumption: Consumption in 2021 is forecast to grow, but at a much slower rate of 2 percent annually, reaching 15.7 MMT for the year. In 2020, annual chicken meat consumption increased, but experienced weakening demand in the first half of the year due to COVID-19 in China. The primary consumption outlets for chicken meat are schools, restaurants, and industrial canteens, most of which closed down due to COVID-19 restrictions. However, demand should strengthen in the latter half of 2020, as the enterprises resume their normal activities.

Imports: Due to expanding domestic production capacity in 2018 and 2019, coupled with the recovering pork supply in 2020 and 2021, chicken meat imports are forecast to decrease by 16 percent in 2021, to 775,000 MT. Since regaining access for poultry meat in November 2019, U.S.-origin chicken meat imports have boomed, making China the third largest destination for U.S. chicken meat exports (from January to May 2020). While China and the United States signed a new animal health protocol on February 14, 2020 allowing for the importation of live birds from the United States, the health certificate that accompanies live bird shipments is still under discussion with the relevant Chinese competent authorities.

Exports: Exports are forecast to rebound with annual growth of 12 percent in 2021. A plentiful domestic poultry supply and competition with pork will spur China to recover export markets impacted by the industry's domestic focused posture in 2019 and 2020 due to ASF and COVID-19.

CHINA'S PRODUCTION SUPPLY AND DEMAND TABLE FOR CHICKEN MEAT

Marketing Year (Jan to Dec)	2019		2020		2021	
China	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	0	0	0	0	0	0
Production	12650	13750	14850	14850	0	15300
Total Imports	575	580	925	925		775
Total Supply	13225	14330	15775	15775	0	16075
Total Exports	425	428	375	375	0	420
Human Consumption	12800	13902	15400	15400	0	15655
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	12800	13855	15400	15400	0	15655
Total Use	13225	14300	15775	15775	0	16075

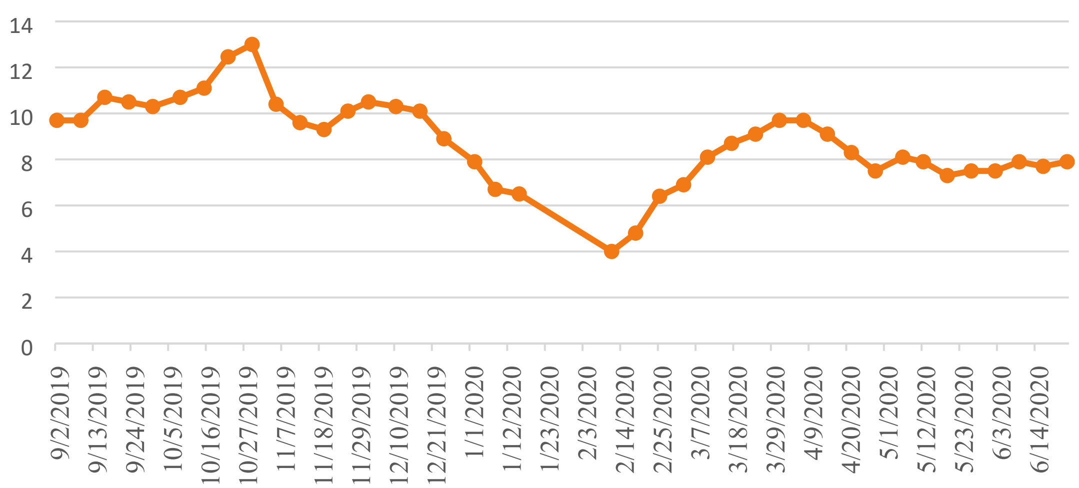
PRODUCTION

Overall chicken meat production will continue to increase in 2021, but at a slower rate than in 2019

China's 2021 chicken meat production is forecast at 15.3 million metric tons (MMT), representing a 3-percent increase from the estimated 14.9 MMT in 2020. With the onset of African Swine Fever (ASF) across China in 2018, a large protein deficit emerged, spurring high profits and rapid expansion by China's poultry industry (18 and 8 percent growth in 2019 and 2020, respectively), especially in the white broiler sector. As China's swine herd and pork supply recover, poultry prices have weakened, slowing poultry industry expansion.

Figure 1 below shows weekly prices of live chicken in Weifang, Shandong Province, the largest white broiler producing area in China. The chart shows how June 2020 prices declined 35 percent from peak prices in late October 2019.

Figure 1: Live Chicken Prices From Weifang, Shandong Province (RMB/kg)



(Source: Chinese industry)

Industry analysts expect China's pork production will recover to 80 to 90 percent of pre-ASF levels by the end of 2021. As a result, China's chicken meat production will also return to more traditional growth patterns. According to the 2020 China Agricultural Outlook Report, China's poultry meat production will continue to increase by an average of 2.2 percent annually over the next 10 years.

2020 chicken meat production estimate down due to COVID-19

COVID-19 not only impacted chicken meat production in early 2020, but also had a profound effect on chicken meat demand. With the closure of restaurants, schools, canteens, and other food processing factories, demand for chicken meat fell significantly. While there was an increase in take-out, delivery, and home-prepared meals, overall chicken meat demand fell, arresting the ongoing expansion.

According to the National Statistics Bureau (NSB), China's poultry meat output in first quarter of 2020 was 5.23 million tons, an increase of 1.1 percent from the same period of 2019, which is much lower than the expected rate of increase. Note, that the NSB statistics only report total "poultry meat" output, which includes other poultry and waterfowl. The relative increase of broilers would be slightly higher.

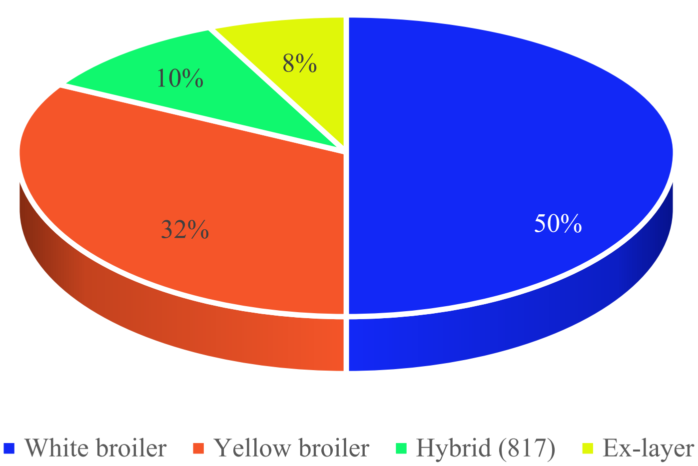
Avian influenza does not appear to have affected poultry production in 2020. Since January 1, 2020, China's Ministry of Agriculture and Rural Affairs (MARA) reported six highly pathogenic avian-influenza (HPAI) outbreaks to the World Animal Health Organization (OIE). The first four outbreaks were reported in wild swans located in Xinjiang. The other two outbreaks were reported from Hunan and Sichuan Provinces, respectively. Following the widespread H5N7 avian-influenza outbreaks in the winter of 2016 to 2017, China expanded its existing nationwide mandatory vaccination program (for

H5) with a bivalent H5/H7 vaccine. With a reported 95 percent or higher immunization rate, the number of avian influenza cases reported has dropped significantly.

White and yellow broilers account for over 80 percent of China's total chicken meat production

Based on industry estimates, white-feather broilers account for 50 percent of China's total chicken meat production, yellow-feather broilers account for 32 percent, hybrid chickens (also known as 817 chickens) account for 10 percent, and ex-layers account for 8 percent (see Figure 2 below). White broiler production is concentrated in the North, led by Shandong Province, and yellow broiler production is concentrated in the South, led by Guangdong Province.

Figure 2: China's Chicken Meat Production



Source: Industry

White broiler production will account for the majority of future growth

White broiler production is expected to continue increasing in 2021 due to recent large investments in poultry production. For example, in Fujian Province, a large poultry group broke ground on 17 new white broiler facilities in April 2020, representing a 2 billion RMB ($286 million USD) investment. In Liaoning Province, a large meat processing company announced plans to invest 1.7 billion RMB ($243 million USD) in new poultry production and processing facilities. These investments will add significant new capacity, causing some in the poultry industry to be concerned about oversupply.

According to industry sources, the average production time of white broiler is 42 days with weights (live birds) between 2.4-2.8 kilograms (kg). Industry also reported that more white broilers are cage produced to save land. It is estimated that over 50 percent of China's white broiler farms produce over 50,000 birds annually.

Industry has reported sufficient genetic supply for white broilers in 2020 as a result of record high Grandparent (GP) chicken imports in 2019, a year-on-year increase of 42 percent from 2018. According to China Agriculture Outlook reports, China's white broiler parent stock increased 5.9 percent in the first quarter of 2020 versus the same period in 2019. Simultaneously, the day-old chick price declined 60 percent, and chick sales increased 2.1 percent, indicating increasing availability of breeding stock.

China's domestic white broiler breeding programs continue. Chinese media reported that one of China's largest poultry companies has announced a breakthrough in white broiler genetics. The newly developed genetics were sent to China's National Poultry Testing Center for performance testing in September 2019. To date, there is no update on the status of this new genetic variety.

Yellow-feathered chicken production is expected to remain stable in 2021

Yellow broilers are diverse in species, price, and breeding cycles. According to industry sources, there are three major types of yellow broilers:

Yellow-feathered Chicken Types	Production Time (days)	Live Bird Weight (kg)
Fast growth rate chickens	50-80 days	2-3
Medium growth rate chickens	70-100 days	1.8-2.2
Slow growth chickens	Over 100 days	1.4-1.8

Yellow broilers come from an indigenous species, so all yellow broiler genetics can be domestically produced. As a result, the GP and parent yellow-feathered chickens are much cheaper than white-feathered GP and parent chickens. Some GP and parent yellow-feathered chicken stock may be sold as commercial chickens when stocks are high or commercial chicken prices are high.

Beginning in 2019, the decrease in pork supplies and subsequent increased demand for poultry drove the expansion of the yellow broiler industry. While the expansion was slower than white-feathered production, many of the large poultry companies expanded, both in terms of the number of facilities and in the geographic location of those facilities. One notable trend is the expansion of fast-growing yellow feather birds outside of southern China, to capture local demand for yellow feather chicken meat.

However, by 2020 this expansion started to slow down due to the recovery of China's swine herd. According to China Agriculture Outlook reports, China's yellow-feathered parent stock increased 9.5 percent in the first quarter of 2020, compared to the same period in 2019. At the same time, the chick price declined 19 percent and chick sales decreased 10.2 percent, indicating that demand for additional yellow broiler genetics is weakening. At a recent industry meeting, Chinese producers discussed their concerns about an impending oversupply in the Chinese poultry market.

The impact of COVID-19 on the yellow-feathered chicken sector will also result in long-term challenges for the industry. Live bird markets and wholesale wet markets are the primary retail outlets for yellow-feathered birds, as opposed to factories, canteens, and fast food restaurants in the case of white-feathered birds. Since January 2020, many live bird markets have been closed due to COVID-19 concerns and although most Chinese cities have lifted movement and business restrictions, many live bird markets remained closed. In June 2020, an outbreak of COVID-19 in Beijing was linked to Xinfadi Wholesale Market, the largest wet market in China. While the immediate result was a closure of the market (and many other markets like it across China), the long-term result is that more Chinese consumers are purchasing their food through e-commerce to avoid human-to-human exchanges in crowded markets.

Hybrid chicken production is expected to increase rapidly

Hybrid chicken (also known as “817 chicken”) is a unique Chinese variety. It originated from Shandong Province and was primarily bred to supply the processed chicken industry. In Shandong, there is a very famous regional dish called Dezhou Braised Chicken. This product has achieved national popularity and ready-to-eat whole chickens are ordered through e-commerce across the country.

Photo: Alibaba

The 817 variety was developed as a cross between a male white feather parent and a female commercial layer chicken. The production time for a hybrid is 35-45 days with live bird weights between 1.2-1.4 kg. This variety grows quickly so the production costs (chicks and feed) are only 40-50 percent that of white broilers. As a result, hybrid chicken production and utilization has expanded rapidly in recent years. With disruptions to normal poultry distribution channels due to COVID-19, hybrid chickens are finding new room for growth. In a growing number of modern supermarkets, chickens are pre-cooked and sold as ready-to-eat for grocery shoppers to take home. Also, e-commerce has seen a large jump in grocery delivery due to consumers wanting to avoid crowded markets.

Ex-layer production expected to maintain stable

Ex-layers are frequently sold in a similar manner to yellow-feather broilers and are valued for use in making soups and stewed chicken dishes. The layer’s life cycle is about 18 months, at which point they are culled and sold as spent hens in markets. The average body weight is 1.8 – 2.0 kg. Chinese consumers believe their longer life span results in more flavorful chicken. Although market demand for eggs is expected to drop slightly due to recovering pork supplies, the use of layers will remain stable.

CONSUMPTION

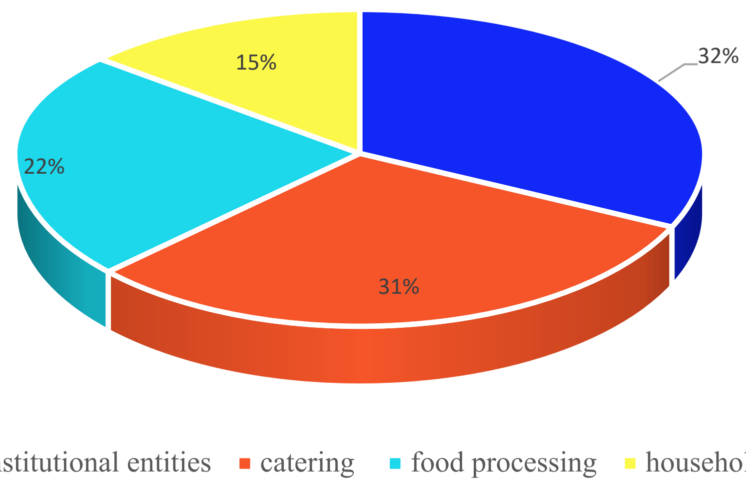
Chicken consumption will continue to increase in 2021, but at a slower pace

Chicken meat consumption in China is forecast to increase to 15.7 MMT in 2021, representing a two percent year-on-year increase. There are two primary factors that will influence poultry consumption in 2021: pork prices and COVID-19. Pork consumption dropped in 2019 as prices reached record highs and consumers sought out chicken meat as a cheaper alternative, driving a 20 percent year-over-year increase in consumption. As the swine herd recovers and pork prices decrease, the growth in chicken meat consumption will slow, but remain above pre-ASF levels.

Prior to ASF, chicken meat consumption (and all poultry for that matter) was already growing, especially white broiler meat consumed in western-style restaurants. The Chinese government and Chinese nutritionists have increasingly recommended that people eat more chicken meat because it is healthier and more sustainable, compared to other animal proteins. Chicken is especially popular among the fitness crowd due to its low-fat content. ASF simply accelerated this growth. Even though the availability of pork will increase, many Chinese consumers will have permanently altered their diet, making more room on their plate for chicken.

White broiler meat is generally marketed as frozen/chilled and pre-cut. As the cheapest meat, white broilers are widely consumed in by institutional entities (e.g., schools, the military, jobsites and business cafeterias, etc.) and the fast food sector.

Figure 3. Composition of China's 2019 white broiler consumption



Source: Chinese industry

The industry expects consumption of white broilers in the household and food processing sectors will increase in 2020, while the consumption in institutional entities and catering sector will decrease due to the COVID-19 pandemic. With most restaurants across China closed from late January through March, consumers had to cook at home. Instead of purchasing fresh chicken through wet, retail, or live bird markets, many consumers began to purchase daily groceries through e-commerce platforms. Although COVID-19 severely affected white broiler consumption in the first quarter of 2020, a nationwide economic slowing will support continued demand for poultry, especially white broiler meat, which is the cheapest meat available.

Yellow-feathered chicken is primarily sold live and whole; it is especially popular in southern China. Compared to white broilers, yellow-feathered chicken is more expensive due to its longer growing period. It is widely consumed by middle and high-income households and middle and high-end restaurants; over 70 percent of yellow-feathered chickens are consumed by households. Traditionally, meat from yellow broilers is preferred by many Chinese consumers based on the perception that it is more flavorful and healthier than white broiler meat. Many consumers report a preference for yellow-feather chicken to pork, if prices are similar. Chinese consumers prefer buying live yellow-feathered chicken over chilled chicken because they can select chickens based on the color of chicken feathers/feet and the overall appearance.

China's yellow-bird industry is changing. While industry currently estimates over 80 percent of yellow-feathered chickens are sold live, the number of live bird markets are shrinking, and increasingly large numbers of yellow broilers are being slaughtered outside of populated areas and brought to market chilled. A large avian influenza outbreak in 2016-2017 closed many live bird markets, some of which never reopened. The COVID-19 outbreak through China also resulted in most urban wet markets closing down and a ban on live bird sales. At supermarkets, large poultry producers have increased their new chilled products, including pre-cut packages for convenience in home preparation. Consumers, particularly the younger generation, are becoming increasingly receptive to chilled or frozen chicken. Even as the immediate COVID-19 outbreak is controlled in China, more consumers will tend to buy chilled chicken meat at supermarkets or modernized wet markets.

Hybrid (817) chicken is mainly sold as a cooked, ready-to-eat poultry. 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 due to the growing number of Chinese consumers ordering groceries on-line due to COVID-19 concerns.

TRADE

Imports

2021 chicken meat imports are expected to decline from the record levels in 2020

Imports of chicken meat are forecast to decrease 16 percent to 775,000 MT in 2021, primarily due to the decreasing domestic poultry price.[1] However, it should be noted this volume is still double the average level prior to ASF. According to China Customs data, China's chicken meat imports amounted to 358,600 MT from January to May 2020, representing a 76-percent increase over the same period last year. This surge in the first half of 2020 is due to a ramp up in orders placed at the end of 2019 and continuing through January 2020. Demand for new orders began to taper off as the fallout from COVID-19 increased. Industry believes that imports in the second half of 2020 will be constrained due to existing high stocks of imported product, abundant domestic production, and sluggish market demand due to lingering COVID-19 restrictions (e.g., prohibitions on restaurant capacity).

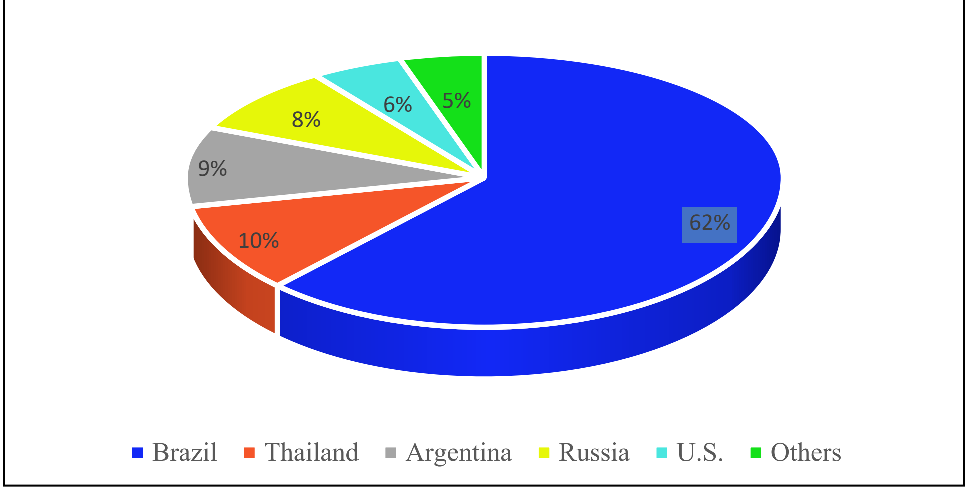
More recently, China has begun to restrict food and agricultural trade directly, citing concerns about COVID-19 transmission through food and food packaging materials. Following a COVID-19 outbreak traced back to Beijing's Xinfadi Wholesale Market, China implemented a series of measures to test for COVID-19 in food and food packaging materials. While China did do some testing of its domestic food supply, the majority of these new measures is aimed at imported foods, especially meat, poultry, and seafood. The extent to which these new trade restrictions affect poultry imports continues to evolve. China has already suspended, de-listed, or requested a voluntary suspension for several overseas poultry exporters. The current list of approved exporters is available here: http://jckspj.customs.gov.cn/spj/zwgk75/2706880/jckrljgzyxx33/2812399/index.html

Brazil: Brazil will continue to be China's leading supplier in 2021. However, its market share is expected to decline with increased access granted to its competitors. According to China Customs data, China's chicken meat imports from Brazil in 2019 accounted for 72 percent of China's total imports.

[1] Chicken meat in this report includes HS codes 020711, 020712, 020713, 020714, and 160232, but excludes paws (02071422).

But in the first five months of 2020, Brazilian market share declined by 10 percent. The majority of imported Brazilian chicken meat is the frozen midjoint wing cut (HS code 02071421) and bone-in chicken cut (HS code 02071411). Together these two HS codes accounted for over 80 percent of Brazil's total chicken meat exports to China in the first five months of 2020.

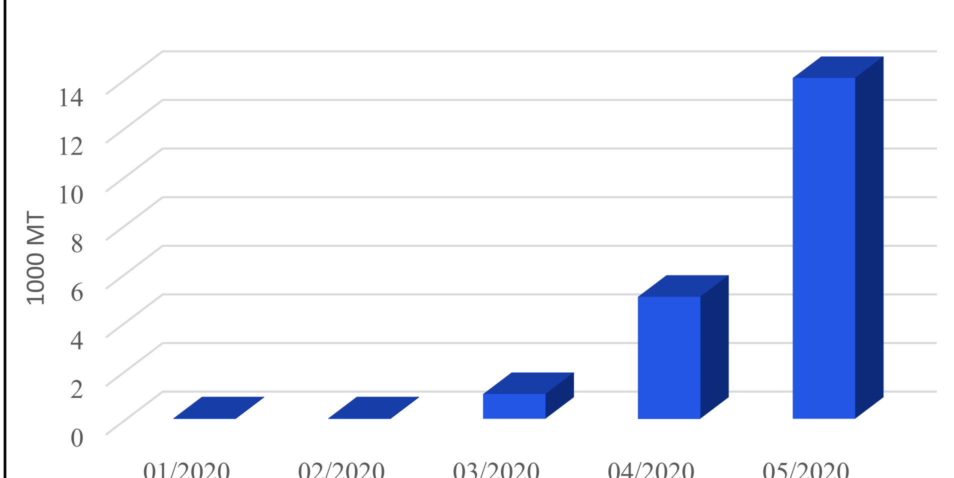
Figure 4. China's Chicken Meat Imports by Countries (January to May 2020)



(Source: China Customs)

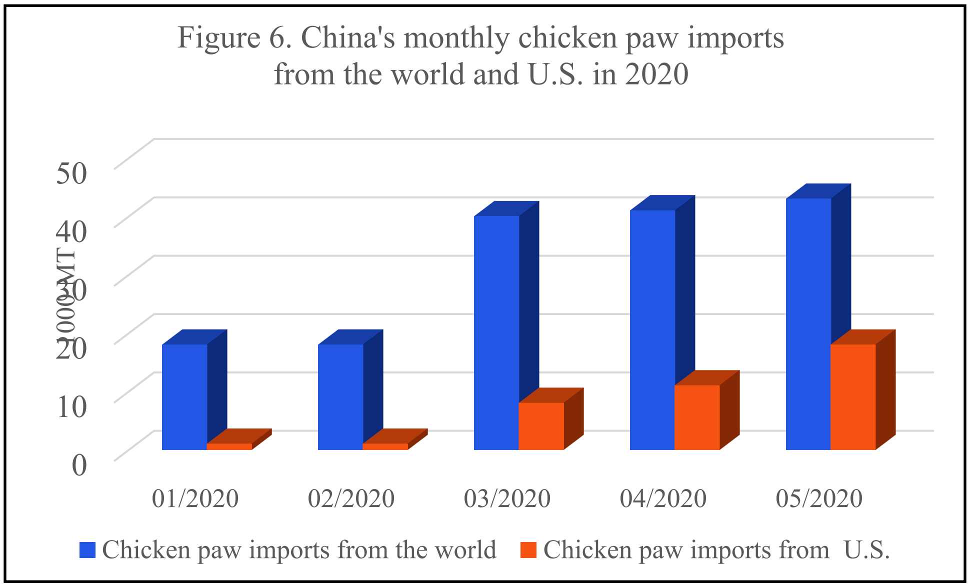
The United States: After being banned from the Chinese poultry market for five years, U.S.-origin chicken imports increased rapidly after access was restored in November 2019. From January to May 2020, China became the third largest export destination for U.S. chicken meat, second only to Mexico and Taiwan.

Figure 5. China's monthly chicken meat imports from U.S. in 2020



Source: China Customs

China also imported 38,454 MT of chicken paws (HS 02071422, not included in chicken meat) from the United States, which accounts for 21 percent of China's total paw imports during the January to May time period. The percentage of paws to chicken meat was about 30 percent during March and April, and even reached 42 percent in May (see Figure 6 below). Demand for U.S. chicken paws is strong because the United States is the only country able to consistently supply "jumbo" paws to China.



Source: China Customs

The rapid increase in U.S.-origin chicken imports is primarily due to strong overall demand, coupled with recent relief from China's retaliatory tariffs on U.S. poultry. On February 18, 2020, the State Council Tariff Commission (SCCTC) announced a new 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 China Announces a New Round of Tariff Exclusions for more information on the exclusion process. Many chicken meat importers have applied for, and received, a tariff exclusion. As a result, imports surged in April and May (see Figure 5 above). In addition, 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).

On February 14, 2020, China's General Administration of Customs and Ministry of Agriculture and Rural Affairs issued a joint notice lifting the avian-influenza related bans on live U.S. poultry—a necessary precursor to resuming trade of this commodity. Please see this APHIS link for more information. APHIS has requested testing updates to the health certificate that accompanies live bird shipments and is still under discussion among the relevant Chinese competent authorities. Trade of live poultry may continue based on the current health certificate while that discussion continues.

Tariff Schedule for U.S. Chicken Meat

HS Code (8-digit)	Product Description	MFN Rate	232	301	Add'l tariff (adjusted on Feb. 14, 2020)	Total Applied Tariff
	Implementation Date	**Jan 1, 2019**	**Apr 2, 2018**	**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 Claw	￥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	5%			2.5%	7.5%

	Chicken Legs					
16023299	Other Prepared Chicken, Chicken Offal or Blood	5%			2.5%	7.5%

Exports

China’s 2021 chicken meat exports are forecast at 420,000 MT, representing a 12-percent increase from the estimated 375,000 MT in 2020. As China’s domestic production continues to increase, but demand slows, Chinese industry will focus on increasing exports. According to China Customs data, China’s chicken meat exports declined 12 percent in the first five months of 2020. China’s primary export markets are Japan and Hong Kong, which account for about 80 percent of China’s total chicken meat exports.

Attachments:

No Attachments