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Global Agricultural Information Network

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## **China - Peoples Republic of**

### **Grain and Feed Annual**

#### **Wheat and Rice Supplants Corn Area**

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**Report Highlights:**

Nearly all players in the Chinese grains market continue to operate with little certainty about how the central government intends to manage the transition towards a more liberalized farm sector. In 2016, China removed price supports for corn producers, who face some of the highest costs of production in the world. Recent policy proclamations have introduced a raft of farm stimulus programs to encourage China's nearly 250 million farmers to diversify production. Overall, China has moved past a food security program focused on staple grains and is looking to a feed security program based on a basket of products. MY2017/18 corn production is forecast at 217 million tons, down nearly 3.0 million tons from MY2016/17. Producers have several market-based and policy incentives to switch to alternatives, including wheat, rice, soybeans, and sorghum among others.

## **Executive Summary**

Farmers, traders, and end users continue to try to find their footing following the government's surprise announcement in late March 2016 that it was ending the floor price for corn. MY2017/18 rice, wheat, sorghum, and barley production are forecast slightly higher on reports that more corn farmers are turning to alternative crops. MY2017/18 corn production is forecast to decline one percent from MY2016/17, although some recent industry planting surveys suggest that corn production could decline even more, especially in North East China.

Corn producers have several market-based and policy-driven incentives to switch to other grain and crops including wheat, rice, soybeans, sorghum, barley, silage corn, and fodder. Most corn producers who will switch to alternative crops consider rice to be the next best choice. The minimum support price for rice declined in 2017 for the first time in nearly a decade. However, in relative terms, producer margins for rice remain strong. Unfortunately, given limited water resources only a small share of corn producers have access to adequate water supplies or will benefit from recent provincial irrigation projects. The vast majority of corn producers will plant dry land wheat MY2017/18 as domestic prices remain relatively strong. Smaller numbers of corn producers will switch planting to sorghum and barley where they are close to nearby markets with futures marketing contracts in place. Still other producers will opt to switch to planting soybeans, silage corn, or fodder. New land conservation programs will encourage a small share of China's corn producers to remove land from production.

Based on China's official statistics, calendar year 2016 overall grain production fell to 219.5 million tons, down 6.1 million tons from 2015. The decline ends a 13 season streak of record production. China estimates that corn production accounted for an estimated 83 percent of the total decline in grain production.

Even though the central government has signaled a move towards a market-oriented corn policy, reforms will not take effect immediately. Officials will continue to administer local, provincial, and central government interventions in the near-term to partly compensate producers for lower revenues, support prices, and offset the costs of switching production to other crops with relatively lower producer margins. The National Development and Reform Commission (NDRC) aims to improve its minimum purchase price for rice and wheat and reduce state grain stocks of corn and wheat.

## **Policy and Programs**

In 2017, the Ministry of Agriculture has implemented “supply-side structural reform” as announced in its 13<sup>th</sup> Five Year Plan (FYP) on December 22, 2016. The plan is a continuation of a long-term campaign to tackle high production costs and strategically adjust agricultural production, by lowering corn production and raising soybean production from 2016 to 2020. The specific targets in the 13<sup>th</sup> FYP include 550 million tons of grain production with annual growth of 9 percent. Other targets include a mechanization rate of 70 percent of production and 40 percent of farmland managed as “moderately large-scale” operations by 2020.

Since 2003, China’s temporary reserve program established a minimum support price for corn, elevating domestic prices far above international levels. Domestic producers responded to high prices by expanding corn production. Meanwhile, international prices fell. As a result, China imported greater volumes of cheaper feed products and State Grain Administration officials faced an accumulation of massive government stocks.

In 2015, the central government first acknowledged that its agricultural support policies for more than a decade were unsustainable. Last year, the central government eliminated its temporary reserve program for corn and is attempting to liquidate its massive stocks of high-priced, domestically produced corn through a variety of subsidy, tax, and import-substitution programs that will partly compensate lost producer revenues and encourage higher domestic use from processors and end-users.

### **Supply-Side Reform**

On February 5, 2017, the Central Committee of the Communist Party of China (CCCPC) and the State Council unveiled its first policy document for 2017 (See [GAIN Report CH17006](#)). Every year since 2003, China’s No. 1 Document has focused on rural development. The 2017 No. 1 Document focuses on “supply-side reform” to boost China’s agricultural productivity, raise producer incomes, and promote rural economic growth. The bottom line for the central government is “absolute security” in the area of staple grains (rice and wheat). Rice and wheat area planted will remain stable in the foreseeable future. Corn area planted will continue to decrease in “non-essential” regions. In other words, regions not ideally suited for corn production.

### **Price Floor**

The National Development and Reform Commission (NDRC) aims to improve its minimum purchase price for rice and wheat and reduce state grain stocks of corn and wheat. The central government maintains that self-sufficiency of wheat and rice is critical to national food security. In the near-term, minimum price supports and strategic stockpiles for wheat and rice are expected to continue.

State officials’ remarks about China’s administration of the temporary reserve program for grains signal that China is committed to a stable grain reserve policy to avoid becoming vulnerable to effects of weather, disease, and pests. State officials reason that full silos at home will translate into stable prices abroad.

In January 2017, a Chinese official hinted that the minimum purchase prices for wheat should be adjusted to a “reasonable level.” Traders have speculated that any change would likely lower the minimum price support price. However, the program for wheat is certain to continue.

### Government Procurement Prices (RMB/ton)

	2010	2011	2012	2013	2014	2015	2016	2017	Purchase Period
Unmilled Rice									
Early Indica	1,860	2,040	2,400	2,640	2,700	2,700	2,660	2,600	July-Sept
Japonica	2,100	2,560	2,800	3,000	3,100	3,103	3,100	3,000	Nov-Feb
Wheat									
White Wheat	1,800	1,900	2,040	2,240	2,360	2,381	2,360	2,360	May-Sept
Red Wheat	1,720	1,960	2,040	2,240	2,360	2,360	2,360	2,360	May-Sept
Average Floor Price	1,760	1,960	2,040	2,240	2,360	2,360	2,360	2,360	May-Sept
Corn									
Average Floor Price	1,800	1,980	2,120	2,240	2,250	2,250	N/A	N/A	Dec-April

Sources: NDRC and media sources

### Other State Interventions in the Grain Market

Even though the central government has signaled a move towards a market-oriented corn policy, reforms will not take effect immediately. Officials will continue to administer local, provincial, and central government interventions in the near-term to partly compensate producers for lower revenues, support prices, and offset the costs of switching production to other crops with relatively lower producer margins. Despite the elimination of the temporary reserve policy in North East Provinces, the State Grain Administration continues to post average farm gate prices for State Procurement. Other government market interventions continue.

### State-Owned Purchases of State-Owned Grain

Chinese State-Owned Enterprises (SOEs), with or without direct ties to agriculture, have gradually established trading positions in domestic grain markets. For example, China Grain Reserves Corporation (SinoGrain) and China National Cereals, Oils and Foodstuffs Corporation (COFCO) have long been major market players on the Dalian Exchange and commercial traders. Occasionally, SinoGrain or COFCO will intervene in local markets to support farmers. However, the SOE field is widening. In 2016, the Aviation Industry Corporation of China (AVIC), a military and commercial aircraft manufacturer, and the China National Chemical Corporation (ChemChina) established

agricultural commodity trading positions, joining other Chinese SOEs as principle buyers at state auctions of state-owned stockpiles.

### Government Support Programs

In addition to ongoing commodity-specific price support schemes, China maintains a general agriculture support program. This includes direct payment to grain farmers, and subsidies for seed, fuel/fertilizer, and machinery. Since 2012, this basic support has reportedly stayed stable at about \$26 billion a year and is expected to continue at similar levels in the coming years.

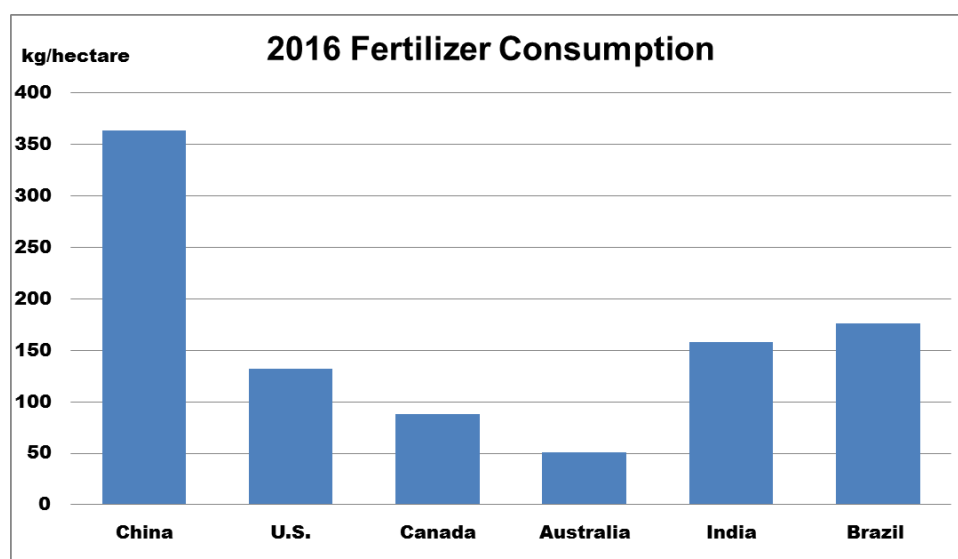
Prior to 2015, farmers received direct payments, input subsidies for seeds, fertilizers and pesticides, and agricultural machinery subsidies in a few provinces. After 2015, seeds, fertilizers, and pesticides payments were combined into a single, direct payment subject to eligibility based on a producer's production area and type of crops produced (See [GAIN Report 16027](#)).

On September 13, 2016, the United States filed a case with the World Trade Organization (WTO) disputing the China's outlays of domestic support to producers of wheat, rice, and corn in excess of its WTO Accession Commitments and its commitments for the WTO Agreement on Agriculture.

The Chinese government has not announced its 2017 budget for producer subsidies. The budget for its agricultural machinery subsidy was announced as \$2.7 billion (RMB 18.6 billion), down \$700 million (RMB 5.1 billion) from last year.

China's Agricultural Domestic Support Payments in USD billions					
Year	Direct Payment	Seed Subsidy	Fuel/Fertilizer Subsidy	Machinery Subsidy	Total
2008	\$2.2	\$1.7	\$9.2	\$0.6	\$13.7
2009	\$2.2	\$2.9	\$11.1	\$1.9	\$18.1
2010	\$2.2	\$3.0	\$12.3	\$2.1	\$19.7
2011	\$2.3	\$3.4	\$13.3	\$2.7	\$21.8
2012	\$2.4	N/A	\$17.1	\$3.2	\$22.7
2013	\$2.5	N/A	\$17.4	\$3.5	\$23.4
2014	\$2.5	N/A	\$17.4	\$3.9	\$23.7
2015	\$19.4	N/A	N/A	\$3.8	\$23.2
2016	\$21.3	N/A	N/A	\$3.6	\$24.8
2017	TBD	TBD	TBD	\$2.7	TBD

Sources: Ministry of Agriculture, Ministry of Finance, and State Media



Source: World Bank

Per hectare, China is the world's most intensive user of chemical fertilizers. Nearly 15 years of continuous corn production has taken its toll on the black earth of North East China and the North China Plain.

### Mode of Program Payments

The central government offers block grants to provinces to administer provincial and local domestic support programs. Starting in 2015, each rural household was issued a debit card called the "Agricultural One Card for All" from Agricultural Bank of China or local credit union branches. Agricultural support payments are disbursed through electronic funds transfers with these accounts. In remote areas, local authorities disburse payments in cash.

### North East China Processor Subsidies

Local governments also encourage private sector feed mills or industrial processors with slogans to consider buying locally as a social responsibility for industry.

The government has recommended that four major corn producing provinces offer subsidies to livestock feed millers under specific conditions (see [GAIN Report CH16058](#)). On February 25, 2017, three provinces in the North East China announced “Procedures for the Administration of Financial Subsidies for Feed Processing Enterprises in Jilin, Liaoning and Heilongjiang Province.”

Inner Mongolia has not announced rules for its subsidy program. Industry sources expect that a measure will be approved in March 2017 with a target of \$30 per ton (RMB 200).

<b>North East China Corn Processor Subsidy Payments (RMB/ton)</b>				
<b>Province</b>	<b>Heilongjiang</b>	<b>Jilin</b>	<b>Liaoning</b>	<b>Inner Mongolia*</b>
<b>Proposed - November 2016</b>	300	200	100	200
<b>Approved - February 2017</b>	300	300	300	TBD

Source: Post calculation \* Budgeted

Eligibility requirements for the processor subsidies include: annual processing capacity of 50,000 tons or more and the ability to take delivery of auctioned corn from state inventories. Additionally, eligible sales are required to be settled before April 30, 2017 and processed by June 30, 2017.

Based on industry comments, the margins for corn processors (starch, ethanol, and corn syrup etc.), with processor subsidies, are expected to reach \$73 to \$87 per ton (RMB 500 to 600). In comparison, processor margins in MY2015/16 were closer to \$5 to \$100 per ton (RMB 40 to 70).

### **Pushing it out the door**

In early November 2016, Xinhua News reported that Chinese authorities have established a loan-guarantee credit facility for corn processors in the North East provinces of Jilin, Heilongjiang, Liaoning, and Inner Mongolia to purchase corn. The loan-guarantee fund will backstop loans provided by the Agricultural Development Bank of China, the Ministry of Finance, China Banking Regulatory Commission, and the State Grain Administration.

The government also subsidizes transportation costs to encourage feed mills in South China to purchase domestic corn from North East provinces.

### **Land Reform**

China has limited agricultural and water resources. Due to environmental degradation, rapid urbanization, natural disasters, and rigid property rights laws, China today and in the future faces even greater challenges to meet its agricultural production targets. In the No.1 Document, the Communist Party of China Central Committee and the State Council recognize the challenges that China faces and propose targets to preserve “core” land resources and rehabilitate degraded land. The outcome of this effort will determine China’s commitment to agricultural self-sufficiency.

In 2009, China reported that rural households managed approximately 135 million hectares of arable land, or 14 percent of its total land mass. Today, China’s Institute of Soil Sciences estimates that China

has 122 million hectares of arable land. Each year approximately 400,000 hectares is lost to construction, contamination, and erosion.

In the 2014 No. 1 Document, central planners established that 120 million hectares was the “red line” for “core” agricultural land to support its population. China targets a national total of at least 124 million hectares of arable land by 2020, down 7 percent from 2015. In November 2016, the Development Research Center (DRC) of the State Council announced that China aims to develop 53.3 million hectares (800 million mu) of high-quality arable land and 66.6 million hectares (1.0 billion mu) of contiguous arable land by 2020. The DRC plan has proposed implementing land reforms, a contaminated soil reclamation program, conservation programs to set-aside marginal land, and irrigation investments to supplement water-deficit regions.

In the No. 1 Document, central government planners propose supporting China’s predominant corn producing regions in North East China and the North China Plain. Both have been defined as “core” corn producing regions. Central planners aim to expand corn production and quality in North West China and stabilize total corn production area at 34.7 million hectares by 2020, nearly 30 percent of China’s total arable land. All other regions—particularly a “sickle-shaped” corn production region stretching north from Shaanxi Province, curving across Inner Mongolia, and pushing northeast towards Northern Heilongjiang province—have been identified as a fragile ecological zone which cannot support corn production. In terms of agronomics, this “sickle-shaped” region lacks sufficient rainfall. Priority regions for wheat production include the Middle Yangtze River Valley and North West China.

### **Land Consolidation**

In February 2017, the Ministry of Land and Resources reported that the central government plans to spend about \$248 billion (RMB 1,700 billion) to promote land consolidation and urbanization to achieve its goals of higher yields and grain self-sufficiency.

According to the No. 1 Document, the government encourages farmers to produce at an “appropriate scale,” but does not elaborate what is appropriate. China’s small shareholder farmers have faced high production costs for years. To increase agricultural productivity, Chinese officials recognize that land reforms are needed to consolidate farms and achieve greater economies of scale.

According to China’s National Bureau of Statistics, in 2013, the average rural household manages about 0.2 hectares (2.3 mu). Post estimates that based on current land rents, labor costs, and farm productivity an “appropriate scale” of break-even production averages about 3.3 hectares (50 mu) per rural household. China’s government is proposing a target farm size far below the average farm size in the United States. According to the USDA, National Agricultural Statistics Service, Agricultural Census of 2012, the average farm size in the United States was about 174 hectares (430 acres).

### **Rural Problems are Land Problems**

In the 2017 No. 1 Document, the government proposed the first reform in land rights for rural households in China in nearly 15 years. Since the founding of modern China, several land reform initiatives have been instituted to increase agricultural productivity. Collectivization from 1947 to 1952 did not significantly increase agricultural productivity. Under the Household Responsibility System



from 1978 to 1984 China supported a return to family farming with de-collectivization; redistribution of land to individual households; and contracting rights for land use and agricultural machinery. In 2002, under the Rural Land Contracting Law, China first established land use rights, transfer rights, and operating rights. However, the implementation of the measure had mixed results. Although agricultural productivity expanded dramatically, in recent years, farm productivity did not keep pace with the cost of production. Moreover, the 2002 Rural Land Contracting Law did not revise Article 36 of the People's Republic of China Guarantee Law, which explicitly prohibited households from borrowing against the value of their arable land use rights.

In 2017, the State Council proposes tackling many of the challenges to land reform in rural China. They propose a plan to confirm and register rural land ownership, which will require the establishment of a national land registrar office. They also aim to redefine contract and farm operating rights to avoid inconsistent administration of land transfers at the local level. As rural migrants move to the cities, they leave behind operating rights to their farm land. Central government officials propose consolidating fragmented small land parcels into larger tracts. Lastly, the State Council proposes establishing new measures for oversight of commercial lease arrangements. Since 2014, pilot projects at the provincial level have allowed a select number of farmers to transfer operating rights for their land to third parties, which include other farmers, cooperatives, or companies.

Heilongjiang Beidahuang Nongken Group, a state-owned farming corporation, is one of the most prominent examples of this model. Beidahuang is comprised of approximately 104 farms operating on 2.9 million hectares. With extensive mechanization, the project demonstrates the potential economies of scale and the scope of modern agricultural farm practices which can be implemented with land reform.

### **Development of Private Assets for Rural Farmers**

According to a Paulson Institute report published in February 2017, land use rights have been identified as the primary factor limiting rural entrepreneurship, which includes investments for agricultural machinery, storage and handling equipment, as well as direct marketing programs. With limited credit, farmers are unable to invest in agricultural machinery, on-farm storage, water management projects, and finance marketing programs for their grain.

#### **“Grain-for-Green”**

The 2017 No.1 Document promotes the retirement of marginal land. The policy shift signals that China's government has moved beyond securing extensive or quantitative volume-based targets and is now focused on intensive production methods with fewer environmental impacts.

In 1999, under the “Grain-for-Green” program, China's State Council recognized the need to return marginal lands to forest and grassland to prevent soil erosion and natural disasters such as flooding and natural disasters. Under the initial “Grain-for-Green” program, farmers were given a three-fold compensation plan for participation. First, farmers were offered an annual in-kind subsidy of grain to compensate them for their foregone subsistence and revenue from retiring land. Second, they were offered a cash subsidy. Lastly, farmers were given input assistance to establish forests or grassland in place of sowing grain.

On November 12, 2016, Li Wei, renewed the central government's commitment to expand forestry and grassland set-aside programs, withdraw land from production, and promote water and soil rehabilitation.

In 2017, the government has launched new pilot "Grain-for-Green" program. In eligible regions, the government is offering farmers \$15 per hectare (RMB 1,500 per mu) to convert grain producing land to forest and \$6 per hectare (RMB 600 per mu) to convert land to grassland. The principle aim of this program is to manage soil erosion, grasslands, and safeguard water resources. Furthermore, based on the No. 1 Document, China will promote farmers to expand areas for feed and forage crops, such as silage corn and alfalfa in order to increase grass-fed cattle and sheep production.

### **Environmental Set-Asides**

The 13<sup>th</sup> FYP outlined specifics for central government pilot program to distribute \$218 million (RMB 1.5 billion) in set-asides to leave land fallow or rotate to other crops. Starting in 2017, 10 provinces will offer farmers between \$1.50 to \$10 per hectare (RMB 150 to RMB 1,000 per mu) to leave land fallow or rotate to other crops. The program aims to withdraw 340,000 hectares (5.1 million mu) of land from production to lie fallow and rotate approximately 73,300 hectares (1.1 million mu) of arable land to other crops.

### **Capital Investments for Irrigation Systems**

Provincial governments in Heilongjiang, Jilin, and Liaoning provinces have invested \$672 to \$877 million (RMB 4.6 to 6.0 billion) on an extensive irrigation investment program to encourage growers in water-deficit regions to switch from planting corn to planting rice and sorghum by improving available water supplies.

### **Soil Reclamation**

China's "Green Development" initiative, established in 2002, had low participation for more than a decade. In April 2014, the Chinese Ministry of Environmental Policy and the Ministry of Land and Resources jointly conducted a survey from April 2005 to December 2013, which reported that approximately 36 percent of arable land is polluted.

Shortly after the Ministry of Land Resources report was released, the central government renewed the Green Development initiative to boost participation and expand the total targeted area. In November 2016, new targets were reestablished including an effort to raise participation rates by 10 to 20 times from current levels by 2020 and boost the total targeted area to about 5 million hectares by 2020, up 2 million hectares more than originally planned.

The People's Bank of China estimates that to meet the Ministry of Environmental Policy's goals over the next five years for cleaner air and water, China will need to spend approximately \$2 trillion. The cleanup effort for contaminated soil alone is estimated to exceed \$1.1 trillion (RMB 7.0 trillion). In January 2017, China's foreign exchange reserves were estimated to be less than \$3.0 trillion. To offset the enormous costs of cleanup, China has proposed efforts to promote "green financing" projects.

### **Agricultural insurance**

In 2016, China accounted for nearly 40 percent of total weather-related insurance losses worldwide, mostly related to crop losses. In February 2016, the China Insurance Regulatory Commission (CIRC) reported that total indemnities paid in 2016 totaled \$5.06 billion (RMB 34.8 billion), more than a third more than 2015. Chinese government statistics estimate that since the 1990s, severe weather and disasters have caused, on average, annual economic losses of nearly \$25 billion.

Overall, tropical cyclones, flooding, and drought in 2016 caused some of the worst damage and agricultural losses in China since 1998. Floods in July 2016 alone are estimated to have affected 7.3 million hectares of wheat and rice production area, causing an estimated \$20.0 to \$30.0 billion in total losses. The CIRC reported that indemnities from July 2016 floods represented less than 2.0 percent of total economic losses, predominantly from agriculture.

Agricultural insurance in China remains in its infancy. Since 2000, China has administered a pilot program for agricultural insurance for 15 crops ranging from staple grains, sugarcane, oilseeds, livestock, and tropical crops. Today, China administers the world's second largest crop insurance program after the United States. In February 2017, the CIRC reported that estimated agricultural insurance premium volumes in 2016 rose to \$6.06 billion (RMB 41.71 billion), up 8 percent from \$5.59 billion in 2015.

In 2016, central government outlays for agricultural insurance premium assistance totaled \$2.36 billion (RMB 16.21 billion). The 2017 No. 1 Document outlines a plans to reform and expand the domestic agricultural insurance market to mitigate the financial risks undertaken by individual farmers and the overall agricultural industry.

In January 25, 2017, the Ministry of Finance directed provincial governments to offer assistance of no less than 25 percent of total premium costs for local agricultural insurance policies. Central government assistance will supplement an additional 35 and 40 percent of insurance premium payments. Central government and provincial premium payments total of 60 to 65 percent of insurance coverage. Individual households are expected to pay the remaining 35 to 40 percent of premium payments.

Many farmers in China do not trust existing crop insurance products, because they lack transparency and offer indemnity payments that seem too low. Currently available insurance products do not meet the needs of lower income provinces. In lower income provinces such as Heilongjiang, Liaoning, or Guizhou provinces, farmers are offered less premium assistance than in in high income provinces, such as Jiangsu and Zhejiang provinces. In these coastal provinces, local governments offer assistance for as much as 70 percent of total premiums. This assistance combined with the central government supplement of 35 to 40 percent ensures that nearly all grain producers are automatically enrolled by national crop insurance programs.

### **Tariff Barriers to Trade**

In 2017 China maintains tariff rate quotas (TRQs) for wheat, corn and rice. Tariffs and TRQ volumes are unchanged from 2016 (see below).

China's 2017 Tariff Rate Quota Policies for Grain
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Commodity	TRQ Volume (MT)	Private Allocation	State-Owned Enterprise Allocation	In-Quota Duty	Out-of-Quota Duty
Wheat	9,636,000	10%	90%	1%	65%
Corn	7,200,000	40%	60%	1%	65%
Rice	5,320,000	50%	50%	1%	65%

Source: NDRC

China continues to apply TRQs for wheat, rice, corn, cotton, and sugar. China's SOEs continue to dominate quota allocations and control market prices.

In December 2016, the United States filed a case with the WTO disputing the China's administration of its TRQ policy for corn, wheat and rice.

### Value Added Tax (VAT)

China assesses a VAT on the sales value of imported and domestic grain inconsistently. Imported corn, wheat, or rice, which has been minimally processed as principal products, are subject to a 13-percent VAT. Imported corn, wheat, or rice which have been processed, are subject to a 17-percent VAT.

Since 1995, depending on prevailing market prices, the VAT has been removed and reinstated several times, through a rebate or exemption. At the time of this writing, industry sources report that domestic producers are favorably exempt from the VAT on minimally processed, principal products and processed products.

### Consumption Tax

China assesses a consumption tax on the sales value of imported and domestic grain inconsistently. Industry sources report that domestic producers and processors are favorably exempt from the Consumption Tax.

### Non-Tariff Barriers to Trade

China applies a number of non-tariff barriers on imported grains, regardless of origin.

The market access table below is showing all the eligible counties that have access to the China market classified by crops category.

Countries Permitted to Export Grains to China (new additions in italics)	
<b>Wheat</b>	Australia, Canada, France, Kazakhstan, Hungary, United Kingdom, United States, Serbia, Mongolia, Russia
<b>Corn</b>	Thailand, United States, Peru, Laos, Argentina, Russia, Ukraine, Bulgaria, Brazil, Cambodia, South Africa
<b>Barley</b>	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, <i>United</i>

	<i>Kingdom, Uruguay</i>
<b>Rice</b>	Thailand, Uruguay, Pakistan, Vietnam, Japan, India, Cambodia, Taiwan, Myanmar, Laos, South Korea
Source: AQSIQ Official Notice updated on February 8, 2017	

### **Sanitary and Phytosanitary Requirements**

China requires an “Agricultural GMO Safety Certificate” for grain imports of Genetically Engineered grains (See [GAIN Report 16065](#)). China’s unpredictable approval process and lack of a low level presence (LLP) policy have resulted in rejected shipments and trade disruptions.

China’s General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) regularly implements new regulations with requirements which exceed international standards. At the provincial level, AQSIQ conducts inspection and quarantine of imports and exports of food products through its enforcement bodies China Inspection Quarantine (CIQs). It is worth noting that consistency regarding testing procedures, results, and unpublished local directives remains highly variable among CIQs. (See [GAIN Report 16069](#))

### **Registration Requirements**

Since 2009, China has incrementally required registration for grain exporting facilities. In February 2016, AQSIQ released the Administrative Measures of Inspection and Quarantine for Entry and Exit Grain (AQSIQ Decree 177), which includes burdensome registration requirements for overseas production, processing, and warehousing enterprises. Decree 177 was implemented on July 1, 2016. (See [GAIN Report 16070](#)).

### **Wheat**

#### **Production**



Source: China Ministry of Agriculture 2015, blank map from [http://www.d-maps.com/carte.php?num\\_car=11570&lang=en](http://www.d-maps.com/carte.php?num_car=11570&lang=en)

**Legend:**

- Brown = 20% or more of total Chinese production (Henan)
- Orange = 10 to 20% (Hebei, Shandong, Anhui)
- Yellow = 5 to 10% (Xinjiang, Jiangsu)

MY2017/18 wheat production is forecast at 131.0 million tons, 2.2 million tons higher than USDA's March estimates for MY2016/17, on expanded harvest area.

MY2017/18 harvested area is forecasted at 24,500 hectares, up 1.0 percent from MY 2016/2017. Post forecasts that MY2017/18 planting intentions for winter wheat will rise on high prices and strong producer margins.

On November 24, 2016, the NDRC announced that the 2017 wheat floor price is unchanged from 2016 at \$343 per ton (RMB 2,360).

Based on industry sources, in MY 2017/18 average margins for wheat in major production regions are forecast at \$ 682 per hectare (RMB 4,708). In comparison, the national average corn production margin is \$113 per hectare (RMB 780). Mechanized state-owned farm margins may reach \$1,014 per hectare (RMB 7,000).

China's 2017 No. 1 Document explicitly states a national objective for agricultural development includes expanding area, productivity yields, and wheat quality for high-protein varieties. As urban development encroaching on arable land and the price floor supports higher priced domestic supplies than prevailing international market prices, China is finding it harder and harder to rely on domestic supplies to meet consumer demand for high-protein wheat varieties.

Winter wheat accounts for 87 percent of total wheat production. Winter wheat is principally grown in North East, Central Coastal, and North West China. At the time of this writing, winter wheat remains dormant. Due to historically low temperatures over the winter, winter kill continues to concern traders. Winter kill has been observed in isolated areas in Inner Mongolia and Northern Heilongjiang provinces. Elsewhere, winter wheat emerged in March following mild early spring weather. The potential for late frost remains low.

MY 2016/17 wheat production is estimated unchanged at 128.9 million tons from USDA March estimates.

### **Consumption**

MY2017/18 wheat consumption is forecast at 113.0 million tons, down 4 percent year-on-year from USDA's March estimates for MY2016/17, on lower demand.

MY2017/18 feed use is forecast at 11.0 million tons, down 5.0 million tons, from USDA's March estimates for MY2016/17, on strong competition from abundant corn supplies. In China, wheat feed use is determined by the quality of the wheat crop and its price competitiveness. Assuming normal weather, 2017/18 wheat supplies are expected to return to normal crop quality. Strong price competition from abundant corn supplies continue downward pressure on feed prices.

MY2017/18 FSI use is forecast at 102.0 million tons, unchanged from USDA's March estimates for MY2016/17 as food and industrial use has stagnated. Over the past decade, China has experienced a long-term decline in consumption of wheat-based staple foods such as noodles and steam breads and a gradual rise consumption of animal protein products such as meat and dairy. Meanwhile, China's consumption of high-protein wheat products such as bread and pastries has also grown. Industrial wheat consumption, for liquor, ethanol, maltose, and soy sauce, also expected to slow due to high domestic wheat prices and intensified competition.

MY2016/17 total consumption is estimated at 118.0 million tons, unchanged from USDA March estimates. MY2016/17 feed use is estimated to be unchanged at 16.0 million tons from USDA March estimates. MY2016/17 FSI use is estimated to be unchanged at 102.0 million tons from USDA March estimates.

### **Trade**

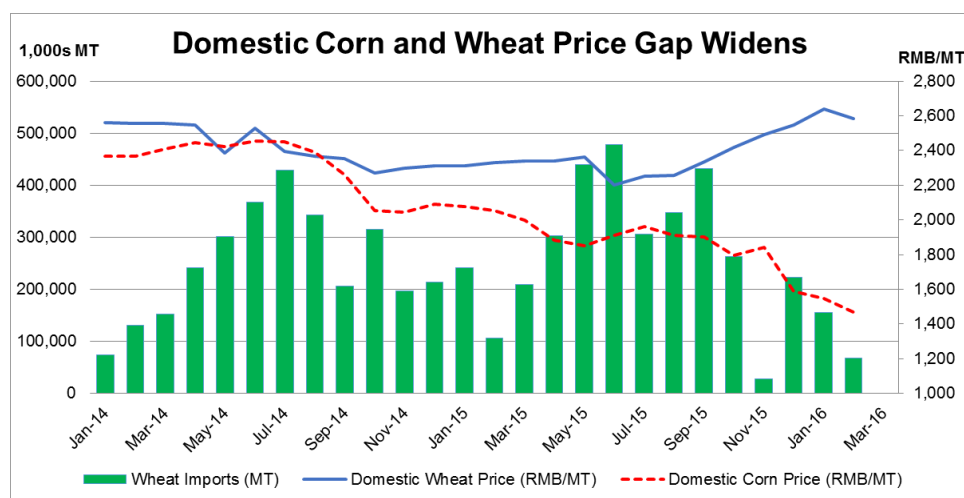
MY2017/18 wheat imports are forecast at 3.0 million tons, down 1.0 million tons from USDA's March estimates for MY2016/17 on a return to normal domestic supplies and lower consumption.

In the long-term, as China’s emerging middle class expands, China’s demand for high-protein wheat imports is expected to continue rising. In late March 2017, COFCO/Nidera in Kazakhstan successfully exported 2,288 tons of via rail to China. Although relatively small, the deal demonstrates the prospects for China’s "One Belt, One Road" trade corridor initiative and China is signaling that it aims to diversify the origin of its imported wheat supplies. Under the same initiative, Kazakhstan aims to ship about 500,000 tons of wheat transiting through China to Southeast Asia in MY2017/18.

MY2016/17 wheat imports are estimated at 4.0 million tons, unchanged from USDA March estimates.

Wheat imports are still tightly controlled through tariff rate quotas (TRQ). The annual TRQ for wheat is set at 9.64 million tons. The private sector allocation of the TRQ volume is just 10 percent of total volumes.

In late 2016 and early 2017, a shortage of domestic supplies of sufficient quality has created a market opportunity to support out-of-quota imports. Nevertheless, wheat imports have steadily increased in the past two years, indicating the widening gap between prices for domestic and imported supplies.



Sources: Post Calculations, IHS/GTIS, Global Trade Atlas, Pacific Exchange Rate Service

As of late March, China’s flour mills continue to struggle to maintain regular procurement of standard-quality wheat from domestic supplies, creating an arbitrage opportunity for importers of U.S. wheat. From July 2016 to January 2017 alone, China’s imported 2.0 million tons. The United States surpassed Canada as the second largest wheat exporter to China. U.S. exports during this period totaled about 660,000 tons. Post estimates that MY2016/17 U.S. wheat exports to China will reach 1 million tons.

MY2017/18 exports are forecast to remain stable at 800,000 tons, unchanged from USDA’s March estimates for MY2016/17. Traditional export destinations include North Korea, South Korea, and Hong Kong.

MY2016/17 exports are estimated at 4.0 million tons, unchanged from USDA’s March estimates.

**Stocks**



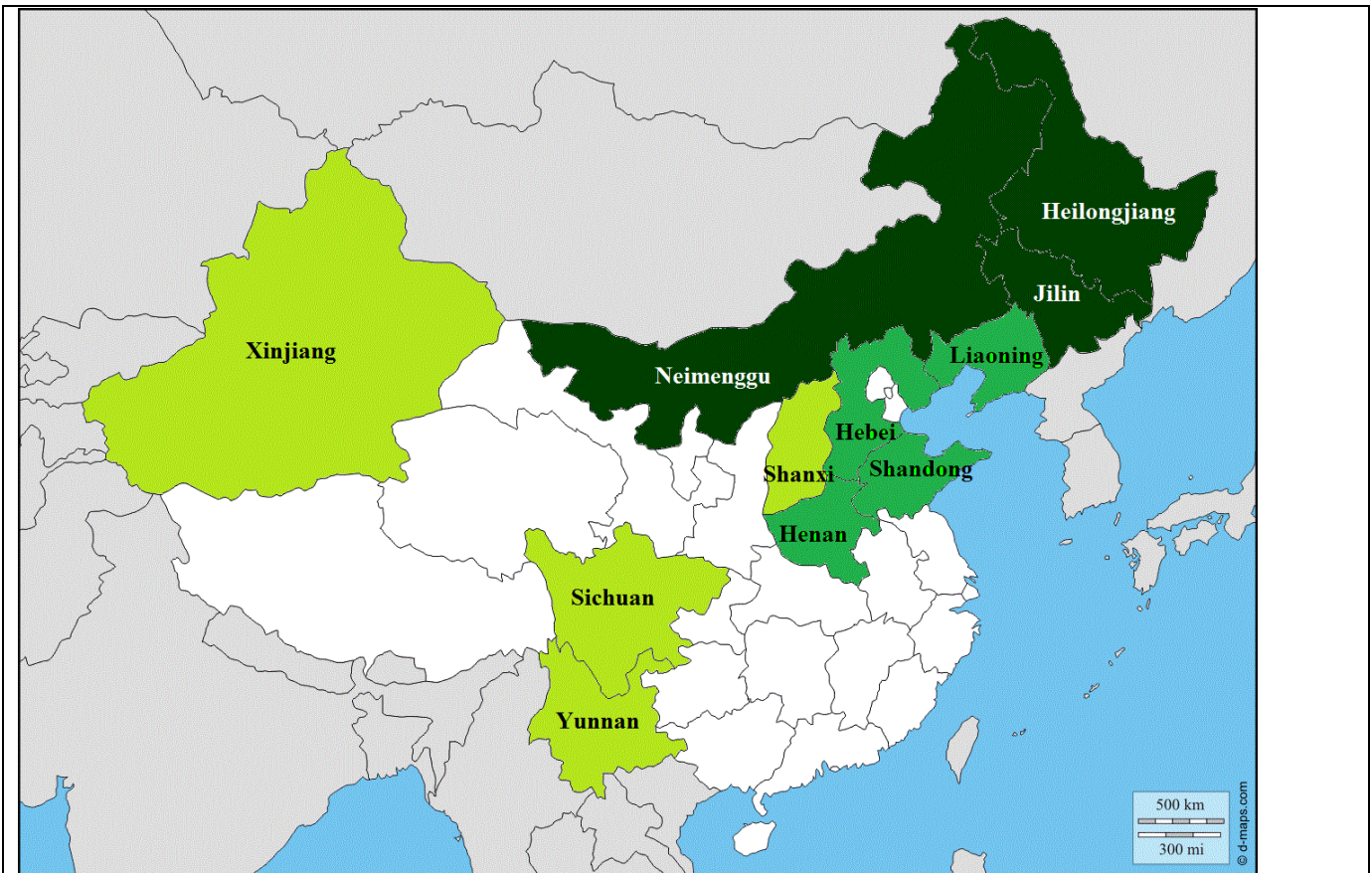
MY2017/18 ending stocks are forecast to jump to 131.3 million tons, up 20.0 million tons from USDA's March estimates for MY2016/17, on greater supplies and lower demand.

MY2016/17 ending stocks are estimated at 111.1 million tons unchanged from USDA March estimates.

In recent weeks, weakening domestic prices from their peak in late November 2017 indicate that commercial buyers and traders expect SinoGrain to begin clearing its state grain inventories in March and April 2017. Recent state auctions offered new-crop and old-crop wheat for sale including MY2009/10, MY2013/14, and MY2015/16 wheat stocks.

## Corn

### Production



Source: China Ministry of Agriculture 2015, blank map from [http://www.d-maps.com/carte.php?num\\_car=11570&lang=en](http://www.d-maps.com/carte.php?num_car=11570&lang=en)

#### Legend:

- Dark Green = 10 to 20% (Inner Mongolia, Jilin, Heilongjiang)
- Green = 5 to 10% (Liaoning, Hebei, Shandong, Henan)
- Light Green = 3 to 5% (Shanxi, Sichuan, Yunnan, Xinjiang)

MY2017/18 corn production is forecast at 217.0 million tons, down 1.3 percent from USDA's March estimates for MY2016/17, as a decline in total harvested area will be partly offset by higher yields.

After decades of continuous growth, MY2017/18 harvested area will fall to 36,260 million hectares from USDA's March estimates for MY2016/17. In China's primary corn growing areas, marginal declines in planting intentions are expected. Planting across China's North East begins in May and June. Fieldwork on the North China Plain has already started. Severe declines in planting intentions are also expected elsewhere.

MY2017/18 corn planting intentions are forecast to decline by 5 to 10 percent from last year as China's corn producers struggle to respond to the elimination of the temporary reserve program. After decades of minimum price floor support, corn prices peaked in 2015. In less than a year, farm gate prices fell into a tailspin and halved. In late March 2016, domestic corn prices have settled to a 10-year low. In China's prime growing regions, such as Heilongjiang province, corn prices have declined as low as \$138 to \$166 per ton (RMB 950 to 1,150). Elsewhere, prices have slumped to between \$183 and \$208 per ton (RMB 1,260 to 1,430).

Meanwhile, China's costs of production have not adjusted accordingly and remain among the highest in the world due to its temporary reserve program. Leases remain locked into 10 to 30 year terms. Inputs remain denominated in corn prices supported by the state-mandated minimum floor price. Local wages continue to compete with the steady draw of factory or migrant labor income from China's growing cities. As a result, a majority of China's corn producers face certain losses in MY2017/18. Larger producers on state-owned or corporately managed farms may break-even by planting higher-margin crops.

MY2017/18 corn yields are forecast slightly higher than last year as harvested area this year is expected to be limited to the most productive corn growing area.

MY2016/17 corn production is estimated unchanged at 219.5 million tons from USDA's March estimates.

## **Consumption**

MY2017/18 corn consumption is forecast at 243.0 million tons, up 12.0 million tons from USDA's March estimates for MY2016/17, on higher demand.

MY2017/18 feed use is forecast at 166.0 million tons, up 5.0 million tons from USDA's March estimates for MY2016/17, on competitively-priced domestic corn supplies.

After nearly a decade of continuous expansion, the Chinese feed industry has entered its next phase of development with greater industry consolidation. Today, China's feed millers compete on quality as much as throughput volume and efficiency. According to the China National Grain and Oils Information Center (CNGOIC) in 2016 approximately 5,800 feed mills operated in China, an 8 percent consolidation in the sector. Recently introduced processor subsidies will likely support inefficient processors.

MY2017/18 FSI use is forecast at 77.0 million tons, up 7.0 million from USDA's March estimates for MY2016/17, on higher ethanol production and corn processing.

In February 2016, the central government targeted annual corn use for ethanol at 70 million tons. Post estimates that with current capacity as much as 20 million tons of corn will be used for ethanol production. Industry sources expect that about 10 million tons of old-crop corn stocks from MY2013/14 corn or earlier will be processed. Industry sources report that private laboratory tests confirm that old-crop corn supplies have high levels of mycotoxins exceeding food and feed safety standards.

Over the next two years, China’s corn processors plan to push production capacity to its highest level in history. The “North East China Marketized Corn” will include up to 12 to 13 million tons of annual corn processing capacity.

MY2016/17 consumption is forecast at 237.0 million tons, up 6.0 million tons from USDA’s March estimates on policy-driven feed and FSI use.

MY2016/17 feed use is raised to 164.0 million tons, up 3.0 million tons from USDA’s March estimates on policy-driven domestic demand.

<b>China Feed Production in China by Type (million tons)</b>				
	Total	Compound	Concentrate	Premix
2009	147.8	115	26.9	5.9
2010	162.3	130	26.5	5.8
2011	180.5	149	25.4	6.1
2012	194.9	164	24.7	6.2
2013	193.3	163	24	6.3
2014	196.9	169	21.5	6.4
2015	200.1	174	19.6	6.5
2016*	199.6	173.1	19.9	6.6
Growth % in 2011	11.2%	14.6%	-4.1%	5.2%
Growth % in 2012	8.0%	10.1%	-2.7%	1.6%
Growth % in 2013	-0.8%	-0.6%	-2.8%	1.6%
Growth % in 2014	-1.9%	3.7%	-10.4%	1.6%
Growth % in 2015	1.6%	3.0%	-8.8%	1.6%
Growth % in 2016	-0.2%	-0.5%	1.5%	1.5%
Source: Ministry of Agriculture, * CNGOIC				

MY2016/17 FSI consumption is estimated at 73.0 million tons, up 3.0 million tons from USDA March estimates on strong margins for corn processors and abundant and competitively priced domestic corn supplies.

## **Trade**

MY2017/18 imports are forecast at 1.0 million tons, down 2.0 million tons from USDA’s March estimates for MY2016/17, on strong competition from domestic corn supplies.

MY 2016/17 imports are estimated at 1.5 million tons, halved from USDA’s March estimates on diminished price competitiveness. The volume of import deliveries from October 2016 to January 2017 was 350,000 tons. During the same period in MY2015/16, China imported 1.5 million tons.

MY2017/18 exports are forecast at 50,000 tons, up 30,000 from USDA's March estimate for MY2016/17, on rising price competitiveness.

In September 2016, China granted export permits to two state-owned enterprises, COFCO and Beidahuang, to export up to 2.0 million tons of corn. In recent months, there have been no public announcements of export sales of Chinese corn to new foreign markets, with the exception of traditional exports to North Korea.

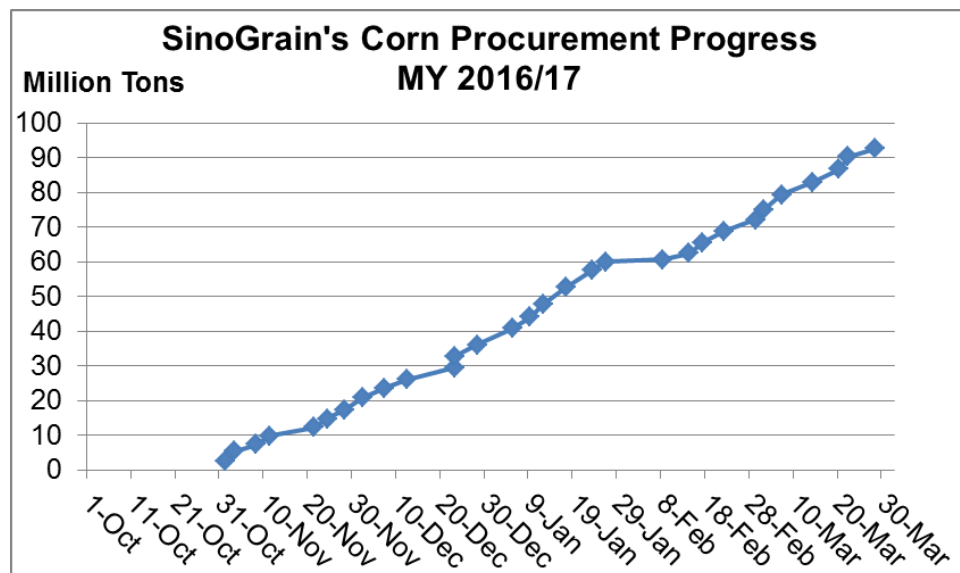
MY2016/17 corn exports are estimated at 20,000 tons, unchanged from USDA's March estimates.

As domestic prices tick closer to international market quotes, China's domestic supplies have become price competitive. In late February 2017, weather-related delays of U.S. exports opened a market opportunity for Chinese corn exports. At the time, market rumors suggested that COFCO would export limited quantities to Japan. However, industry sources reported that foreign buyers remain concerned about the quality and reliability of China's exportable supplies.

### Stocks

MY2017/18 stocks forecast at 69.7 million tons, down 32.5 million tons from USDA's March estimates for MY2016/17, on an historic policy-driven campaign to liquidate state-owned corn stocks.

MY2016/17 corn stocks are estimated lower at 94.8 million tons, down 7.5 million tons from USDA's March estimates, due to lower import volumes and strong demand.



Source: SinoGrain, China National Grain Portal

From October 1, 2016 until March 25, 2017, the China National Grain Trade Center reports that China has procured 1,087 million tons, down 37.4 million tons.

### Rice

### Production



Source: China Ministry of Agriculture 2015, blank map from [http://www.d-maps.com/carte.php?num\\_car=11570&lang=en](http://www.d-maps.com/carte.php?num_car=11570&lang=en)

Legend:

- Dark Red = 10 to 20% (Heilongjiang, Hunan)
- Red = 5 to 10% (Sichuan, Hubei, Jiangsu, Anhui, Jiangxi, Guangxi, Guangdong)
- Rose = 3 to 5% (Jilin, Yunnan)

MY 2017/18 rough rice production is forecast at 211.1 million tons, up 4.2 million tons from USDA's March estimates for MY2016/17, on higher planting intentions.

Rice planting begins in March and ends in June. Rice is predominantly produced in North East China and Southern China. In the 2017 No. 1 Document, central planners aim to expand production of double-crop rice production in the Middle Yangtze River Valley and expand production in South and South East China through research and development of double-crop varieties.

MY2017/18 harvested area is forecast at 30,800 hectares, raised by 650,000 hectares from USDA's March estimates for MY2016/17, on producer expectations for higher prices. Additionally, provincial government investments into irrigation systems in North East China encourage producers to convert from dry land corn production to irrigated rice production.

On February 24, 2017, the government announced lower floor prices for rice in MY2017/18. Although minimum prices fell, for the second year in a row, after steadily rising for a nearly a decade, planting intentions are expected to continue. Rice is one of two crops which the central government continues to support under its temporary reserve program and China's domestic prices remain strong.

The MY2017/18 floor price for early Indica rice is \$386 per ton (RMB 2,660) and mid-early Indica rice is \$378 per ton (RMB 2,600), down more than 2 percent from MY2016/17. The MY2017/18 floor price for Japonica rice is \$436 per ton (RMB 3,000), down 3 percent from last year.

MY2016/17 rice production is estimated at 207.9 million tons, up 930,000 million tons from USDA's March estimates on higher-than-expected harvested area in North East China last season. The response of corn producers to switch to rice in North East China was stronger than expected.

### **Consumption**

MY 2017/18 consumption is forecast at 144.0 million tons, unchanged from USDA's March estimate for MY2016/17, on changing consumer preferences. Long-term trends for falling rice consumption and a gradual rise in consumption of animal protein products, such as meat and dairy, are forecast to continue unabated. Current population growth is unlikely to offset this decline.

High domestic prices in MY2017/18 have rapidly diminished industrial demand in the face of abundant of domestic corn supplies. Moreover, in grain-deficit regions, provincial authorities continue a long-term campaign to promote potatoes as a substitute for industrial processing of rice. The price competitiveness of rice for feed use is expected to rapidly fall in the face of plentiful domestic corn stocks.

MY2016/17 consumption is estimated at 144.0 million tons, unchanged from USDA March estimates.

### **Trade**

MY2017/18 imports are forecast at 4.5 million tons, down 500,000 tons from USDA's March estimates for MY2016/17, on diminished price competitiveness of imported supplies as well as restrictive measures for export sales to China. In 2016, the U.S. dollar surged to an eight-year high above the Chinese Renminbi.

MY2016/17 imports are estimated to remain unchanged from USDA's March estimates at 5.0 million tons.

For many years, a large and consistent gap between government-supported domestic rice prices and world market prices established ample opportunities for imports from Vietnam and Thailand as well as Pakistan. According to Chinese customs data, from July 2016 to January 2017, China's rice imports reached 1.63 million tons, down nearly 18 percent from the same period in MY2015/16.

However, based on market conditions in late March 2017, the price competitiveness of imported rice is fading. As China's foreign exchange reserves dwindle and prospects for foreign exchange rate adjustments rise, arbitrage opportunity for imports has narrowed. The margin for imports of Indica rice

to South China ports is less than \$20 per ton. The margin for imports of Japonica rice to South China ports has also narrowed to as low as \$65 per ton, down nearly one-quarter from quotes in MY2016/17.

China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) has raised its requirements for Vietnamese exporters to ship to China. As of January 1, 2017, AQSIQ has granted only 22 Vietnamese firms permission to export rice and rice products to China.

MY2017/18 exports are forecast at 800,000 tons, treble USDA's March estimates for MY2016/17, on strong export demand. Traditional export destinations include North Korea, South Korea, and Hong Kong.

China has found new markets in Africa. In January 2016, China exported 92,600 tons, more than three times the export period during the same period in MY2016/17.

Destination	Volume (tons)
Ivory Coast	46,000
Sierra Leone	18,000
Senegal	15,000
Namibia	2,500
Total	92,522

Source: IHS/GTIS, Global Trade Atlas, China Customs

Unlike the China's premium rice exports in the past, the current export program is focused on liquidating inventories of abundant, aged, and low-quality rice state-owned stocks with average prices hovering near \$400 per ton.

Post forecasts that China will announce additional export sales to Africa in the next few months. COFCO is China's leading exporter of low cost rice from China to Africa. The 2017 No. 1 Document proposes that China promote agricultural exports and take advantage of international market opportunities as means to resolve structural issues affecting its domestic markets. Additionally, China's global strategic initiative known as the "One Belt, One Road" trade corridor encourages China to develop an agricultural export program.

## Stocks

MY2017/18 ending stocks are forecast at 77.2 million tons, up 7.1 million tons from USDA's 2016/17 March estimate, on greater domestic supplies and stagnant domestic demand.

MY 2016/17 rough rice stocks are estimated higher at 69.7 million tons, up 650,000 tons from USDA's March estimates, on greater domestic supplies.

From July 2016 until September 2017, the China National Grain Trade Center reported procurement progress of 27.7 million tons of mid-late Indica rice, down 330,000 tons from MY2015/16.

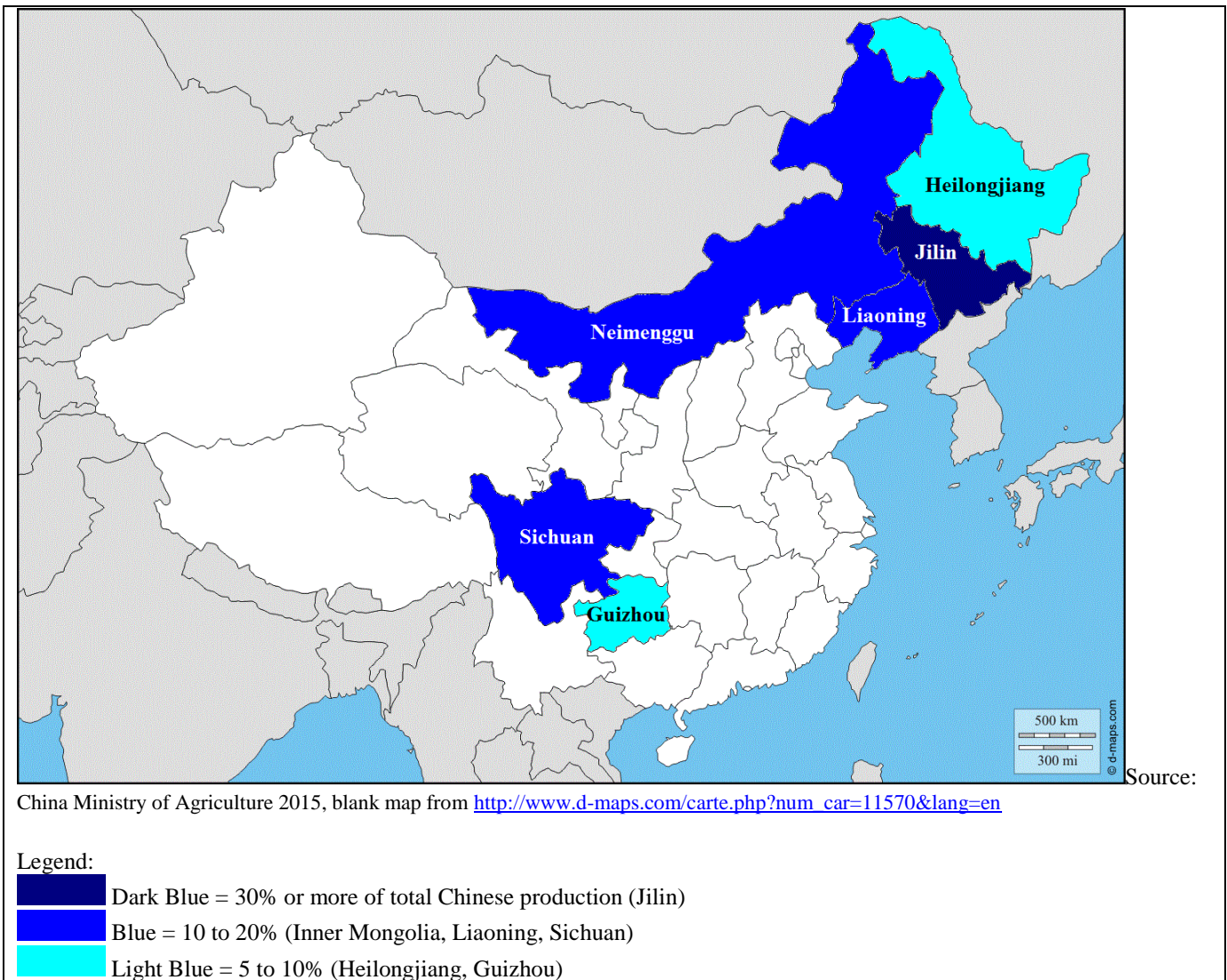


From November 2016 until February 2017, the China National Grain Trade Center reported procurement progress of 14.95 million tons of Japonica rice, up 3.98 million tons from MY2015/16.

The National Grain Trade Center also reports that 25 million tons of old-crop stocks were auctioned for sale. Of this volume, MY2013/14 rice was auctioned.

## Sorghum

### Production



MY2017/18 sorghum production is forecast to expand to 3.85 million tons, up 50,000 tons from USDA's March estimates for MY 2016/17, on expanded harvested area.

Based on planting intentions for MY2017/18, Posts forecasts sorghum harvested area to expand to 780,000 hectares, up 20,000 hectares from USDA's March estimates for MY2016/17. Corn producers in North East China are expected to switch from corn to sorghum as an alternative crop as it thrives under similar agronomic conditions.

Unlike corn, sorghum producers in China do not benefit from a minimum support price or a Dalian Commodity Exchange contract. Therefore, sorghum producers rely on forward marketing contracts with nearby alcohol producers or feed mills.

MY2016/17 sorghum production is estimated at 3.8 million tons, unchanged from USDA's March estimates. In MY2016/17, in response to high sorghum prices and strong demand, a small share of corn producers in China switched from corn to sorghum production. China's major sorghum production region remains concentrated in North East China, accounting for nearly half of China's total production. According to industry sources, in Heilongjiang province, producers expanded sorghum production to 45,000 hectares, up 9,000 hectares. Total production area in Jilin and Liaoning provinces expanded to 251,000 hectares.

### **Consumption**

MY2017/18 consumption is forecast to fall to 7.6 million tons, down 900,000 tons from USDA's March estimates for MY2016/17, on rapidly diminished price competitiveness.

MY2017/18 feed use lowered 5.0 million tons, down 1.0 million tons from USDA's March estimates for MY2016/17, on strong price competition.

MY2017/18 FSI use is raised to 2.6 million tons, up 100,000 tons from USDA's March estimates, on greater demand for sorghum-based spirits.

MY 2016/17 consumption is estimated at 8.0 million tons, down 500,000 tons from USDA's March estimates, on lower feed use partly offset by growing FSI use.

China's sorghum users are divided into three sectors: food, liquor, and feed. Since 2013, China became one of the world's largest buyers of imported sorghum for livestock and poultry feed use. Due to various market access barriers for corn, sorghum became a natural alternative feed grain for China's growing animal sector.

However, with recent changes to China's corn policy, the fundamentals of the sorghum market in China were reset in MY2016/17. Under China's current policy to liquidate domestic corn supplies with any necessary means, domestically produced corn will replace sorghum. Since the implementation of the recent corn policy in late 2016, feed use of sorghum has already fallen by more than 15 percent. In MY2015/16, feed use accounted for nearly 80 percent of sorghum use. Today, feed use accounts for nearly two-thirds of total sorghum use.

Prior to 2013, China's spirits market was the largest user of sorghum. A majority of Chinese liquor products are made by distilling sorghum blend with other grains like wheat and barley, as well as pulses. China's traditional sorghum-based spirit is called "baijiu." The Chinese liquor industry is recovering from a government anti-corruption campaign, which started in 2012.



Source: Industry Sources

### Trade

MY2017/18 imports are forecast to 3.8 million tons, down 700,000 tons from USDA's March estimate for 2016/17, on intensified price competition in the feed market.

MY2016/17 import is estimated at 4.3 million tons, down 200,000 tons from USDA's March estimates, on sluggish imported sorghum sales.

From October 2016 to January 2017, China imported 1.5 million tons of sorghum, predominantly from the United States and Australia. U.S sorghum prices have declined to CNF \$195 per ton to South China ports. In comparison, domestic corn prices range from \$210 to \$227 per ton delivered to South China ports. Traders report that Chinese buyers have slowed or stopped sorghum purchases following Chinese New Year in late January. Traders do not expect new sales after March 2017.

In North China ports, domestic corn prices range from \$200 to \$215 per ton. As a result, in North China, sales of imported sorghum have slowed causing inventories to build.

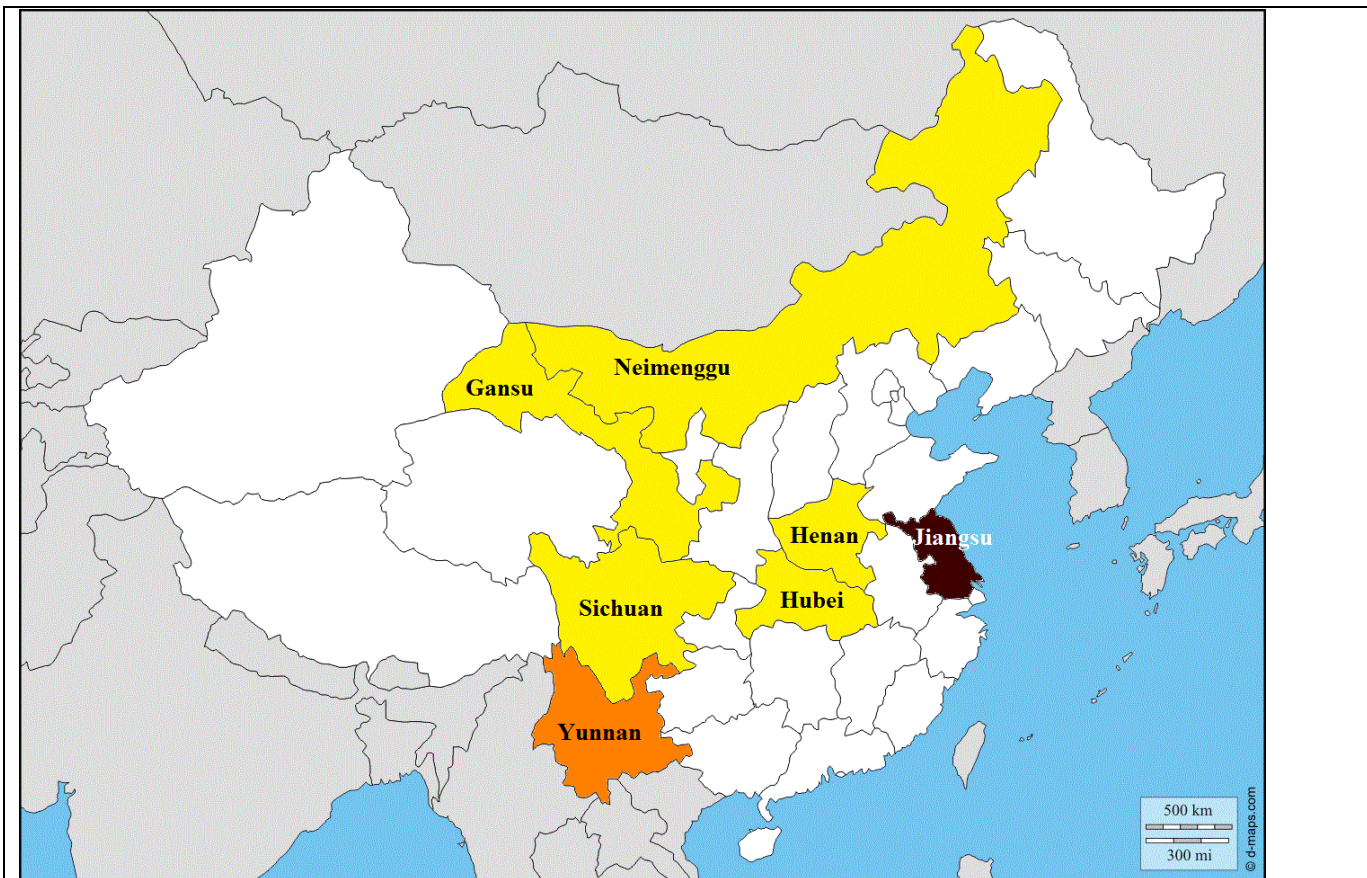
### Stocks

MY2017/18 ending stocks are forecast at 842,000 tons, up by nearly 60 percent from USDA's March estimates for MY2016/17, on sluggish demand.

MY2016/17 ending stocks are estimated at 802,000 tons, 300,000 tons higher than USDA's March estimates, on higher-than-expected domestic production, accumulating import inventories, and slow sales.

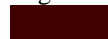


### Barley

## Production



Source: China Ministry of Agriculture 2015, blank map from [http://www.d-maps.com/carte.php?num\\_car=11570&lang=en](http://www.d-maps.com/carte.php?num_car=11570&lang=en)

### Legend:

-  Dark Red = 40% or more of total Chinese production (Jiangsu)
-  Orange = 10 to 20% (Yunnan)
-  Yellow = 5 to 10% (Inner Mongolia, Gansu, Henan, Hubei, Sichuan)

MY2017/18 production is forecast to increase to 2.1 million tons, up 100,000 tons from USDA's March estimates for MY2016/17, on slightly expanded harvested area and a return to normal yields.

MY 2017/18 harvested area is forecast at 520,000 hectares, up nearly 3.0 percent from USDA's March estimates for MY2016/17, on stable prices and planting intentions of some corn producers to switch crops.

Barley is mainly produced in Jiangsu, Gansu, and Inner Mongolia and has limited prospects for significant expansion of its planted area. Unlike corn, barley does not receive significant government support. Due to its relatively high bulk and logistical bottlenecks for transportation, domestically produced barley has fixed distribution channels to nearby markets.

MY 2016/17 barley production is estimated at 2.0 million tons, unchanged from USDA March estimates.

## **Consumption**

MY 2017/18 consumption is forecast at 6.2 million tons, down 1.3 million tons from USDA's March estimates for MY 2016/17 consumption, due to changing consumer preferences for beer in the long-term and strong price competition from domestic corn for feed use in the near-to-medium-term.

MY 2017/18 feed barley is forecast at 2.4 million tons, down 1.1 million from USDA's March estimates for MY2016/17, on strong price competition.

MY 2017/18 FSI use is forecast at 3.8 million tons, down 200,000 tons from USDA's March estimates for MY 2016/17, on changing consumer preferences.

China is the world's largest consumer of beer. Recent policy proclamations to manage corruption and regulate financial markets have led to three consecutive years of slowing economic growth in China. Meanwhile, inflation and a weakening renminbi have lowered margins for brewers and raised the cost of living for consumers across China.

As a result, China's lower income beer consumers have responded by switching to less expensive alternatives like traditional baijiu spirits. For now, malting barley demand is trending lower. On one hand, China's highly fractured brewing market faces rising margins and falling overall demand. In the future, industry consolidation and greater economies of scale will further diminish China's demand for traditional beers with relatively low malting barley use.

On the other hand, in China's first-tier cities, a rapidly expanding middle class and urban elites have a growing appetite for imported and domestic craft beers. With continued urbanization, a return to steady income growth, and an expansion in domestic production, an ongoing trend in major cities has the potential to spark long-term growth for beer production and higher volumes of malting use. For now, in terms of growth, imported beer consumption in China is on an exponentially higher scale than domestic beer consumption, which is trending lower.



Source: Industry Sources and IHS/GTIS, Global Trade Atlas

MY 2016/17 barley consumption is revised down to 6.7 million tons, down 800,000 tons from USDA's March estimates, due to slow sales and strong competition.

MY 2016/17 feed use is estimated at 2.8 million tons, down 700,000 tons from USDA's March estimates, on strong competition from corn feed use. Feed consumption has reached the lowest point in the past 5 years.

MY 2016/17 FSI use is revised down to 3.9 million tons, cut 100,000 tons from USDA's March estimates, on slowing demand for malting barley. Industry surveys indicate that lower income consumers who include migrant workers and urban laborers in third-tier cities have reduced their purchases in 2016 by about 6 percent from 2015. Overall, beer production in 2016 declined to 45.1 billion liters, down 4 percent from 2015.

## Trade

MY 2017/18 barley imports are forecast at 4.1 million tons, down 1.1 million tons from USDA's March estimates for 2016/17, due to weak demand.

MY 2016/17 imports are estimated at 4.6 million tons, down 800,000 tons from USDA's March estimates, on sluggish demand. From October 2016 to January 2017, MY2016/17 barley imports reached 1.8 million tons. The top two origins were Australia and Canada, accounting for nearly all imports.

## Stocks

MY2017/18 forecast ending stocks are at 441,000 tons, unchanged from USDA's March estimates for MY2016/17, as lower supplies are evenly balanced by lower demand.

MY2016/17 ending stocks are unchanged from USDA's March estimates at 441,000 tons.

## PSD Tables

Wheat Market Begin Year China	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	24140	24140	24190	24190	0	24500
Beginning Stocks	76105	76105	97042	97042	0	111092
Production	130190	130190	128850	128850	0	131000
MY Imports	3476	3476	4000	4000	0	3000
TY Imports	3476	3476	4000	4000	0	3000
TY Imp. from U.S.	613	613	0	500	0	1000
Total Supply	209771	209771	229892	229892	0	245092
MY Exports	729	729	800	800	0	800
TY Exports	729	729	800	800	0	800
Feed and Residual	10500	10500	16000	16000	0	11000
FSI Consumption	101500	101500	102000	102000	0	102000
Total Consumption	112000	112000	118000	118000	0	113000
Ending Stocks	97042	97042	111092	111092	0	131292
Total Distribution	209771	209771	229892	229892	0	245092

(1000 HA) ,(1000 MT)

Corn Market Begin Year China	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	38119	38119	36760	36760	0	36260
Beginning Stocks	100472	100472	110774	110774	0	94808
Production	224632	224632	219554	219554	0	217000
MY Imports	3174	3174	3000	1500	0	1000
TY Imports	3174	3174	3000	1500	0	1000
TY Imp. from U.S.	321	321	0	200	0	50
Total Supply	328278	328278	333328	331828	0	312808
MY Exports	4	4	20	20	0	50
TY Exports	4	4	20	20	0	50
Feed and Residual	153500	153500	161000	164000	0	166000
FSI Consumption	64000	64000	70000	73000	0	77000
Total Consumption	217500	217500	231000	237000	0	243000
Ending Stocks	110774	110774	102308	94808	0	69758
Total Distribution	328278	328278	333328	331828	0	312808
Yield	5.8929	5.8929	5.9726	5.9726	0	5.9846

(1000 HA) ,(1000 MT) ,(MT/HA)



Rice, Milled Market Begin Year	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Harvested	30210	30200	30160	30310	0	30800
Beginning Stocks	57436	57436	63735	63735	0	69735
Milled Production	145770	145770	144850	145500	0	147800
Rough Production	208243	208243	206929	207857	0	211143
Milling Rate (.9999)	7000	7000	7000	7000	0	7000
MY Imports	4800	4800	5000	5000	0	4500
TY Imports	4600	4500	5000	5000	0	4500
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	208006	208006	213585	214235	0	222035
MY Exports	271	271	500	500	0	800
TY Exports	368	275	500	500	0	800
Consumption and Residual	144000	144000	144000	144000	0	144000
Ending Stocks	63735	63735	69085	69735	0	77235
Total Distribution	208006	208006	213585	214235	0	222035
(1000 HA) ,(1000 MT)						

Sorghum Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Area Harvested	574	574	760	760	0	780
Beginning Stocks	706	706	717	717	0	802
Production	2750	2750	3800	3800	0	3850
MY Imports	8284	8284	4500	4300	0	3800
TY Imports	8284	8284	4500	4300	0	3800
TY Imp. from U.S.	6218	6218	0	3500	0	2850
Total Supply	11740	11740	9017	8817	0	8452
MY Exports	23	23	15	15	0	10
TY Exports	23	23	15	15	0	10
Feed and Residual	8800	8800	6000	5500	0	5000
FSI Consumption	2200	2200	2500	2500	0	2600
Total Consumption	11000	11000	8500	8000	0	7600
Ending Stocks	717	717	502	802	0	842
Total Distribution	11740	11740	9017	8817	0	8452
(1000 HA) ,(1000 MT)						

Barley Market Begin Year China	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	447	447	500	500	0	520
Beginning Stocks	702	702	541	541	0	441
Production	1870	1870	2000	2000	0	2100
MY Imports	5869	5869	5400	4600	0	4100
TY Imports	5869	5869	5400	4600	0	4100
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	8441	8441	7941	7141	0	6641
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	4000	4000	3500	2800	0	2400
FSI Consumption	3900	3900	4000	3900	0	3800
Total Consumption	7900	7900	7500	6700	0	6200
Ending Stocks	541	541	441	441	0	441
Total Distribution	8441	8441	7941	7141	0	6641

(1000 HA) ,(1000 MT) ,(MT/HA)