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China - Peoples Republic of

Grain and Feed Update

Huge Stocks Challenge Grain Policy

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Report Highlights:

China's huge grain stocks continue to impose severe pressures on China's production and trade policies.

While officially recognizing the need to reduce the high guaranteed producer prices for food grains (especially corn), the government has not articulated when or how it will do this. As a result, China is once again expected to produce record corn, wheat, and rice crops in 2016. This production will, in turn, add to already bulging stocks, currently estimated at approximately 250 million tons, or roughly half of global reserves. It is also likely to once again lead to artificial suppression of imports, and artificially high prices for meat and dairy. At the same time, increasingly vocal and public calls for reform, including in a major policy document, send a strong signal that the current price subsidy system is unsustainable. The Number One Document called for reform of corn subsidies to allow corn prices to reflect supply and demand. However, the government has not articulated when or how it will reform corn subsidies. Support prices set far above international prices are helping to sustain record grain production, suppress demand, and leading to the buildup of massive reserves.

Executive Summary:

On January 28, 2016, the Chinese Communist Party released its [2016 Number One Document](#) on agricultural policy. The Number One Document called for reform of corn subsidies to allow corn prices to reflect supply and demand. State owned newspapers issued editorials linking reform of grain subsidies and prices with President Xi Jinping's supply-side reform initiative. In fact, China took the surprise step of reducing the guaranteed corn price by 10 percent as the 2015 harvest concluded. This suggests that reform of the grain sector will be a high priority for the government this year. However, the government has not articulated when or how it will reform corn subsidies. The government continues to prioritize self-sufficiency in wheat and rice, and subsidies for these two crops are expected to remain high.

On January 8, 2016, Ren Zhengxiao, Administrator of China's State Administration of Grain, said that corn accounts for 42 percent of China's grain reserves. Based on the range of estimates of corn stocks, this ratio suggests China has anywhere between 250 to over 400 million tons of grain reserves. Both Mr. Ren's statement and U.S. Department of Agriculture (USDA) estimates highlight that China is not just facing high corn stocks; it also holds massive reserves of wheat and, to a lesser degree, rice.

Forecast marketing year (MY) 2015/16 corn production is raised slightly to a record 225 million tons as acreage continues to expand despite lower corn prices. Forecast MY2015/16 rough rice production is raised slightly to a record 209 million tons, also on higher acreage. Forecast MY2015/16 wheat production is unchanged at a record 130.19 million tons. Support prices set far above international prices are helping to sustain record grain production, suppress demand, and to the buildup of massive, expensive reserves. It also discourages crop rotation and has led to artificially high use of chemical inputs.

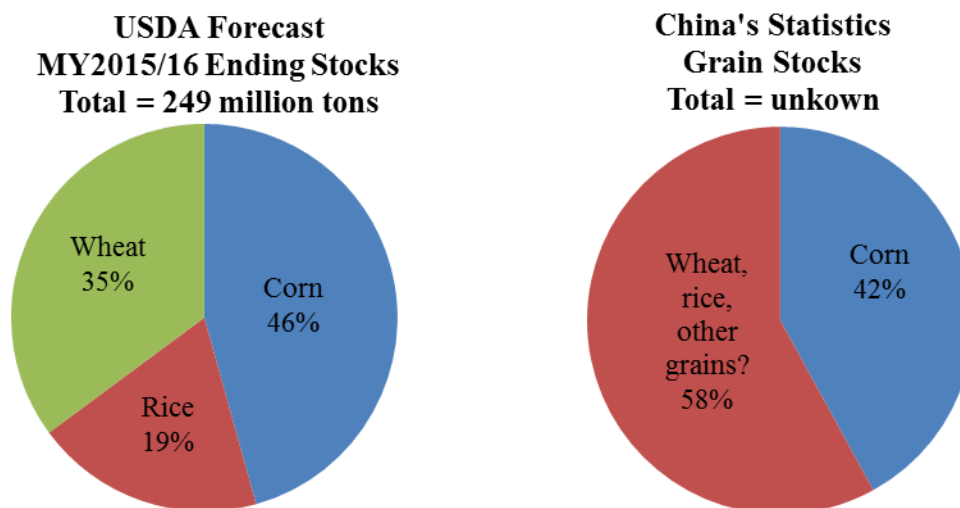
MY2015/16 forecast wheat consumption is revised down four million tons to 114 million tons due to lower wheat feed use and a continued gradual decline in industrial use. High wheat prices and falling corn prices have priced out wheat as a feed ingredient. Forecast MY2015/16 rice consumption is lowered 2.4 million tons to 147.6 million tons due to shifting consumer preferences, the economic slowdown, and lower feed use. Forecast MY2015/16 corn consumption is unchanged at 214 million tons. Falling corn prices and subsidies for corn processors have helped boost demand, although not enough to keep up with growing supply.

Post forecasts that MY2015/16 ending stocks for corn, wheat and rice will reach a massive combined 258 million tons. Forecast MY2015/16 wheat stocks are raised 6.2 million tons to 93.5 million tons on weakening demand. Forecast MY2015/16 corn ending stocks are raised 420,000 tons to 113.9 million tons due to slightly higher production. Forecast MY2015/16 ending stocks are revised up 2.9 million tons to 50.6 million tons due to stagnating consumption. Management of excess stocks is becoming an urgent issue for government officials.

Grain Policy and Stocks

The only thing certain about China's grain reserves is that they are large. As of January 2016, USDA estimated that China will hold almost 250 million tons of combined corn, wheat and rice stocks by the end of MY2015/16, almost half the world total. However, there is a great amount of uncertainty regarding all stock. The Government of China still treats grain reserves as a state secret and does not publish any official statistics. Most private estimates of China's grain stocks are higher than USDA's estimate, although there are also many reports that a significant (but unknown) portion of the reserves have gone out of condition.

On January 8, 2016, Ren Zhengxiao, Administrator of China's State Administration of Grain, said that corn accounts for 42 percent of China's grain reserves. This percentage is slightly lower than USDA estimates (see below), although the grain total cited by Mr. Ren may include minor grains and pulses. Based on the range of estimates of China's Corn stocks, this ratio suggests China has anywhere between 250 to over 400 million tons of grain reserves. Both Mr. Ren's statement and USDA's estimates help emphasize that China is not just facing high corn stocks; it also holds massive reserves of wheat and (to a lesser degree) rice. The government's decision to classify basic market information like stocks as a state secret has created confusion amongst farmers, traders, end users and other market actors.



Source: U.S. Department of Agriculture and China Daily

On January 9, 2016, Mr. Chen Xiwen, Deputy Director of the Chinese Communist Party's Central Rural Work Leading Group, said in an interview that China has 50 million tons (1000亿斤) of "invalid/ineffective supply" (无效供给). Some analysts reported Mr. Chen's statement as suggesting China has 500 million tons of grain reserves, but careful review of the original statement in Chinese shows that his remarks were misinterpreted. Chen Xiwen's analysis focused on the confusing state of China's markets, pointing out that China imported an estimated 120 million tons of grain and soybeans during CY2015 despite having produced a record grain harvest and having accumulated record grain stocks (soybeans account for two thirds of this total). He concluded from production and import numbers that China has fifty million tons of excess grain supply.

Chen Xiwen said the structure of China's grain supply is out of sync with market demand. To illustrate this, he judged that the doubling of corn production over 15 years outpaced market demand while

domestic production of soybeans eroded and fell far short of demand. Chen Xiwen said the root of the problem was China's high corn price, which had attracted over 40 million tons of cheaper imported corn substitutes at the same time soybean imports soared to 81.7 million tons during CY2015.

Chen Xiwen estimated that the imported corn feed substitutes displaced 50 million tons of domestic corn, which was diverted to government inventories. Chen said that preventing further growth in grain inventories and slowing imports of corn substitutes are priorities for 2016. -However, he says the best way to reduce imports of corn substitutes is to allow corn prices to fall by reforming China's grain price support system and allowing markets to determine the price.

On January 28, 2016, the Chinese Communist Party released its [2016 Number One Document](#) on agricultural policy. The Number One Document officially endorsed Mr. Chen's call for reform of the corn subsidy mechanism to allow corn price to reflect supply and demand. State owned newspapers issued editorials linking reform of grain subsidies and prices with President Xi Jinping's supply-side reform initiative. This suggests that reform of the grain sector will be a high priority for the government this year.

However, no new approach to subsidizing corn farmers is on the immediate horizon. The document's many caveats—a new subsidy must ensure that farmers earn a reasonable income, achieve “coordinated” development of the entire industry chain, separate farmer subsidies from intervention in the market price, and prevent excessive government expense—will be difficult to achieve. The document said China's corn production will be reduced in 2016 by reducing corn acreage in regions where it lacks a comparative advantage. While the document called for liberalizing the corn market, it said that minimum price programs for wheat and rice will continue. It also called for reform of the grain reserve system and refinement of the methods of selling grain reserves into the market.

There are substantial challenges to liberalizing prices for only a few crops at a time while keeping high price supports for others. After China reformed subsidy policies for cotton and soybeans in 2014, many farmers abandoned these crops and switched to corn. This contributed to the current glut of corn in China. If China liberalizes corn prices but not wheat or rice, it could face similar challenges. The full marketization of corn prices is made more difficult by the high cost of production in China. The average cost of production for corn in China was over eight dollars a bushel in 2014 according to the National Development and Reform Commission's 2015 China Agricultural Cost and Profit Statistical Yearbook, far above international prices.

Wheat

Production

Forecast MY2015/16 wheat production is unchanged at a record 130.19 million tons on stable acreage and increasing yields. The government has kept the floor price for wheat steady while decreasing it for corn, soybeans, and cotton, making it a relatively attractive crop. There is a pilot program to combine seed, input, and production subsidies into a single payment in Shandong, Anhui, Hunan, Sichuan and

Zhejiang provinces. Under the pilot program, wheat producers would be eligible to receive a combined subsidy payment of at least RMB 125 per mu or (RMB 765 per acre). The government is prioritizing production of wheat and rice, and wheat subsidies are expected to remain high in the near to medium term. Estimated MY2014/15 wheat production is unchanged at 126.2 million tons.

Imports

MY2015/16 wheat imports are forecast unchanged at two million tons due to tight control on tariff rate quotas (TRQ) for wheat. Ninety percent of wheat TRQs are reserved for the government or state owned corporations, leaving less than a million tons for the private sector. The private sector quota is generally quickly used, but the fill rate for the government quota has been very low in most years since China joined the World Trade Organization in 2001. The average price for wheat offered by State Grain silos in January was just under \$10 a bushel, about double the price of wheat in the United States.

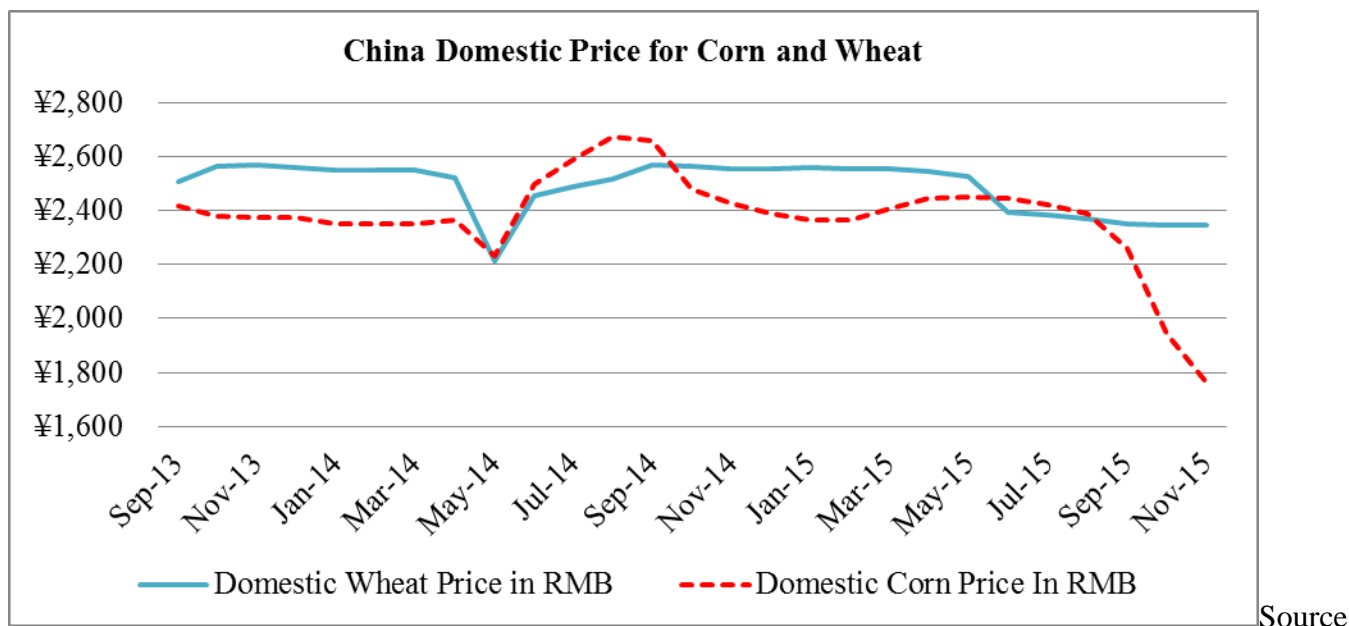
Consumption

MY2015/16 forecast wheat consumption is revised down four million tons to 114 million tons due to lower wheat feed use and a continued gradual decline in industrial use. China's corn price dropped significantly in late 2015 after the government lowered the corn floor price, and the majority of feed mills have stopped using wheat as a feed ingredient. As a result, forecast MY2015/16 wheat feed and residual is lowered three million tons to 12 million tons. Forecast MY2015/16 food, seed and industrial (FSI) consumption is lowered one million tons to 102 million tons. The economic downturn and closure of factories has dampened demand for flour according to industry reports.

Estimated MY2014/15 feed and residual is revised down one million tons to 16 million tons on continued weakness in wheat feed use. Domestic wheat prices have generally stayed above corn prices since October 2014, limiting demand for feed wheat. MY2014/15 FSI is also revised down one million tons due to the economic slowdown and lower government subsidies for wheat processors in some provinces. Most provincial governments have not yet announced subsidy plans for 2016. Industry contacts expect that some of the provincial subsidies for wheat processors will not be renewed this year.

Stock

Forecast MY2015/16 wheat stocks are raised 6.2 million tons to 93.5 million tons on weakening demand. Estimated MY2014/15 wheat stocks are raised 2.2 million tons to 76.3 million tons, also on weaker demand.



: China JCI Consulting and Global Trade Atlas

Corn

Production

Forecast MY2015/16 corn production is raised slightly to 225 million tons as acreage continues to expand despite lower corn prices. Corn is still the most profitable crop for many farmers in China and it will likely take several years and further price cuts for the government to achieve its goal of rebalancing supply. Chinese domestic corn prices are still around \$8 per bushel, more than double the price of corn in the United States. Estimated MY2014/15 production is unchanged at 215.6 million tons.

In the late November 2015, the Ministry of Agriculture announced the “structural adjustment of corn production program” in response to record high corn stocks. The program called for corn acreage in the “scythe region” to be halved from the current level of 100 million mu (6.66 million hectares) to 50 million mu (3.33 million hectares) by 2020. This would represent a nine percent cut to total corn acreage. The “scythe region” stretches across northern China in an arc and gets its name from its shape. It is described as covering historically low yield corn acreage in environmentally fragile, cold, arid, mountainous, and eroded areas on the fringes of China’s corn cultivation region, and covers parts of Inner Mongolia, Heilongjiang, Jilin, Liaoning, Xinjiang, Gansu, and Shanxi provinces. This area has limited irrigation and water resources. It is not clear yet how the government intends to achieve these goals.

Consumption

Forecast MY2015/16 consumption is unchanged at 214 million tons. Major corn producing provinces have already announced their intention to extend subsidies for corn processors in order to help dispose of excess reserves. The original subsidy coverage period was from April to December 2015. According to industry reports, provinces in northeast China are expected to make an official announcement on subsidy extensions sometime after the Lunar New Year. The subsidies pay processors 150-250 RMB

per ton of corn they purchase from state reserves. Estimated MY2014/15 corn consumption is unchanged at 202 million tons.

Imports

Forecast MY2015/16 corn imports are unchanged at 2.5 million tons, slightly less than the private-sector TRQ allotment. China currently purchases approximately 80 percent of its corn imports from Ukraine. The United States now accounts for less than 10 percent of China's corn imports, compared to over 70 percent in MY2013/14. Importers stopped buying U.S. corn after multiple shipments were rejected at the port due to detections of MIR 162, a biotech variety of corn approved in the United States but not yet in China. Buyers have been slow to purchase U.S. corn despite the approval of MIR 162 by China and competitive prices. Falling corn prices in China and excess stocks are expected to limit corn imports in 2016.

Stocks

Expected higher production has led post to slightly raise the MY2015/16 ending corn stock forecast to 113.9 million tons. MY2014/15 stocks are unchanged at 100.5 million tons. Falling corn prices and subsidies for corn processors have helped boost demand, although not enough to keep up with growing supply. The management of growing and deteriorating corn stocks has become an urgent political and economic challenge for the government, and one that may well take multiple years to fully resolve.

Rice

Production

Forecast MY2015/16 rough rice production is raised slightly to 209 million tons on higher acreage. Forecast MY2015/16 rice acreage is raised 400,000 hectares to 30.6 million hectares as soybean producers in the northeast swap soybean production with rice in search of higher returns. MY2014/15 rice production is unchanged at 206.5 million tons based on official statistics.

Imports

Forecast MY2015/16 rice imports are unchanged at 4.7 million tons. Domestic rice prices remain far above prices in neighboring countries. Rice prices in Southeast Asia declined throughout MY2014/15, widening the price gap with China. Rice imports in November 2015 were up 32 percent year-on-year. Vietnam and Thailand remain the main exporters of rice to China due to their competitive prices and close proximity. The average price for indica paddy rice offered by State Grain silos in January averaged around \$420 a ton, which is over \$60 per ton more than the price of imported milled rice from Vietnam. Milled prices are typically much higher than paddy prices.

Consumption

Forecast MY2015/16 consumption is lowered 2.4 million tons to 147.6 million tons. Rice consumption has been negatively impacted by shifting consumer preferences, the economic slowdown, and lower feed use. The poor quality of state reserves has also meant that the government has had trouble finding buyers when competitively priced imported rice is available on the market. High government support prices have driven up costs for processors, hurting industrial demand. Industry analysts report that 90 percent of rice processors in northeast China have suspended operation or closed due to high rice prices.

Stocks

Forecast MY2015/16 ending stocks are revised up 2.93 million tons to 50.61 million tons due to stagnating consumption. The government is prioritizing production of wheat and rice and rice subsidies are expected to remain high in the near to medium term. Rice stocks will likely continue to grow if current policies are sustained.

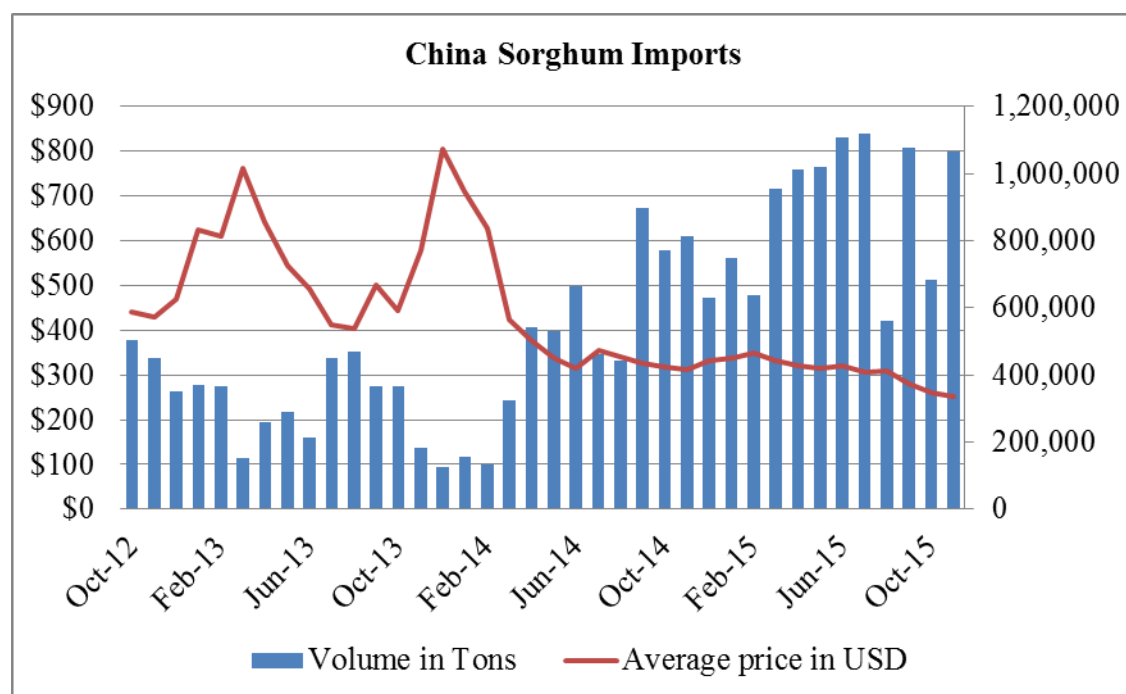
Sorghum

Production

Forecast MY2015/16 sorghum production is raised slightly to 2.95 million tons as acreage is not expected to decline. Forecast MY2015/16 sorghum acreages is raised to 620,000 hectares. The drop in corn prices has encouraged farmers with dry or marginal land to switch to sorghum. Estimated MY2014/15 sorghum production is unchanged at 2.89 million tons. Sorghum production is concentrated in the northeast and Inner Mongolia. Sorghum production is expected to remain stable in the near to medium term.

Trade

Forecast MY2015/16 sorghum imports are unchanged at seven million tons. Falling domestic corn prices have caused feed mills to switch back to corn, reducing demand for corn-substitutes such as barley, sorghum and DDGS. The price of imported sorghum plummeted roughly 15 percent since the beginning of the 2015 in response to lower corn prices and falling demand.



Source: China JCI Consulting and Global Trade Atlas

Consumption

Forecast MY2015/16 sorghum consumption is lowered 200,000 tons to 9.8 million tons on lower feed demand. Forecast MY2015/16 feed and residual is lowered to 7.6 million tons due to falling corn prices. Forecast MY2015/16 FSI consumption is unchanged at 2.2 million tons. Sorghum can be used for

bioethanol production in China. However, biofuel producers currently favor importing cassava over sorghum as a feedstock for biofuels.

Stocks

Forecast MY2015/16 ending stocks are revised up 264,000 metric tons to 845,000 metric tons as a result of slightly higher production and lower feed demand. The sudden drop in corn prices left many sorghum importers holding excess inventories. Estimated MY2014/15 ending stocks are revised down 1,000 metric tons to 705,000 tons due to higher export statistics.

<i>Wheat</i>	2013/2014		2014/2015		2015/2016		
<i>Market Begin Year</i>	Jul 2013		Jul 2014		Jul 2015		
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	24,117	24,117	24,069	24,064	24,140	24,140	(1000 HA)
Beginning Stocks	53,960	53,960	65,274	65,274	74,105	76,291	(1000 MT)
Production	121,930	121,930	126,208	126,208	130,190	130,190	(1000 MT)
MY Imports	6,773	6,773	1,926	1,896	2,000	2,000	(1000 MT)
TY Imports	6,773	6,773	1,926	1,896	2,000	2,000	(1000 MT)
TY Imp. from U.S.	3,965	3,965	326	311	0	200	(1000 MT)
Total Supply	182,663	182,663	193,408	193,378	206,295	208,481	(1000 MT)
MY Exports	889	889	803	587	1,000	1,000	(1000 MT)
TY Exports	889	889	803	587	1,000	1,000	(1000 MT)
Feed and Residual	16,000	16,000	17,000	16,000	15,000	12,000	(1000 MT)
FSI Consumption	100,500	100,500	101,500	100,500	103,000	102,000	(1000 MT)
Total Consumption	116,500	116,500	118,500	116,500	118,000	114,000	(1000 MT)
Ending Stocks	65,274	65,274	74,105	76,291	87,295	93,481	(1000 MT)
Total Distribution	182,663	182,663	193,408	193,378	206,295	208,481	(1000 MT)
Yield	5.0558	5.0558	5.2431	5.2447	5.3931	5.3931	(MT/H A)

<i>Corn</i>	2013/2014		2014/2015		2015/2016		
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2015		
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	

Area Harvested	36,318	36,318	37,123	37,123	38,120	38,200	(1000 HA)
Beginning Stocks	67,570	67,570	81,315	81,315	100,464	100,464	(1000 MT)
Production	218,490	218,490	215,646	215,646	224,580	225,000	(1000 MT)
MY Imports	3,277	3,277	5,516	5,516	2,500	2,500	(1000 MT)
TY Imports	3,277	3,277	5,516	5,516	2,500	2,500	(1000 MT)
TY Imp. from U.S.	2,381	2,381	604	478	0	50	(1000 MT)
Total Supply	289,337	289,337	302,477	302,477	327,544	327,964	(1000 MT)
MY Exports	22	22	13	13	50	50	(1000 MT)
TY Exports	22	22	13	13	50	50	(1000 MT)
Feed and Residual	150,000	150,000	140,000	140,000	150,000	150,000	(1000 MT)
FSI Consumption	58,000	58,000	62,000	62,000	64,000	64,000	(1000 MT)
Total Consumption	208,000	208,000	202,000	202,000	214,000	214,000	(1000 MT)
Ending Stocks	81,315	81,315	100,464	100,464	113,494	113,914	(1000 MT)
Total Distribution	289,337	289,337	302,477	302,477	327,544	327,964	(1000 MT)
Yield	6.0160	6.0160	5.8090	5.8090	5.8914	5.8901	(MT/H A)

<i>Rice, Milled</i>	2013/2014		2014/2015		2015/2016		
<i>Market Begin Year</i>	Jul 2013		Jul 2014		Jul 2015		
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	30,312	30,312	30,310	30,310	30,210	30,610	(1000 HA)
Beginning Stocks	46,826	46,826	46,811	46,811	47,660	47,660	(1000 MT)
Milled Production	142,530	142,530	144,560	144,560	145,770	146,300	(1000 MT)
Rough Production	203,614	203,614	206,514	206,514	208,243	209,000	(1000 MT)
Milling Rate (.9999)	7,000	7,000	7,000	7,000	7,000	7,000	(1000 MT)
MY Imports	4,015	4,015	4,315	4,315	4,700	4,700	(1000 MT)
TY Imports	4,168	4,168	4,500	4,500	4,700	4,700	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Total Supply	193,371	193,371	195,686	195,686	198,130	198,660	(1000 MT)

MY Exports	260	260	426	426	450	450	(1000 MT)
TY Exports	393	393	300	300	450	450	(1000 MT)
Consumption and Residual	146,300	146,300	147,600	147,600	150,000	147,600	(1000 MT)
Ending Stocks	46,811	46,811	47,660	47,660	47,680	50,610	(1000 MT)
Total Distribution	193,371	193,371	195,686	195,686	198,130	198,660	(1000 MT)
Yield (Rough)	6.7173	6.7173	6.8134	6.8134	6.8932	6.8278	(MT/H A)

<i>Sorghum</i>	2013/2014		2014/2015		2015/2016		
<i>Market Begin Year</i>	Oct 2013		Oct 2014		Oct 2015		
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	582	582	619	619	610	620	(1000 HA)
Beginning Stocks	326	326	568	568	706	705	(1000 MT)
Production	2,892	2,892	2,885	2,885	2,900	2,950	(1000 MT)
MY Imports	4,161	4,161	10,162	10,162	7,000	7,000	(1000 MT)
TY Imports	4,161	4,161	10,162	10,162	7,000	7,000	(1000 MT)
TY Imp. from U.S.	4,879	4,879	8,711	8,389	0	5,600	(1000 MT)
Total Supply	7,379	7,379	13,615	13,615	10,606	10,655	(1000 MT)
MY Exports	11	11	9	10	25	10	(1000 MT)
TY Exports	11	11	9	10	25	10	(1000 MT)
Feed and Residual	4,800	4,800	10,700	10,700	7,800	7,600	(1000 MT)
FSI Consumption	2,000	2,000	2,200	2,200	2,200	2,200	(1000 MT)
Total Consumption	6,800	6,800	12,900	12,900	10,000	9,800	(1000 MT)
Ending Stocks	568	568	706	705	581	845	(1000 MT)
Total Distribution	7,379	7,379	13,615	13,615	10,606	10,655	(1000 MT)
Yield	4.9691	4.9691	4.6607	4.6607	4.7541	4.7581	(MT/H A)