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China - Peoples Republic of

Livestock and Products Annual

Multiple Outbreaks of African Swine Fever Create Uncertainty for the World's Largest Pork Producer

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Report Highlights:

Multiple outbreaks of African Swine Fever have occurred in China for the first time. The virulence and ease of transmission of this porcine disease, coupled with the wide geographic distribution could significantly impact China's swine population and the availability of domestically produced pork. Assuming China controls the current outbreak, Post forecasts pork production will increase to 55.2 million tons with imports decreasing to 1.2 million metric tons (MMT), a drop of 22 percent. For cattle and beef, consumption demand will continue to outpace domestic production, leading to an 10 percent increase in beef imports at 8.6 MMT.

CATTLE

Production

China's cow herd inventory to shrink slightly in 2019

Post forecasts the cow herd beginning stocks in 2019 will slightly decrease by 0.1 percent and the calf crop will decrease to 51 million head. This forecast follows the recent trend of China's shrinking total cattle inventory. From 2017 to 2018, the inventory shrunk by 2 percent and from 2018 to 2019, the inventory is forecast to shrink another 2 percent.

Unlike the swine and poultry industries in China, the beef cattle industry is very disparate. The majority of cattle are raised in backyard farms, while scale farms (farms with yearly slaughter rates of 50 head or more) account for less than 30 percent of the total herd size. While China's central and local governments have been providing incentives for cattle producers, the incentives are more targeted to large scale farms and do not often reach the individual family farms. This obstacle, along with stricter implementation of environmental laws, long breeding times, and the rising feed costs, have forced small farms to continue their retreat from the market, exacerbating the cattle supply shortage. Large farms continue to expand (both in terms of number and size), but are being outpaced by the small farms exiting the market.

China's Animal Scale Farming Share and Development Targets (2005 -2020) Percentage Out of Total Farms

	Scale swine farms	Scale poultry farms	Scale dairy/cattle farms
2020	52% (target)	N/A	N/A
2016	50% (est)	92%	50% / 27.5%
2010	34%	82%	28%
2005	16%	66%	11%

Source: Ministry of Agriculture

Note: Swine scale farming refers to farms with annual slaughter rates of 500 pigs or more; dairy farms with inventory of 100 cows or above; and cattle farms with annual slaughter rates of 50 head and above.

Chinese retaliatory tariffs on U.S. feed imports will put upward pressure on feed prices in 2019

Overall feed costs will increase in 2019 due to rising corn and soybean meal prices. The central government reduced the corn subsidy program and encouraged soybean plantings through a pilot soil rotation program launched in 2016. Over the past two years, the Ministry of Agriculture and Rural Affairs (formerly, the Ministry of Agriculture), reported that corn production area fell by 3.33 million hectares (50 million mu), of which, 1.26 million hectares (19 million mu) was transitioned to soybean production.¹ In addition to decreased production, corn utilization has increased due to central government policies encouraging the expansion of corn utilization in the further processing industry—ethanol in particular. For example, on September 13, 2017, the National Development and Research Council (NDRC), the National Energy Administration (NEA), the Ministry of Finance (MOF) and 12 other Chinese ministries jointly announced “The Implementation Plan Regarding the Expansion of

¹ Please see GAIN Report [CH18015](#) for more information.

Ethanol Production and Promotion for Transportation Fuel.” This plan supports the larger policy goal of achieving a national E10 blending mandate.

This drop in production and increase in demand will result in a need for expanded corn imports to fill the gap. However, with China’s levying of tariffs against the United States, a key supplier of imported corn, the ability to economically fill that gap with imported corn will be limited, putting an upward pressure on prices across the industry.

Soybeans and soy-based feed products will also experience upwards price pressure. Industry reports that 95 percent of all soybean meal consumed by the livestock industry is sourced from overseas. The ongoing trade tensions between the United States and China will continue to inject uncertainty into the feed market, increasing the overall feeding costs for Chinese livestock farmers.

Trade

China imports live cattle for genetic improvement and, to an increasing extent, for slaughter. The majority—over 60 percent—of live cattle imports come from Australia. With the recovery of Australia’s cattle herd in 2017 and 2018, Post forecasts that live cattle imports will increase in 2019 to 120,000 head. In 2017, Chinese regulators approved additional Australian facilities to export cattle. At the same time, importers began importing cattle by sea, greatly reducing the transportation costs. However, key Australian production areas are being affected by drought conditions, which could lead to a decrease in cattle available for export.

Production, Supply, and Demand Table for Cattle

Animal Numbers, Cattle Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	99173	99173	96850	96850	0	94700
Dairy Cows Beg. Stocks	14500	14500	14000	14000	0	14000
Beef Cows Beg. Stocks	53000	53000	53500	53500	0	53400
Production (Calf Crop)	50500	50500	50900	50900	0	50850
Total Imports	121	106	100	100	0	120
Total Supply	149794	149779	147850	147850	0	145670
Total Exports	19	18	20	15	0	10
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	51850	51850	52050	52050	0	52100

Total Slaughter	51850	51850	52050	52050	0	52100
Loss	1075	1061	1080	1085	0	1000
Ending Inventories	96850	96850	94700	94700	0	92560
Total Distribution (1000 HEAD)	149794	149779	147850	147850	0	145670

Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>

BEEF

Production

Production will slightly increase in 2019 by less than 1 percent

Post forecasts beef production in 2019 will reach 7.34 million metric tons (MMT), about 0.2 percent higher than 2018. The overall slaughter number continues to increase due to large numbers of dairy cattle being slaughtered for beef. As China's dairy industry increasingly modernizes, less productive cattle are slaughtered and diverted to the beef supply. With high beef prices and relatively low milk prices, the rate at which these less productive dairy cattle are being culled has continued to increase.

Consumption

Domestic consumption continues to outstrip supply, leading to high prices

Post forecasts total beef consumption will continue to increase in 2019 to reach 8.6 MMT, a year-on-year increase of 3 percent. As China's urban middle class continues to grow and experience an increase in living standards and an increasingly western diet, the demand for beef continues to grow. China's per capita beef consumption was about 6.0 kg/person in 2018, which is still below the world average of 8.6 kg/person, demonstrating the potential for continued growth. E-commerce platforms play an increasingly important role in the marketing of beef, providing internet-connected consumers with a convenient mechanism for adding this high-quality, lean protein to their diets.

Trade

China grants market access to several new exporting countries to help meet growing domestic demand

Post forecasts imports will continuously grow to reach 1.3 million tons in 2019, representing 10 percent year-on-year growth. Overall, South American countries, led by Brazil, will still be the top suppliers for the China market and account for about 80 percent of beef imports.² Behind South America, Australia and New Zealand are the next largest suppliers.

However, in 2018, China restored market access for the United Kingdom and France, decades after

² Note, China Customs has stopped reporting beef imports through the GTIS system, so the latest estimates are only good up until March 2018.

banning their products due to BSE-outbreaks. These changes follow additional market access gains for Ireland and South Africa in 2017.

While the United States regained market access for bone-in and boneless beef, both fresh and frozen, in the summer of 2017, total exports remained limited due to U.S. industry’s careful compliance with Chinese laws and regulations and the need to register new facilities with the Certification and Accreditation Authority of China (CNCA). While beef exports grew to over \$44 million in the first nine months of regaining access (June 2017 to March 2018), exports from the United States have dropped off precipitously due to the retaliatory tariff and non-tariff barriers imposed by China (see Policy section below).

Policy

On July 6, 2018, China’s Ministry of Commerce (MOFCOM) enacted additional tariffs on U.S. products in retaliation for the 301 Action taken by the United States.³ The additional tariffs for beef were 25 percent, in addition to the existing MFN rate.

New Applied Tariffs Rates on Beef Products

HS Code	Product Name	MFN Rate	Additional 301 Rate	New Applied Rate
2011000	Meat of bovine animals, fresh or chilled: carcasses and half carcasses	20	25	45
2012000	Meat of bovine animals, fresh or chilled: other cuts with bone-in	12	25	37
2013000	Meat of bovine animals, fresh or chilled: boneless	12	25	37
2021000	Meat of bovine animals, frozen: carcasses and half-carcasses	25	25	50
2022000	Meat of bovine animals, frozen: other cuts with bone-in	12	25	37
2023000	Meat of bovine animals, frozen: boneless	12	25	37

Production, Supply, and Demand Table for Meat

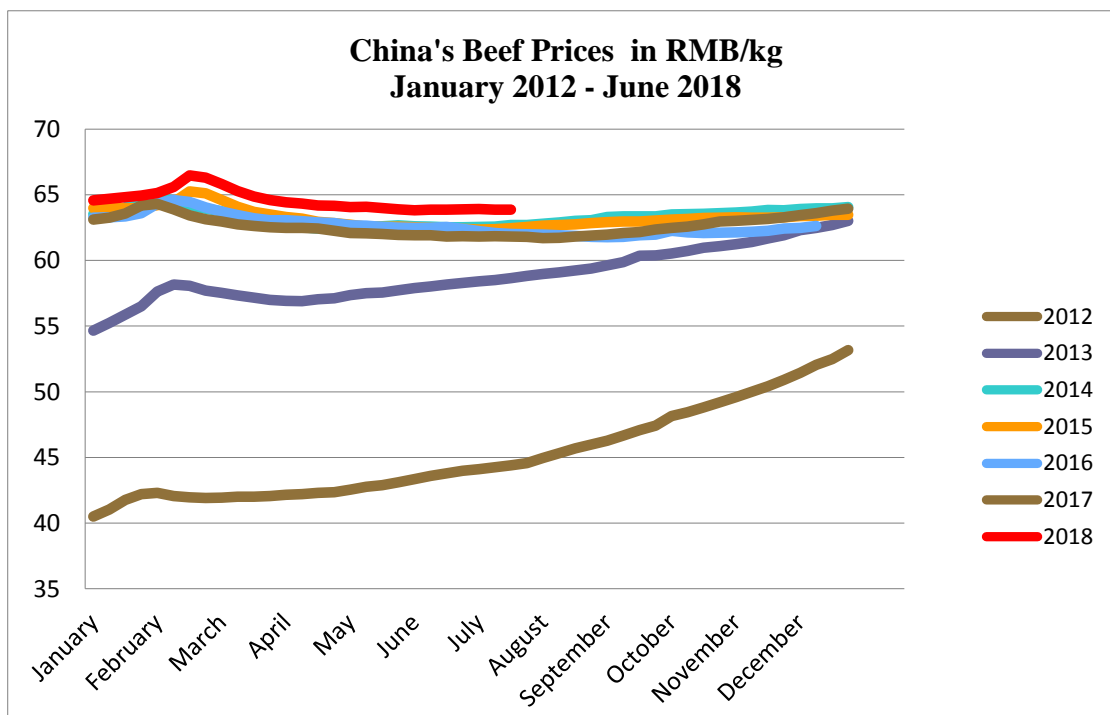
Meat, Beef and Veal	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	51850	51850	52050	52050	0	52100
Beginning Stocks	30	30	20	20	0	0
Production	7260	7260	7325	7325	0	7340

³ Please see GAIN Report [CH 18034](#) for more information about the retaliatory tariffs.

Total Imports	974	974	1200	1050	0	1320
Total Supply	8264	8264	8545	8395	0	8660
Total Exports	17	17	15	15	0	15
Human Dom. Consumption	8227	8227	8530	8380	0	8645
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	8227	8227	8530	8380	0	8645
Ending Stocks	20	20	0	0	0	0
Total Distribution	8264	8264	8545	8395	0	8660

(1000 HEAD) ,(1000 MT CWE)

Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>



Average Retail Prices

China National Retail Beef Prices on Average, 2014-2018						
(RMB /KG)	2014	2015	2016	2017	2018	% Change 2017/18
January	63.87	63.99	63.38	63.54	64.83	2%
February	64.39	64.75	64.36	63.69	66.05	3.7%
March	63.32	63.97	63.31	62.68	64.79	3.4%
April	62.59	63.02	62.85	62.32	64.19	3.0%

May	62.57	62.61	62.55	61.98	63.93	3.1%
June	62.56	62.44	62.35	61.84	63.89	3.3%
July	62.64	62.44	61.98	61.77		
August	62.94	62.78	61.83	61.99		
September	63.35	63.02	62.12	62.54		
October	63.56	63.20	62.15	63.03		
November	63.76	63.29	62.49	63.46		
December	63.97	63.46	62.86	64.18		
Source: MARA						

SWINE

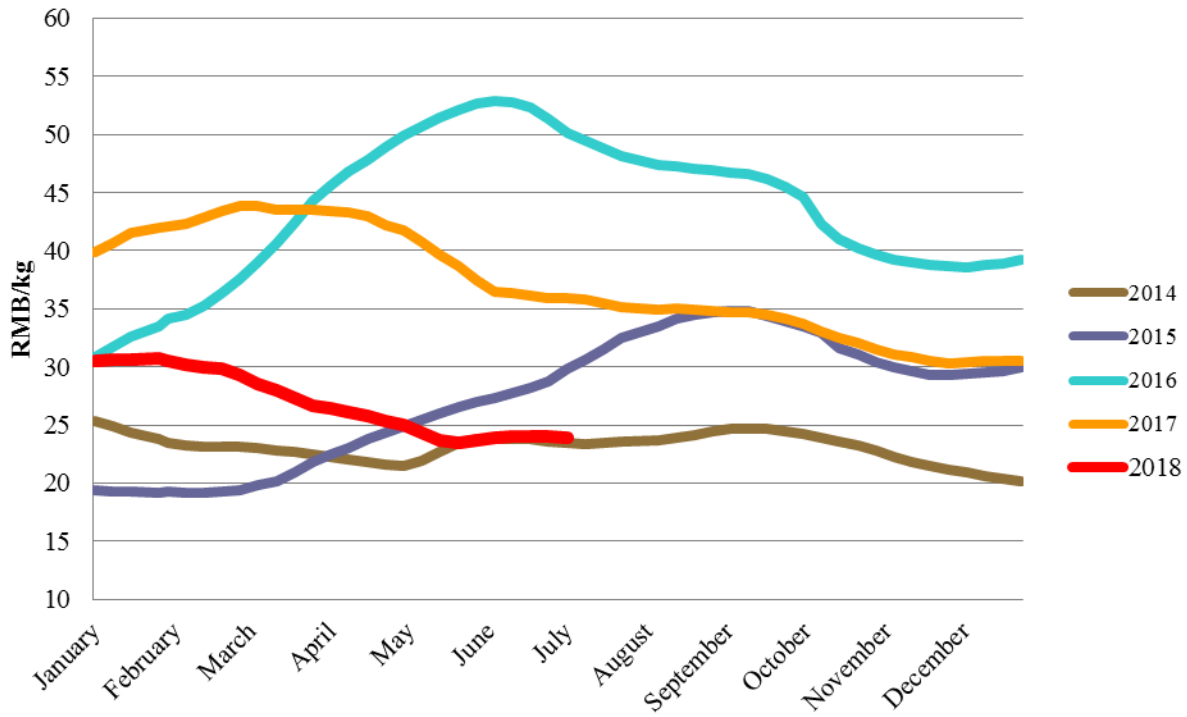
Production

Continued herd expansion due to industry race for market share

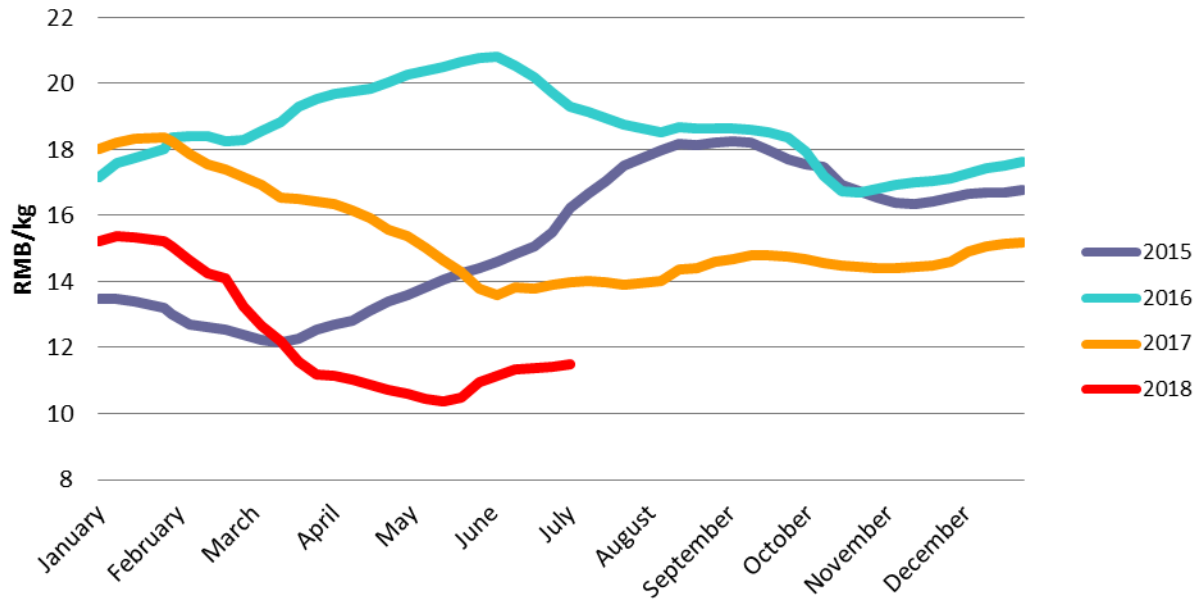
Post forecasts 2019 sow beginning stocks at 45 million head, about a 1 percent year-on-year increase. This increase is mainly driven by the consolidation and expansion of large-scale operations seeking to expand their market share, despite weakened demand for pork. During 2016 and 2017, when hog prices were at record levels, these large companies reaped large profits and are now seeking to grow in order to consolidate their market share and squeeze out the smaller producers. For example, by the end of 2018, China's largest swine producer, Wens, plans to slaughter 22 million head of swine, roughly a 15 to 20 percent annual increase to its slaughter numbers. The goal is to achieve a 10 percent market share in China. Many large swine companies are following the same strategy; industry sources indicate that in the first four months of 2018, hog production by the seven publicly listed swine production companies increased 43 percent from the previous year. Post estimates such expansion will continue in 2019, but at a slower pace. As companies modernize, cull their less productive sows, and bring new capacity online, Post forecasts the productivity of sows will be greatly improved in 2019.

However, this forecast assumes that the current African Swine Fever outbreaks are contained (see Animal Health section below). If these outbreaks continue, the only methods to control the spread are strict quarantine and mass de-population. As the outbreaks have already reached Henan Province, China's primary swine growing region, it is possible these outbreaks could have a significant effect on 2018 and 2019 production.

China's Piglet Price, Weekly



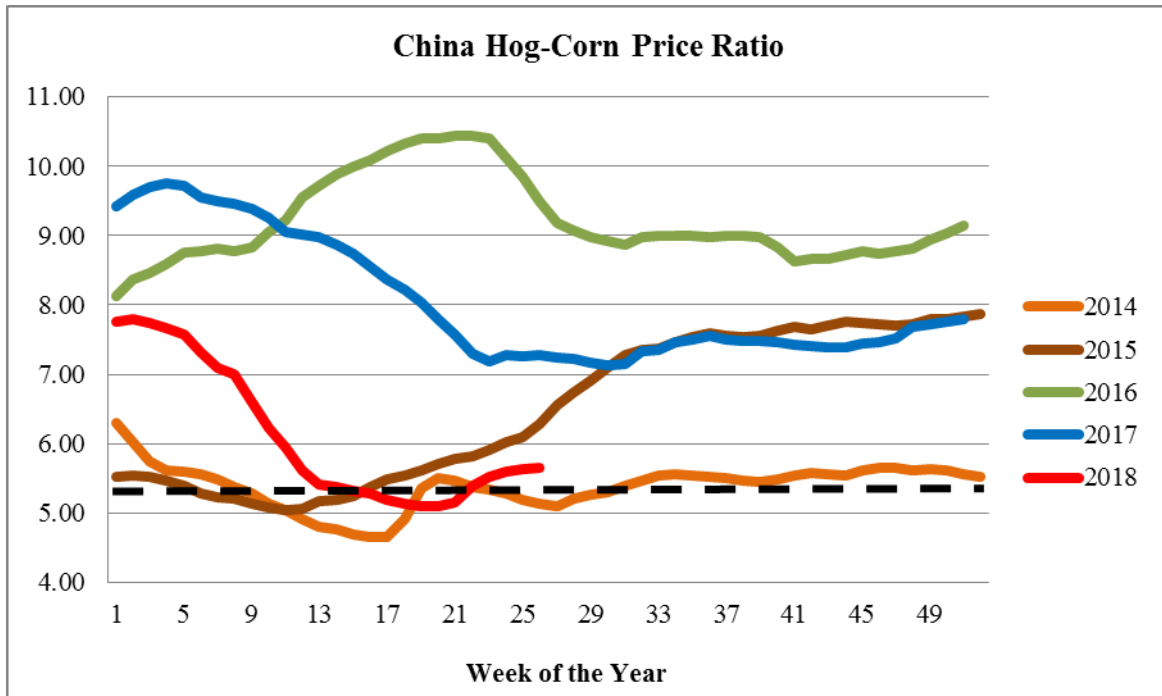
China's Live Hog Price, Weekly January 2015-June 2018



Increasing feed costs in 2019 will push the hog-corn price ratio close to or below the breakeven point

Overall feed costs will increase in 2019 due to rising corn and soybean meal prices (see Cattle Production section above). For swine farmers, a 20 percent price increase in soybean meal may increase the overall cost by 3 percent alone. However, the increases in productivity realized by modernization and genetic improvement may offset the increase in feed costs.

(Background information about the China hog-corn price ratio is available at <http://www.ers.usda.gov/publications/ldpm-livestock,-dairy,-and-poultry-outlook/ldpm211-01.aspx>.)



Trade

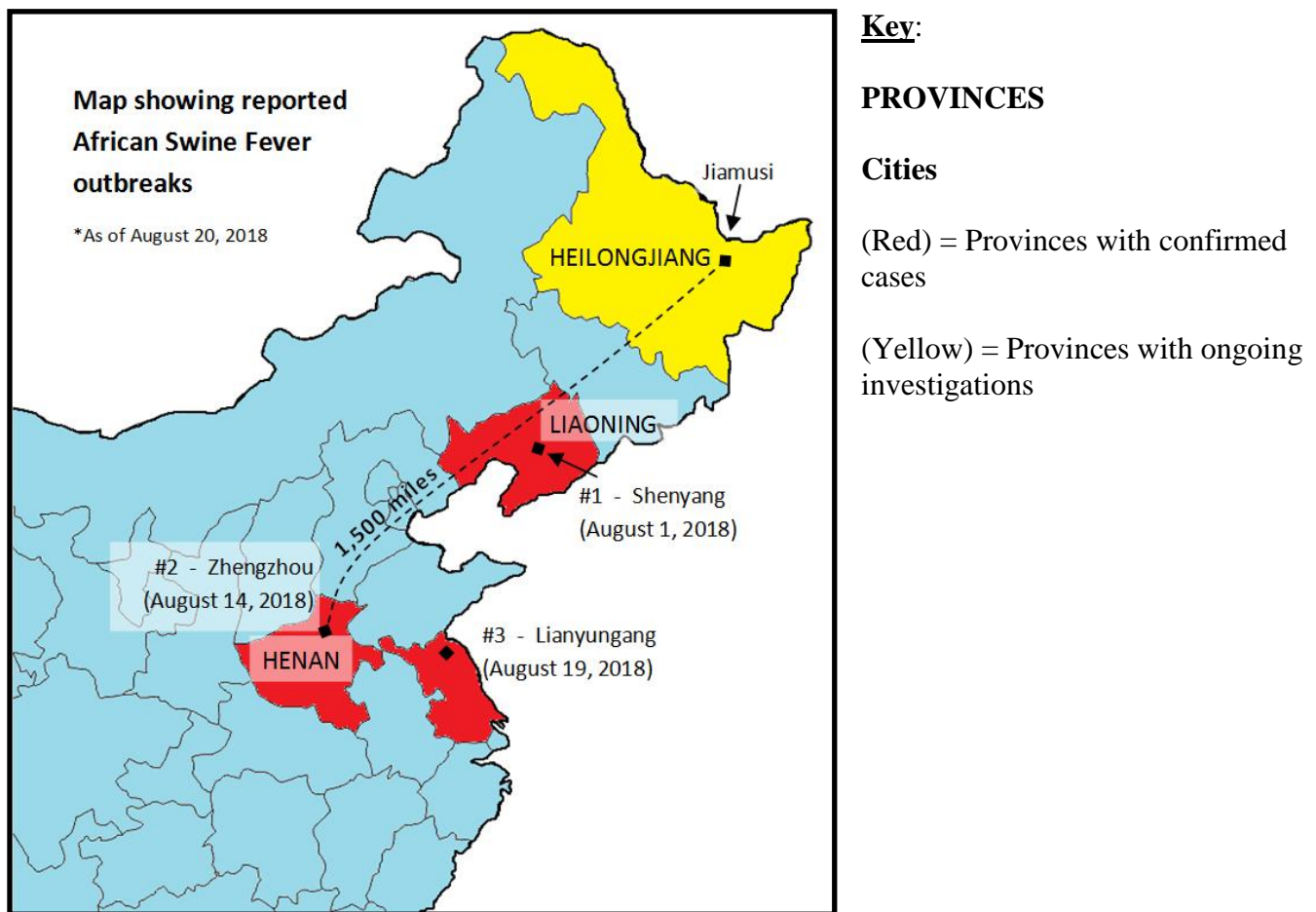
Post forecasts live swine imports into China will be reduced to 6,000 head in 2019. This is due mainly to slowing expansion and the outbreak of African Swine Fever in Europe, one of China's main suppliers of swine for genetic improvement. China mainly imports swine genetics from the United States, the European Union, and Canada.

Since the most recent imposition of retaliatory tariffs against U.S. food and agricultural products by China in July of this year, U.S. live swine imports have not yet been targeted for additional tariffs. In fact, imports of live swine in the first six months of 2018 were double what the amount from the same time last year.

Animal Health

Multiple outbreaks of African Swine Fever threaten swine industry growth

China has officially reported three confirmed outbreaks of African Swine Fever (ASF), across three provinces: Liaoning, Henan, and Jiangsu. ASF is a highly contagious disease in swine (including domestic swine and wild hogs) that must be reported to OIE ([link to the OIE ASF fact sheet](#)). There is no vaccine and no treatment. Once a domesticated pig is infected, it usually experiences death within 2-10 days. Since China is the largest swine producer and pork consumer in the world, a major ASF outbreak can have a significant impact on China's food security and trade. For more information, please see GAIN Report CH18050.



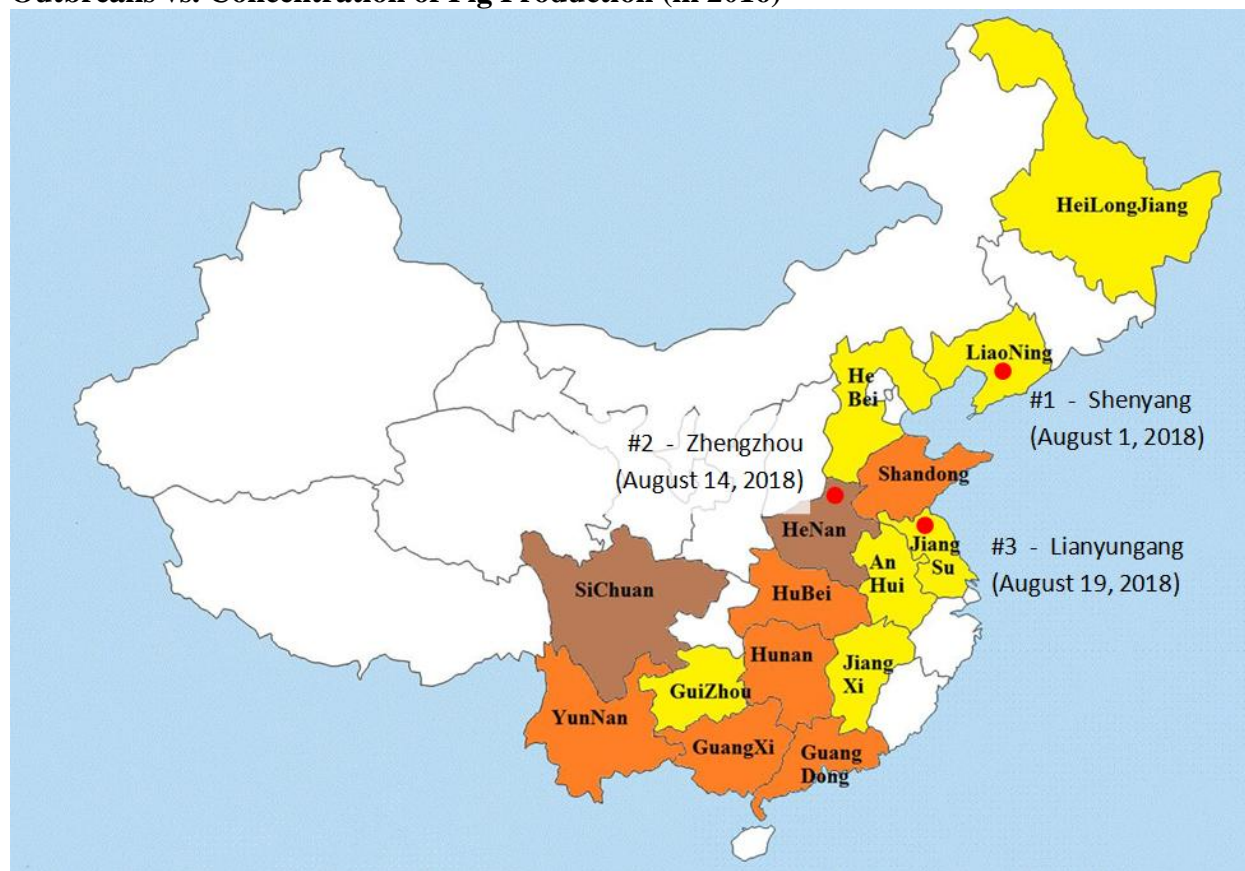
On August 1, 2018, Liaoning provincial officials and Ministry of Agriculture and Rural Affairs (MARA) officials detected one outbreak of ASF. The samples were sent to an advanced diagnostics lab at the China Animal Health Epidemiology Center (CAHE) and positively confirmed as ASF. On August 3, MARA's Chief Veterinary Officer filed a report with the World Animal Health Organization (OIE) reporting the outbreak. In the August 3rd OIE report, China reported there was 1 outbreak, with 47 confirmed cases of ASF and all infected pigs died from the disease). Another 8069 pigs were considered susceptible and were disposed of by government agents.

In the following weeks, China officially reported another two outbreaks of ASF, this time in the heart of

China's pig producing area. The second outbreak was identified on August 14, involving 30 dead pigs in a slaughterhouse in Zhengzhou City, Henan Province. The diseased pigs were traced back to a farm 1,500 miles away in Jiamusi City, Heilongjiang Province. China reported this event to the World Animal Health Organization (OIE) on August 16 and has quarantined the slaughterhouse and is carrying out surveillance activities in Heilongjiang Province. The third outbreak was reported to the OIE on August 19, on a farm in Lianyungang City, Jiangsu Province, involving 88 dead pigs.

These second and third outbreaks, centered in Henan and Jiangsu Provinces, represent a significant escalation of the outbreak situation. Unlike Liaoning Province, which only accounts for 3 percent of total swine production, Henan and Jiangsu Provinces account for over 10 percent and 4 percent of production, respectively. Moreover, these provinces are bordered by Hebei, Shandong, Anhui, and Hubei Provinces—accounting for another 19 percent.

Outbreaks vs. Concentration of Pig Production (in 2016)



Brown = 10 to 20 percent (Sichuan, HeNan);
 Orange = 5 to 10 percent (Shandong, Hubei, HuNan, Guangdong, Guangxi, YunNan)
 Yellow = 3 to 5 percent (HeiLongJiang, LiaoNing, JiangSu, AnHui, JiangXi, GuiZhou)

Swine PS&D Table

Animal Numbers, Swine Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	435040	435040	433250	433250	0	440000
Sow Beginning Stocks	44000	44000	44500	44500	0	45000
Production (Pig Crop)	689500	689400	710000	710000	0	720000
Total Imports	6	6	5	7	0	6
Total Supply	1124546	1124446	1143255	1143257	0	1160006
Total Exports	1557	1557	1550	1600	0	1650
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	688610	688610	700000	700000	0	716000
Total Slaughter	688610	688610	700000	700000	0	716000
Loss	1129	1029	1205	1657	0	1200
Ending Inventories	433250	433250	440500	440000	0	441156
Total Distribution	1124546	1124446	1143255	1143257	0	1160006

(1000 HEAD)

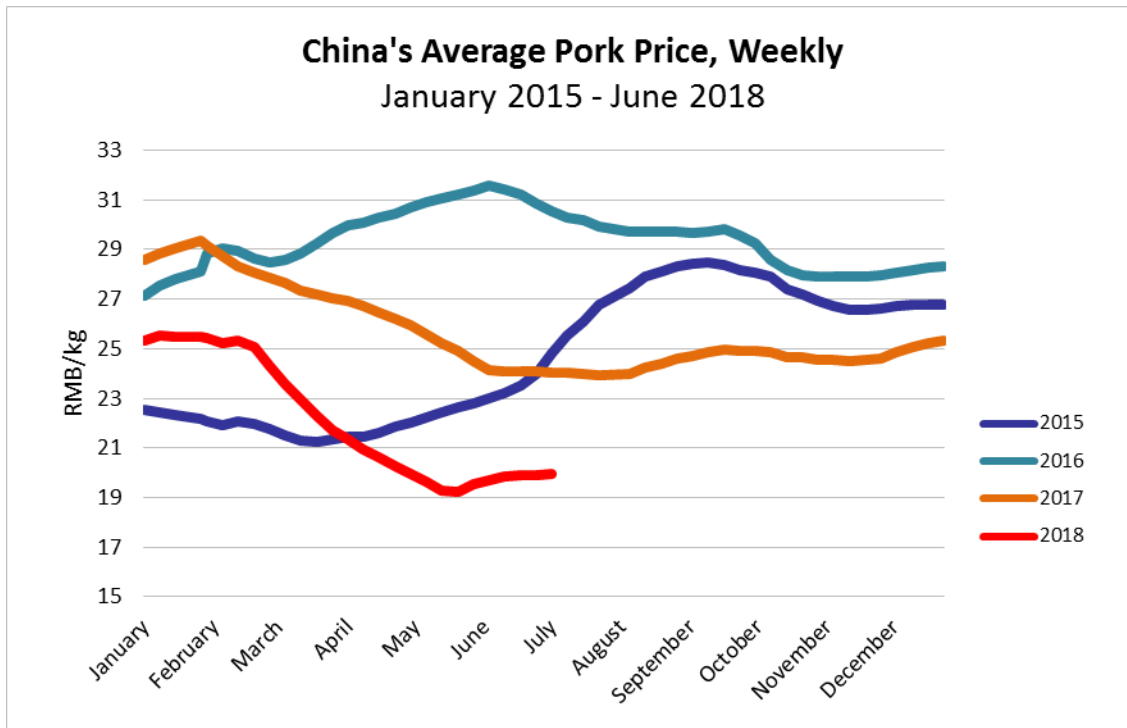
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PORK

Production

Production will continue to increase in 2019, but will be constrained by weakened demand

Post forecasts pork production will rise to 55.2 million tons in 2019, following the increased supply of pigs and the ongoing fight for market share by the large firms. However, the increased pork supply will be met with weak consumer demand, leading to a further drop in pork prices in 2019.



Consumption

Demand for pork remains weak as Chinese consumers seek out other proteins

Post forecasts that pork consumption will increase by 1.2 percent in 2019 to 56.1 million tons. The main driver for this increase is that pork remains the primary protein for China's growing population. However, while there is an overall increase in pork consumption, the per capita consumption of pork in China is flat, or possibly falling. The per capita pork consumption rate is already very high at about 40 kg/person and has reached a saturation point in many of China's large urban areas. With increasing living standards, consumers are diversifying their meat protein sources and adding more seafood, beef, and mutton to their dining tables. Moreover, poultry meat is growing in popularity due to consumer perceptions about chicken as a healthier protein. As a result, pork demand will remain weakened heading into 2019.

Imports

Post forecasts imports will decrease by about 22 percent in 2019, down to 1.2 MMT. As the domestic supply increases and faces weakening domestic demand, prices will drop and the demand for imported pork will dry up.

In addition, the EU accounts for nearly two-thirds of China's pork imports, but some EU countries have had their own problems with ASF. Poland, Romania, Hungary, and Ukraine have all reported occurrences of ASF in 2018.

China levied retaliatory tariffs of an additional 50 percent on U.S. pork products in retaliation for both the 232 Trade Action and the 301 Trade Action. As a result, U.S. pork imports to China have dropped

off precipitously. For more information on tariffs, please see GAIN Report CH18034.

Exports

Post forecasts China's pork exports will increase to 270,000 tons in 2019 due to the increased supply and reduced prices. China mainly exports to Hong Kong, which accounts for over 50 percent of its exports. To date, none of China's trading partners have taken action to restrict Chinese pork exports. Japan issued a temporary suspension of cooked pork products, but lifted it upon receiving a formal notification of ASF from China.

Pork PS&D Table

Meat, Swine Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Slaughter (Reference)	688610	688610	700000	700000	0	716000
Beginning Stocks	0	0	0	0	0	0
Production	53400	53400	54650	54140	0	55200
Total Imports	1620	1620	1525	1530	0	1200
Total Supply	55020	55020	56175	55670	0	56400
Total Exports	208	208	225	250	0	270
Human Dom. Consumption	54812	54812	55950	55420	0	56130
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	54812	54812	55950	55420	0	56130
Ending Stocks	0	0	0	0	0	0
Total Distribution	55020	55020	56175	55670	0	56400

(1000 HEAD) ,(1000 MT CWE)

Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>

China Piglet Prices on Average, 2014- 2018 (Year to Date)						
(RMB /KG)	201 4	201 5	201 6	201 7	20 18	% Chan ge 2018/ 17
January	24. 36	19. 29	32. 18	41	30. 6	- 25.4 %

February	23. 22	19. 21	35. 05	42. 7	29. 8	- 30.2 %
March	22. 76	20. 09	40. 77	43. 7	27. 6	-- 36.8 %
April	21. 84	23. 07	47. 30	43	25. 9	-- 39.8 %
May	22. 99	25. 75	51. 01	39. 9	24. 1	-40%
June	23. 79	27. 78	52. 39	36. 2	24	- 33.7 %
July	23. 55	31. 13	49. 11	35. 6		
August	24. 29	34. 33	47. 06	34. 9		
September	24. 53	34. 16	45. 7	34. 2		
October	23. 20	31. 99	41. 15	33. 17		
November	21. 38	29. 73	39. 06	30. 89		
December	20. 14	29. 62	38. 88	30. 5		
Source: MARA						

China Live Hog Prices on Average, 2014-2018						
(RMB /KG)	2014	2015	2016	2017	2018	% Change 2018/17
January	14.4 6	13.3 8	17.6 2	18.2	15.2 3	- 16.3%
February	13.1 1	12.7 1	18.3 7	17.8	14.0 6	-21%
March	12.0 5	12.2 7	18.9 0	16.8	11.9	-29%
April	11.1 2	12.9 1	19.8 4	16	10.9 3	-32%
May	12.7 9	13.9 2	20.4 5	14.6	10.6	-27%

June	13.0 6	14.8 7	20.4 1	13.8	11.3 2	- 17.9%
July	13.3 4	16.8 6	19.0 3	13.9 6		
August	14.5 6	18.1 5	18.6 2	14.4 2		
September	14.8 8	17.8 6	18.3 6	14.7 5		
October	14.4 2	17.1 0	16.8 8	14.4 9		
November	14.0 9	16.4 5	16.9 8	14.4 7		
December	13.8 1	16.7 1	17.4 6	15.0 7		
Source: MARA						

China National Retail Pork Prices on Average, 2014-2018						
(RMB /KG)	2014	2015	2016	2017	2018	% Change 2018/17
January	24.37	22.37	27.66	28.95	25.46	-12%
February	22.98	22.02	28.86	28.57	24.98	-13.6%
March	21.49	21.44	28.97	27.43	22.63	-17.5%
April	19.70	21.54	30.20	26.59	20.78	-21.9%
May	20.86	22.33	30.97	25.23	19.52	-22.6%
June	21.69	23.30	37.6	24.11	19.83	-17.75%
July	21.91	25.81	30.24	24		
August	23.23	28.06	29.70	24.38		
September	23.90	28.27	29.6	24.92		

October	23. 60	27. 54	28. 24	24. 71		
November	23. 17	26. 69	27. 93	24. 55		
December	22. 88	26. 76	28. 21	25. 11		
Source: MARA						