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Demand for Poultry Booms as Consumers Remain Wary of African Swine Fever in Pork

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Report Highlights:

China's 2019 chicken meat production is forecast at 12.65 million metric tons, representing 8-percent year on year growth. This increase is due primarily to the African Swine Fever (ASF) outbreak that began in August 2018, pushing consumers away from pork and towards poultry. While growing demand and high prices are expected to encourage increased domestic production, China's continued HPAI bans against key suppliers of new poultry genetics (primarily France and the United States) continue to limit that growth, especially for white broilers. Due to unmet domestic demand, 2019 Chinese imports will grow by 32-percent to 450,000 MT, with the growth coming primarily from Brazil, Thailand, Poland, and Russia. Finally, exports are expected to remain steady at 455,000 MT as Chinese exporters fight to maintain market share overseas.

Executive Summary

Production: Due to concerns about pork related to recent outbreaks of ASF, China's 2019 chicken meat production will grow to 12.65 million metric tons, an 8-percent year on year increase. China's use of forced molting has allowed the poultry industry to quickly ramp up production, but the sector still remains constrained by limited access to new genetic stock. However, China is quickly overcoming this obstacle.

Consumption: Chinese per capita consumption will increase by an average of 9-percent in 2019, in part due to food safety concerns related to ASF. Almost daily, Chinese consumers see reports of new outbreaks, or new detections of ASF in processed meat products.

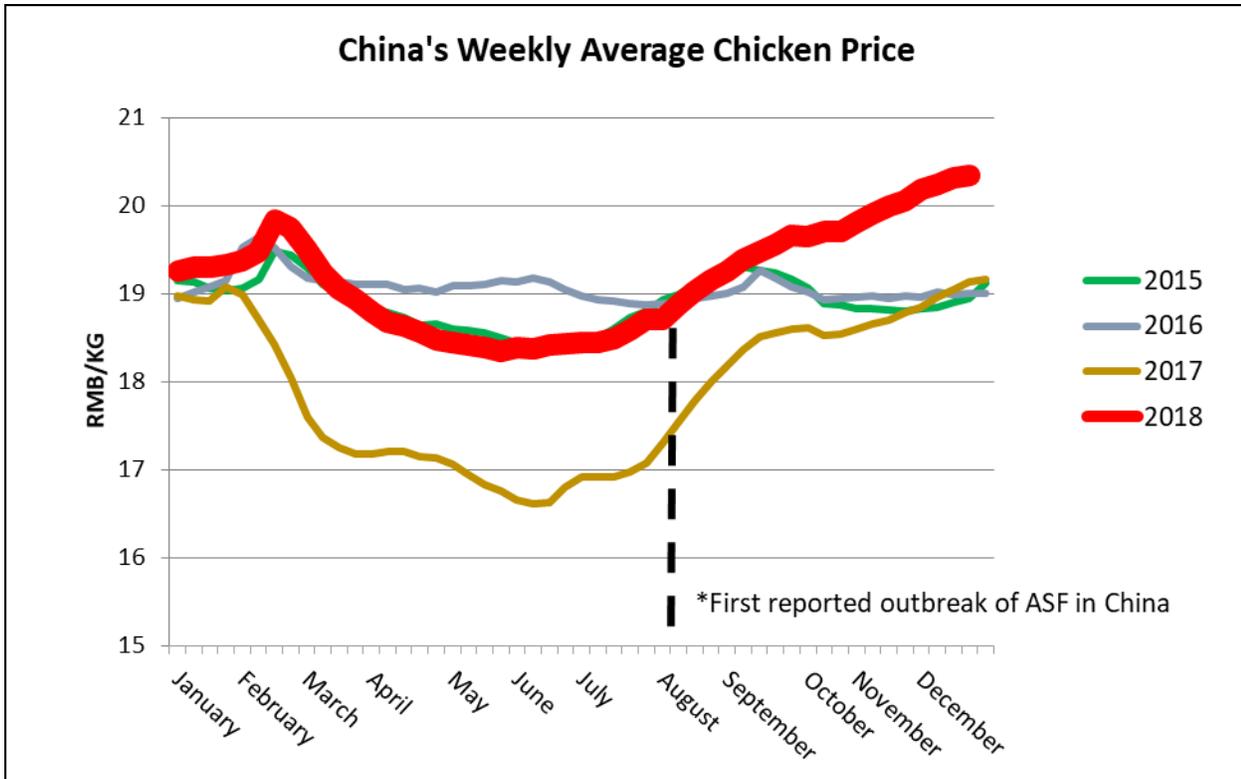
Imports: Imports are set to increase to 450,000 MT, a 32-percent year on year increase. China's largest supplier Brazil has reached a price-undertaking agreement with China that will exempt the major Brazilian exporters from anti-dumping tariffs imposed by China in 2019. Also, new and restored market access for Thailand, Poland, and Russia will also add to total imports.

Exports: Exports will hold steady at 455,000 MT, a roughly 1-percent increase. Despite strong domestic prices, the Chinese poultry industry highly covets their overseas market access and will endeavor to maintain market share, even if it does so at a loss.

Production

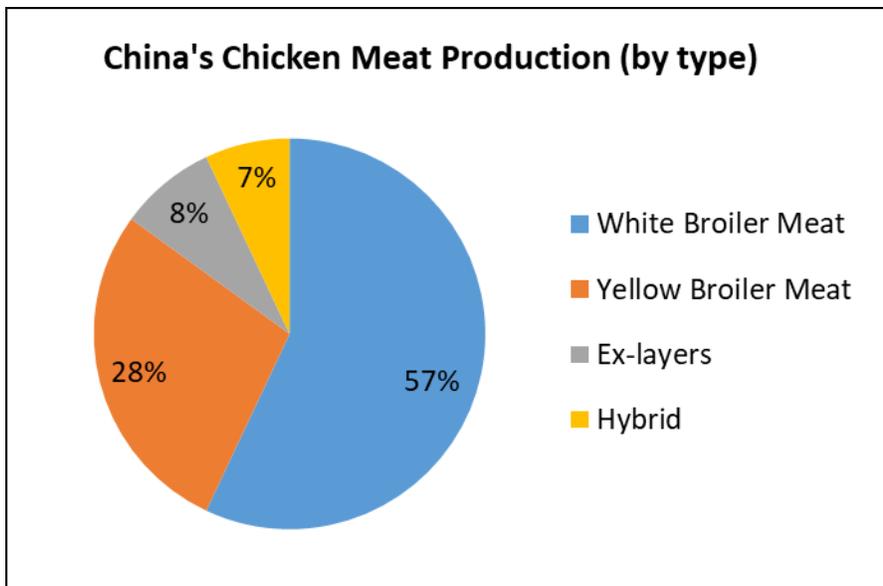
Production will increase by about 8-percent in 2019 to meet increased demand

China's 2019 chicken meat production is forecast at 12.65 million tons, driven by increased demand as consumers shy away from pork following multiple outbreaks of ASF. This new demand will fuel the domestic poultry industry's continued recovery following devastating outbreaks of H7N9 avian influenza in China from the fall of 2016 to spring 2017.



Source: China's Ministry of Agriculture and Rural Affairs (MARA)

The public concerns over the safety of pork following outbreaks of ASF have driven consumers away from pork and sent them seeking alternative proteins. While beef, lamb, and seafood have all seen relative price increases, day-old-chick and chicken meat prices have jumped, spurring the chicken industry to ramp up production. White broiler, yellow broiler, and hybrid chicken meat production will all increase in 2019, while meat from ex-layers (spent hens) will remain stable.



Note: Chart based on industry estimates, not official Chinese data.

China able to quickly ramp up poultry production through the use of forced molting

Due to China's widespread use of forced molting, also referred to as induced molting, the breeding industry has been able to quickly ramp up the number of day-old-chicks available, allowing the hatcheries and growers to likewise scale up their operations. While China's breeding industry has been using forced molting as a way to cope with the lack of new genetic stock, the use of this practice declined in 2018 as Chinese flocks received new infusions of genetic stock. As demand has increased, Chinese breeders are again resorting to widespread forced molting, at both the grandparent and parent level, to increase the number of day-old-chicks available and take advantage of record-high prices.

Despite continued production constraints, demand for cheap protein as a substitute for pork will spur white broiler production

For white broiler meat, China's primary constraint in increasing domestic production is the availability of new genetic stock. Currently, China's white broiler industry sources genetic stock by importing grandparent birds from New Zealand and Poland, and by producing grandparent stock domestically. The latter is primarily done by one company in China, Shandong Yisheng Livestock Poultry Breeding Company, in partnership with Hubbard Breeding Company. With ample poultry supplies in New Zealand, China is currently able to import more grandparent stock than they have in recent years, reaching approximately 900,000 sets in 2018. Furthermore, Shandong Yisheng has continued to expand their broiler breeding operations. Nevertheless, the industry has noted repeatedly that it would benefit from increased access to more diverse sources of genetic stock.

Currently, both the white broiler meat price and day-old-chick price are hitting record highs. According to Boyar (a well-respected Chinese livestock analytics firm), in November 2018, the average day-old-chick price and white broiler meat price in major production areas reached 6.53 RMB per bird and 9.92 RMB per kilogram, respectively. The day-old-chick price from major breeding companies like Shandong Yisheng climbed to 7.3 RMB per bird, which is a nine-year high. As breeding costs have

remained relatively stable, these high prices will deliver strong profit margins for the Chinese poultry breeding industry. Due to the continuing effects of ASF, Post forecasts these high prices will at least continue through the end of the 3rd quarter of 2019.

As producers position themselves to take advantage of the current bump in demand, industry reports an increase in carcass weight per bird, now at 2.42 – 2.5 kilograms, in part to offset the higher initial costs of day-old-chicks. It also appears that integrated operations will use this opportunity to further expand their production capacity, accelerating an ongoing consolidation trend. Industry reports that in the next few years, four large integrated companies (each with slaughtering capacity over 500 million birds per year) will control up to a quarter of the Chinese broiler market.

In short, although China’s HPAI-related bans against the United States and other former poultry genetics suppliers remain a constraint on increasing domestic production, the domestic industry is quickly overcoming this hurdle through innovation and consolidation.

Yellow bird production to realize the greatest growth in North China

Yellow broiler production, which accounts for just under 30-percent of China’s chicken meat production, will also see growth due to ASF-related demand. Since yellow broilers are a domestic breed, this sector is not reliant on imported genetic stock. Currently, yellow broiler production is primarily located in southern China¹ and slaughters approximately 3 billion birds, or almost five times the number of yellow broilers slaughtered in the north. Because the yellow broiler industry is already saturated in the south, both in terms of consumer demand and production capacity (e.g., production facilities are strictly regulated due to environmental concerns), the current ASF-related demand increase will encourage expansion of yellow broiler production capacity in the north. For example, as part of its initial public offering on the Shenzhen Stock Exchange in 2019, China’s second largest yellow broiler producer, Jiangsu Lihua Animal Husbandry, announced that it has invested in constructing two new yellow bird production facilities in Anhui and Jiangsu.

Hybrid broilers continue to grow in popularity

Hybrid chicken production, generally crosses between yellow and white broiler, has also been steadily growing as poultry companies have courted Chinese consumers with birds that purportedly feature the flavor of yellow broilers, but are raised to slaughter weight much faster. Industry sources report that this trend will continue into 2019.

Ex-layer production stable as China remains hungry for eggs

While China’s egg-laying industry is undergoing significant consolidation and modernization, the overall size of the laying flock has not changed significantly and remains at about 1.2 billion birds. As Chinese consumers already consume about 280 eggs a year, one of the highest per capita rates in the world, there is not much room for additional growth in this sector.

¹ Note: Here, “north” and “south” China are demarcated as above and below the Yangtze River.

Consumption

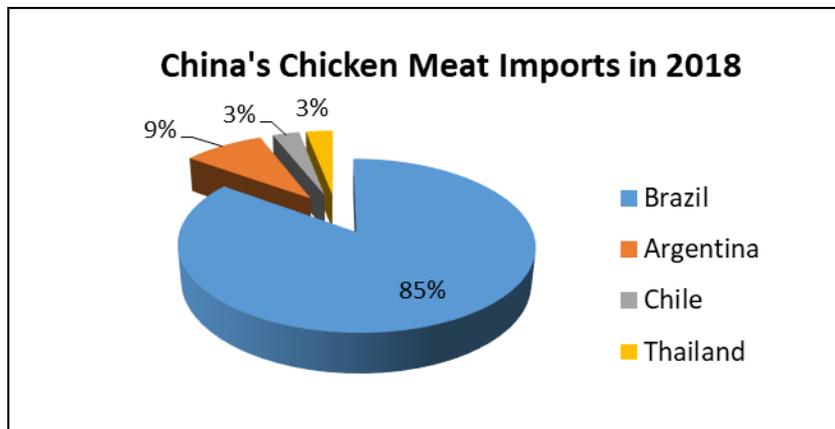
Consumption will increase about 9-percent in 2019

Post forecasts chicken meat consumption at 12.65 million tons in 2019, about 9-percent higher than 2018. The increased consumption is primarily due to consumers shifting from pork to poultry on ASF-related concerns. As a result, average per capita demand for poultry is expected to grow by almost 10 percent in 2019.

Since the outbreak of ASF in China, large consumers, such as schools, business cafeterias, army units, etc., have increased their purchases of chicken meat and shunned pork. Despite Chinese government announcements that ASF was not a human health-concern, numerous schools made announcements to parents that pork would no longer be served in school cafeterias. Although consumer fears have abated somewhat in early 2019 due to the slowdown in new ASF outbreaks reported through the Chinese government, consumers remain wary as the Chinese media continues to report on ASF detections in processed pork products, including some from very popular household names.

Imports

Imports will increase 20-percent year-on-year to reach 450,000 tons in 2019. As discussed above, increased consumer demand will lead to production increases, but a constrained domestic supply will leave ample room for growth in imported chicken meat.



Source: Global Trade Atlas

Brazilian imports set to increase after Chinese and Brazilian producers reach a price-undertaking agreement

Brazil is the largest poultry meat exporter to China, despite an ongoing trade dispute over dumping allegations against Brazilian producers. Through 2018, most imports of Brazilian poultry were subject to an anti-dumping deposit as China investigated dumping allegations. In January 2019, Chinese and Brazilian poultry industry representatives announced that a price undertaking agreement had been reached. This agreement was scheduled to enter force on February 18, 2019. On February 15, 2019, China's Ministry of Commerce announced a final ruling on the anti-dumping investigation, concluding

that the Chinese white broiler industry had been damaged by white broiler imports dumped by Brazil. As a result, beginning February 17, 2019, a 17.8 – 32.4 percent tax would be imposed on select Brazilian poultry imports for the span of five years. However, Brazilian producers that had signed the price-undertaking agreement would be exempted from these additional duties as per the agreement. The Brazilian signatories reportedly include the major Brazilian producers BRF and JBS.

Thailand capitalizes on new market access

In March 2018, China received its first shipment of frozen chicken meat from Thailand since banning the country in 2004 due to avian influenza concerns. In the remainder of CY 2018, Thailand exported 21,000 tons of chicken meat to China. While this amount only represents 3-percent of China's total chicken meat imports, Thai chicken exports enjoy tariff-free treatment under the ASEAN free trade agreement and Post expects this volume to increase in 2019.

Poland sees its market access restored, and quickly too!

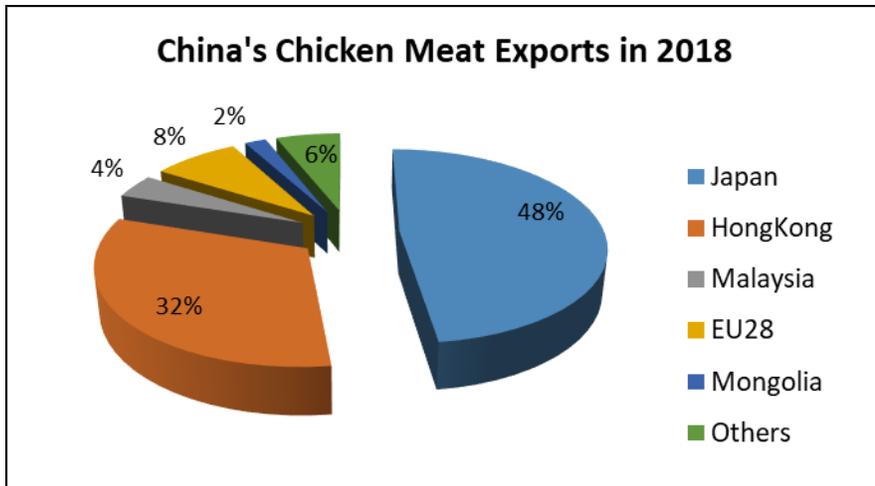
Not quite a year after banning Polish imports in 2016 (due to avian influenza concerns), China lifted its HPAI ban on Poland in November 2017 and by September 2018, commercial poultry shipments from Poland resumed. Prior to the ban, Poland exported roughly 25 million USD of poultry to China (mainly frozen wings and frozen cuts).

Russia inks agreement for restored poultry access

In November 2018, Chinese and Russian regulatory officials announced the signing of new protocols that would restore Russian poultry access to China. Russia has been shut out of the market since 2005, following avian influenza outbreaks. While Russia is a relatively minor supplier of poultry meat to China, this agreement highlights Beijing's desire to strengthen trade ties with countries along its One Belt One Road initiative.

Exports

Exports will slightly increase to 455,000 tons in 2019 due to increased exports to Japan and the European Union. On November 30, 2018, China reached a new export quota agreement with the EU. According to this agreement, the EU will increase poultry imports from China by 5,000 tons.



Source: Global Trade Atlas

Price Table (based on RMB/KG, \$1=RMB6.8)

China Retail Broiler Meat Prices on Average, 2014-2018 (Year to Date)						
(RMB /KG)	2014	2015	2016	2017	2018	% Change 2017/2018
January	17.55	19.09	19.05	18.97	19.31	1.8%
February	17.15	19.28	19.50	18.54	19.64	5.9%
March	16.83	19.08	19.13	17.33	19.00	9.6%
April	17.15	18.73	19.05	17.17	18.60	8.3%
May	17.93	18.56	19.11	16.85	18.40	9.2%
June	18.22	18.43	19.09	16.74	18.42	10.0%
July	18.32	18.65	18.90	16.97	18.56	9.4%
August	18.78	19.10	18.90	17.76	19.00	7.0%
September	19.16	19.25	19.15	18.51	19.47	5.2%
October	19.22	18.95	18.96	18.56	19.70	6.1%
November	19.14	18.82	18.96	18.71	20.03	7.0%
December	19.06	18.96	19.00	19.08	30.30	6.4%

Source: The Ministry of Agriculture and Rural Affairs collected this data from over 400 markets of farm produce.

Production Supply and Demand Table for Chicken Meat

Meat, Chicken Market Begin Year China	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	11600	11600	11700	11700	12000	12650
Total Imports	311	311	350	342	375	450
Total Supply	11911	11911	12050	12042	12375	13100
Total Exports	436	436	460	450	475	455
Human Consumption	11475	11475	11590	11592	11900	12645
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	11475	11475	11590	11592	11900	12645
Total Use	11911	11911	12050	12042	12375	13100
Ending Stocks	0	0	0	0	0	0
Total Distribution	11911	11911	12050	12042	12375	13100
(1000 MT)						