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China - Peoples Republic of

Poultry and Products Annual

No Plucks About It - Poultry Expanding in China

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Report Highlights:

Chicken meat production will increase approximately 14 percent, totaling 15.8 million metric tons (MMT) in 2020. Consumption trends for primarily chicken meat but also other animal proteins, will increase for the remainder of 2019 and carry into 2020 as a result of declines in domestic pork production. This will be most prevalent among Chinese institutional entities (educational and state facilities), hotel and restaurant institutions, and the food processing sector. Both domestic chicken meat production and imports will see increases in 2020 but at a slower rate, attributed to environmental controls and production capacity limitations. For 2020, chicken imports are forecast at 600000 metric tons (MT) as a result of decreased pork availability and higher prices.

Executive Summary:

Production: Chicken meat production in China is forecast to increase to approximately 15.8 million metric tons (MMT) in 2020. Higher prices for pork products have driven consumers to seek alternative proteins, mainly chicken meat. This has led to expanded chicken production in both the white-feather and yellow-feather chicken sectors.

Consumption: Chicken meat consumption is forecast to increase to 15.96 MMT in 2020, an increase of approximately 15 percent from 2019 due to shifts in consumption from pork products to poultry amid declines in pork production and rising prices. Consumption from domestic pork products to chicken meat have been most prevalent among Chinese institutional entities (educational and state facilities), hotel and restaurant institutions, and the food processing sector.

Imports: Chicken meat imports will increase to 600,000 MT in 2020, an increase of about 20 percent from 2019. China's strong chicken demand will continue to drive imports, led by Brazil among others, albeit at a slower rate. In addition, China lifted its import ban on chicken and chicken products from France adding another supplier, however this will have more significance on imports of genetic material and less on chicken meat. U.S. poultry and poultry products have not had market access since 2014 due to China's continuing avian influenza restrictions.

Exports: Chinese chicken meat exports are expected to remain flat at 440,000 MT in 2020. Higher domestic chicken prices will make chicken meat exports less competitive. However, China will continue to ship to Hong Kong and Japan given the high profitability of these markets. Hong Kong and Japan account for approximately 78 percent of China's chicken meat exports.

CHICKEN MEAT

PSD Table

Meat, Chicken Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Beginning Stocks	0	0	0	0	0	0
Production	11700	11700	12650	13800	0	15800
Total Imports	342	342	575	500	0	600
Total Supply	12042	12042	13225	14300	0	16400
Total Exports	447	450	425	445	0	440
Human Consumption	11595	11592	12800	13855	0	15960
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	11595	11592	12800	13855	0	15960
Total Use	12042	12042	13225	14300	0	16400
Ending Stocks	0	0	0	0	0	0
Total Distribution	12042	12042	13225	14300	0	16400

(All data in 1,000 metric tons, carcass weight equivalent)

Note: Not official U.S. data

Chicken Meat Production

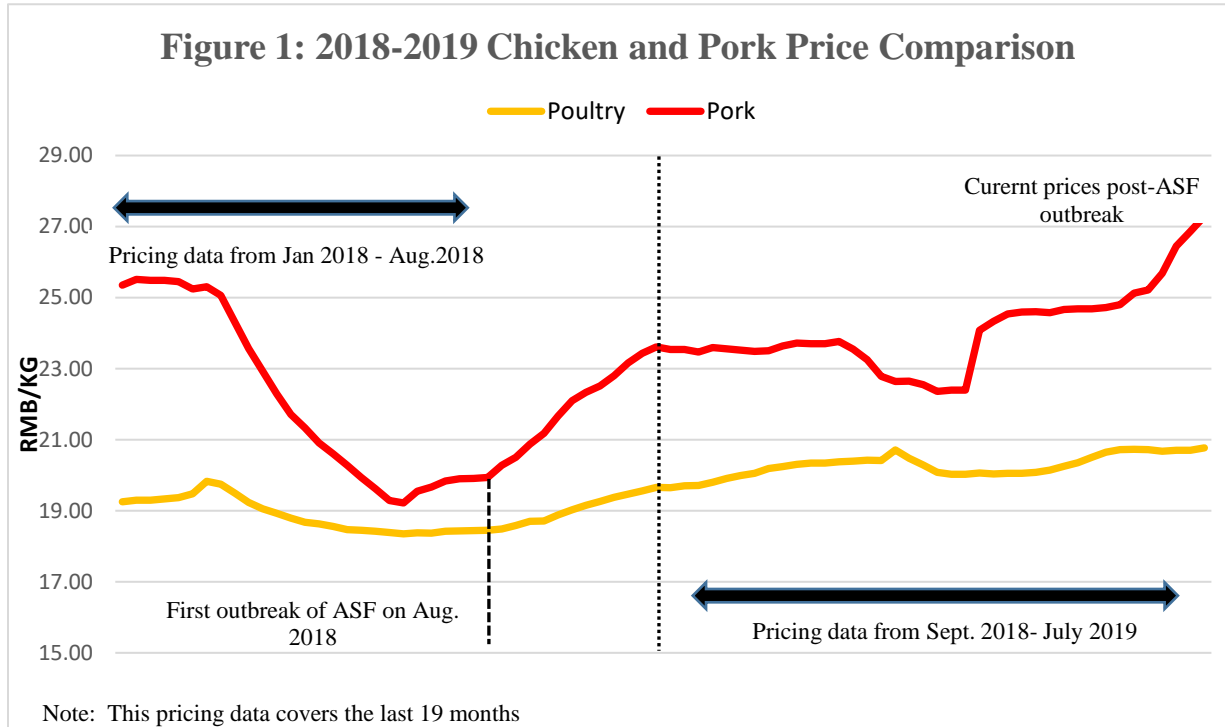
Production will increase approximately 14 percent in 2020 as chicken producers respond to higher consumer prices for pork and increased demand for chicken

China's production will increase to 15.8 MMT in 2020. Higher prices for pork products have driven consumers to seek alternative proteins, mainly chicken meat. This has led to expanded chicken production in both the white and yellow-feather chicken sectors. As pork production continues to decline and prices rise, the price gap between pork and chicken will widen in 2020 (Figure 1). This will spur increased demand for chicken.

Chicken production is also revised to 13.8 MMT for 2019, as a result of rapid chicken expansion, forced molting practices, and increases in imported chicken genetics and breeding stock. Grandparent (GP) import sets are estimated at 100 million in 2019, up 11 percent from 2018, with increased imports from New Zealand and Poland. In addition, China's largest private white-feather chicken company Sunner, announced breakthroughs in its chicken genetics, which it claims will allow Sunner to meet its own needs. Despite this announcement, no further details have been disclosed to the public on increased production.

Forced molting, which accounted for some of the short-term increase in production, is likely to lead to disease. However, newly imported genetics bolstering GP stocks may reduce this practice in the near future.

Ample feed supplies will support this current poultry expansion. Soybean meal prices have been stable and valued at approximately \$418 per MT as of August 2019. Corn prices have settled at \$270 per MT as of August 2019. Feed companies responding to the declining swine feed demand have switched their feed formulas normally meant for pigs to chicken, given the reduced swine herd.



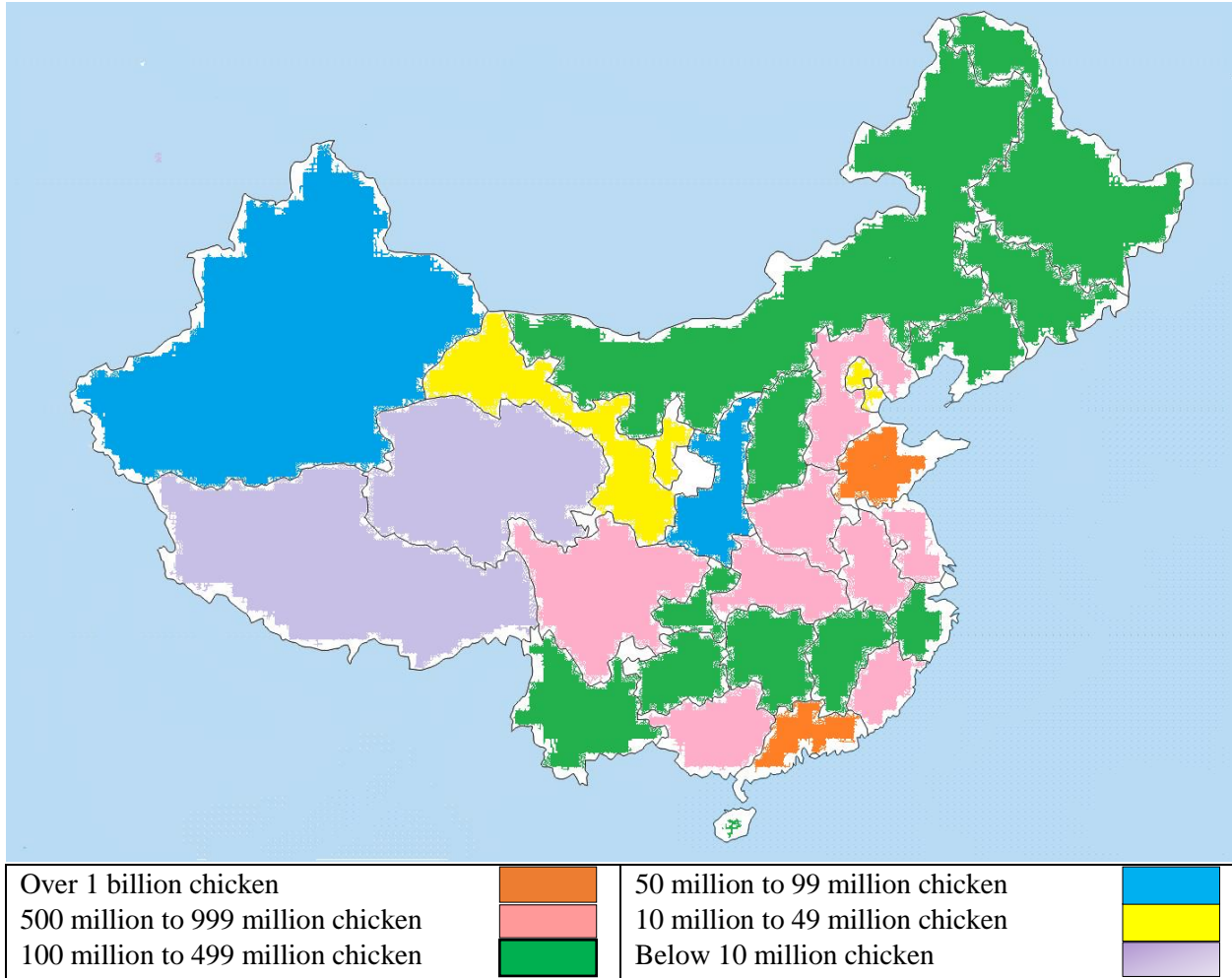
Source: China’s Ministry of Agriculture and Rural Affairs (MARA) prices as of July, 2019

China’s white and yellow-feather chicken (Figure 2), make up the majority of chicken meat production with hybrid chickens and ex-laying/ex-breeding chickens contributing a relatively small portion. Yellow-feathered chicken production is concentrated in the South, led by Guangdong province. White-feathered chicken production is concentrated in the North, led by Shandong province.

Industry sources indicate that duck production constitutes a significant portion of China’s poultry market, with geese contributing a smaller share. Duck production is mainly located in southern China, however, swine facilities in northern China that have been impacted by ASF are switching to some duck production. These facilities have retrofitted their pens to accommodate chicken and duck production. For example, at a recent televised conference, Vice Premier Hu

Chunhua urged poultry producers to help fill the protein supply gaps due to declines in pork production.

**Figure 2:
Chicken Production Distribution Based on Annual Slaughter**



Source: Industry Sources

White-feathered chicken sees rapid expansion due to declines in pork production

The white-feathered chicken sector will expand production to capture a larger portion of chicken meat demand. The average grow-out and weight of white-feathered chickens are favorable for producers seeking to expand, averaging 40 days of production time with weights between 2.2-2.7 kilograms (kg). Under current market conditions, this provides for lucrative returns and encourages investment. In addition, traditional swine producers are now expanding into white-feather chicken production. For example, Wen’s, the largest swine and yellow-feathered chicken breeding company in China, recently acquired white-feathered chicken production giant Jinghai. With this, Wen’s will gain Jinghai’s existing capacity to produce over 100 million commercial white-feathered chickens annually. Additionally, swine company KinLou, will be adding white-

feathered chicken operations and will establish 1.1 million sets of parent stocks, projected for 2020-2021.

Medium and small breeding companies will not see as robust growth compared to the larger producers. Their production will be constrained by financial limitations to purchase more commercial parent stock.

Production of yellow-feathered chicken will grow to accommodate consumption

Yellow-feathered chickens are diverse in species, price, and have various breeding cycles. These factors make production slightly more complex compared to white-feathered chickens. As a result, average grow-out of yellow-feathered chickens is approximately 90 days with weights between 1.5-1.9 kg (Figure 3). In response to higher consumer prices for pork products, some of the larger yellow-feathered chicken producers have increased production. Chicken producer Wen's announced that its production of yellow-feathered chicken will see increases of 10 percent in 2019 and projects this expansion will continue into 2020. Genetic companies in Guangxi, estimate production increases of 15 percent in 2020 for yellow-feathered chicken.

Production remains stable for ex-layers and hybrids

Production from ex-layer and hybrids are forecast to be stable in 2020. Increased demand for eggs has extended the laying period, resulting in reduced carcass weight for each layer. Decreased carcass weight will be offset by a modest increase in the number of layers.

Hybrid chicken production will continue to be constrained in the short-term while stocks rebuild from new imported genetics.

Production of alternative poultry to also see increases

Alternative poultry proteins such as duck are forecast to increase in 2020. As poultry demand increases, industry sources estimate duck production at 3 billion birds annually, totaling 6.82 MMT in 2019.

Consumption

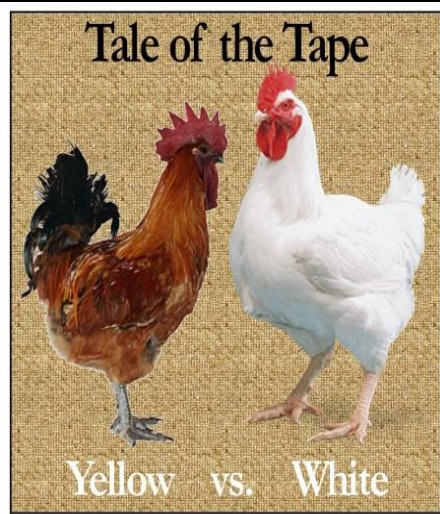
Chicken consumption will increase approximately 15 percent in 2020

Chicken meat consumption in China is forecast to increase to 15.96 MMT in 2020, approximately 15 percent up from 2019. The increase in consumption is mainly due to shifts from pork to chicken. This will be most prevalent among Chinese institutional entities (educational and state facilities), hotel and restaurant institutions, and the food processing sector. In addition, the rapid development of e-commerce take-out business will also contribute to increases in chicken consumption. For example, chicken related fast food business continue to expand into more and more provincial level cities. This is led by Kentucky Fried Chicken and

local chains. In the first quarter of 2019, the take-out business accounted for 18- percent of total KFC sales, a 4-percent increase from the same period last year.

Yellow-feathered chicken meat consumption will also see increases but not as robust as white-feather chicken meat. This is because yellow-feather chicken meat is sold at a premium compared to white-feather chicken meat. For middle and high-income consumers switching from pork, consumption of yellow-feather chicken will see moderate increases, while lower-income consumers will shift to other less expensive poultry products like white-feather chicken meat and duck.

Figure 3:
China’s Chicken Production and Consumption Outlets



White-Feathered Chicken: Defined as an imported species, not native to China. 90- percent of grandparent stock is imported.

Consumption outlets: Fast food restaurants, HRI’s, school and state entities and food sector.

Yellow-Feathered Chicken: Defined as China’s domestic species, that vary in size given variation in breeding preferences.

Consumption outlets: Traditional wet markets/ supermarkets.

Attribute	White-feathered	Yellow-feathered
Ave. grow-out	40 days	90 days
Ave. weight	2.2 - 2.7kg	1.5 - 1.9kg
Feed to meat ratio (kg)	1.7:1 to 1.8:1	2.5:1
Price: \$/kg	RMB 8.00/kg	RMB 28.00 – RMB 160.00* <small>*Reflects whole bird prices</small>

Source: Industry sources as of August 1, 2019

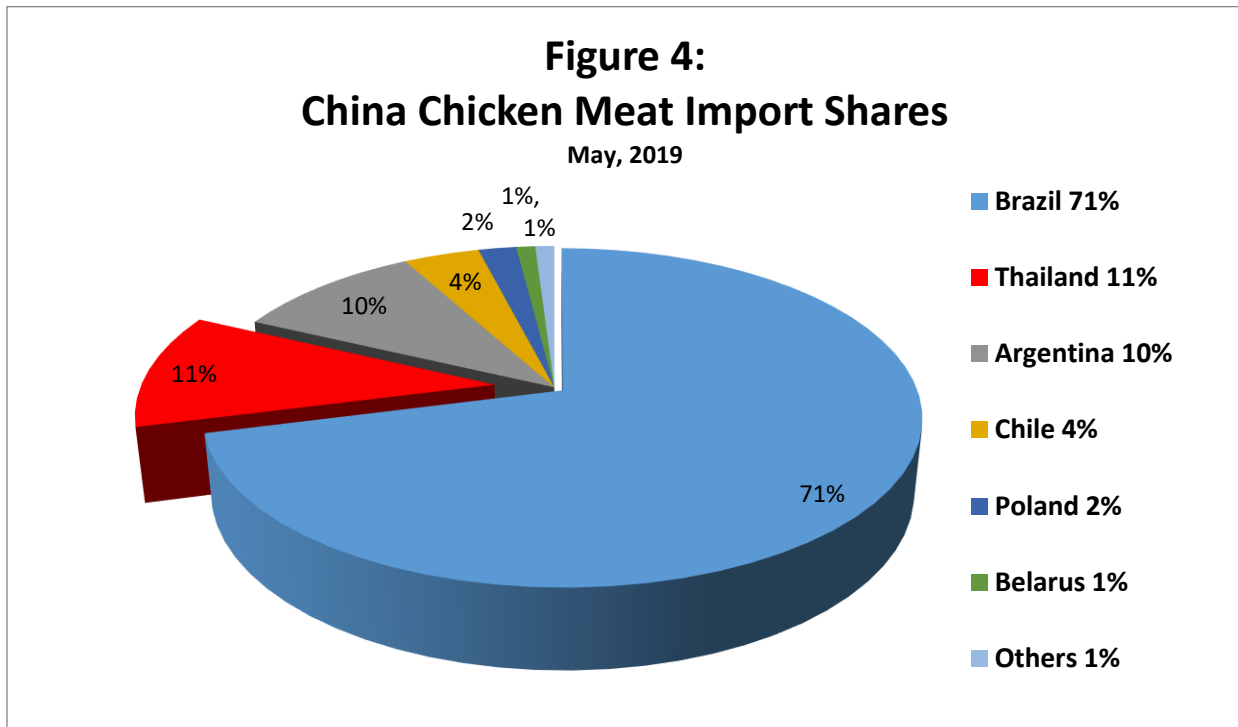
USD to RMB conversion rate as of August 8, 2019: 7.04 RMB/\$1

Imports

Imports will increase 20 percent in 2020

Imports of chicken meat are forecast to increase to 600,000 MT in 2020 (Figure 4). Brazil's market share is expected to decline due to the impact of its price agreement with China¹ as well as increased access granted to its competitors. China also lifted its ban on French chicken and chicken product exports, however the main impact is on the genetic market and less on meat, since French chicken meat production is relatively small.

Despite imports increasing in 2020, there will be a deceleration in import growth starting in late 2019. This deceleration is attributed mainly to high stocks of frozen chicken and increases in domestic chicken production.



Source: China Customs

In 2019, China's traditional trading partners increased their chicken meat exports to China as did new foreign suppliers.

¹ In February 17, 2019, China and Brazil finalized anti-dumping disputes over white-feather chicken meat resulting in Brazilian producers establishing undisclosed minimum export prices with China. Please refer to GAIN Report CH19006 for more details.

Brazil: Brazil will continue to be China's leading supplier in 2020. In a May 2019 visit to China, Brazilian Agriculture Secretary Tereza Cristina, provided China a list of an additional 78 new plants for poultry, pork, and beef seeking approval of these plants for export to China. Industry sources reported that this list was reduced to 30 plants, of which 6 passed Chinese inspection, and are now waiting on final approval.

Thailand: Cheaper chicken meat prices and logistical advantages helped Thailand become the second largest supplier of chicken meat in 2019. Thailand may continue to see increased exports if its favorable prices remain steady in 2020.

Russia: According to industry sources, Russia exported relatively small quantities of chicken meat to China in early 2019. Steady shipments may continue in 2020.

Poland: Poland is the largest chicken meat producer in Europe. However, exports to China in 2020 will largely be made up of chicken genetics and breeding stocks rather than chicken meat.

Belarus: Belarus began exporting chicken meat to China in late 2018 following Chinese investments in Belarus's poultry and livestock industry. Belarus has steadily exported around 600 MT of chicken meat to China per month, a trend that may continue in 2020.

United States: China continues to deny the United States market access for poultry products and genetics. This is inconsistent with international recommendations from the OIE.

Exports

Increases in domestic chicken prices will result in flat exports in 2020. China will continue its exports to lucrative markets such as Hong Kong and Japan. These two markets account for approximately 78 percent of total Chinese chicken meat exports.