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Required Report - public distribution

Date: 2/1/2017

GAIN Report Number: CH17005

China - Peoples Republic of

Poultry and Products Semi-annual

2017 – Chinese Year of the Rooster

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Report Highlights:

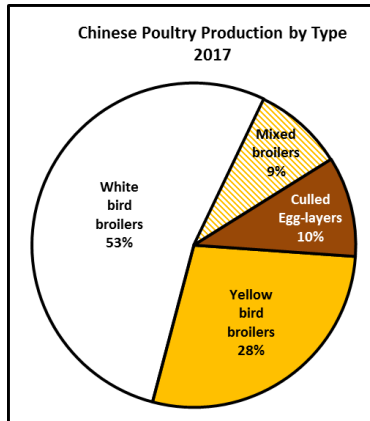


In 2017, all facets of Chinese poultry will likely be affected by China's response to continued Avian Influenza (AI) detections, both within China and overseas. In terms of production, despite the continued modernization of China's production industry, these potential gains have been offset by China's AI bans against key suppliers of grandparent stock (e.g., the United States and France). These bans have caused significant disruptions in domestic white-feathered poultry production that will likely continue to constrain production throughout 2017. In addition, outbreaks of AI in China among the human population have been linked to traditional live

poultry markets, the most popular outlet for Chinese yellow-feathered poultry, leading to a number of bans on live poultry markets and lessening yellow-bird demand. Finally, because of the AI ban against the United States and many European broiler meat exports, poultry imports from a few South American countries and Poland have skyrocketed.

Production:

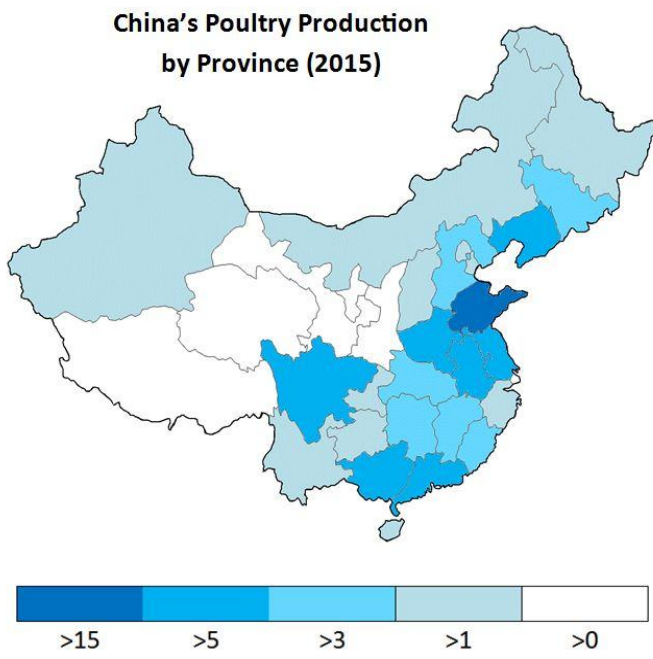
While 2017 may be the Year of the Rooster in China, Post forecasts that China's domestic broiler meat production will continue its two-year decline, and lowers its 2017 production forecast by 11 percent to 11.0 million metric tons (MMT). The primary reasons for the production decline are two-fold: (1) domestic white bird flocks account for the majority of poultry production by volume and this volume continues to shrink due to the lack of new grandparent breeding stock and (2) the overall domestic demand for broiler meat (both yellow and white) is weaker than in previous years due to the growing popularity of higher-end proteins like beef, mutton, and seafood.



Source: Chinese industry data

China's domestic poultry production is composed of four different types: yellow-feathered birds, white-feathered birds, mixed (yellow and white), and culled egg-layers. In terms of geography, yellow birds are generally produced in the South and white birds in the North. Shandong Province is by far the largest poultry producing province, producing over 15 percent of China's total broiler production. However, in terms of growth among the major producing regions, Sichuan, Fujian, Liaoning, and Anhui Provinces have experienced strong growth, driven in large part by the consolidation of the industry. Large poultry producers, like the Fujian Sunner Group have been expanding and modernizing its operations.

In addition, the traditional poultry producing provinces of Guangdong and Jiangsu have seen poultry production drop significantly (Guangdong's and Jiangsu's production numbers each tumbled by 13 percent in the last five years). This drop is attributable to two main factors: environmental concerns around highly populated urban centers and a shift in production from South to North, yellow to white.



Province	Poultry Head (M)	Percent of Total
Shandong 山东	176.9	15%
Guangdong 广东	97.4	8%
Henan 河南	91.6	8%
Liaoning 辽宁	86.5	7%
Guangxi 广西	80.8	7%
Anhui 安徽	75.3	6%
Jiangsu 江苏	73.5	6%
Sichuan 四川	66.2	6%
Hebei 河北	58.4	5%
Fujian 福建	52.9	4%
Hubei 湖北	51.2	4%
Jiangxi 江西	47.7	4%
Hunan 湖南	41.5	3%
Jilin 吉林	39.1	3%
Chongqing 重庆	24.2	2%
Yunnan 云南	21.1	2%
Heilongjiang 黑龙江	20.6	2%
Zhejiang 浙江	15.2	1%
Hainan 海南	14.7	1%
Inner Mongolia 内蒙古	10.4	1%
Guizhou 贵州	9.6	1%
Shanxi 山西	8.8	1%
Tianjin 天津	8.0	1%
Xinjiang 新疆	7.8	1%
Beijing 北京	6.7	1%

Statistics from China Ministry of Agriculture 2015 National Statistics. Poultry numbers include chicken, ducks, and geese.

The slow shift from yellow to white bird production is explained by the increased productivity (and therefore profitability) of white bird production, a shift away from traditional Chinese consumption preferences (see the Consumption Section for more detailed information), and increased biosafety concerns regarding AI transmission in traditional live poultry markets.

Attribute	White Bird	Yellow Bird
Origin	90% of grandparent stock imported	Local Chinese species
Average fastest time to weight	40 days at 2.2 – 2.7 kg	90 days at 1.5-1.9 kg
Average placement density	10-16 birds/m ²	8-10 birds/m ²
Feed to meat ratio (kg)	1.7:1 to 1.8:1	2.5:1
Consumption outlets	Fast food restaurants, factory cafeterias, food processing, and schools	Traditional wet markets for household consumption

As noted in the chart above, many attributes of the white bird naturally lend themselves to a more productive—and usually more profitable—operation. Not only do white birds boast a higher feed to meat ratio, but also gain weight faster, are harvested earlier, and average a heavier total slaughter weight. However, recent production gains made possible by this shift to white bird production are currently offset by several factors, the most notable of which are the current Chinese bans on new

grandparent breeding stock from the United States and several EU countries. As a result of these constraining factors, Post forecasts a continuing decrease in overall broiler production.

2017 Production Constrained by Lack of New Breeding Stock

Post forecasts that, despite an increase in mixed bird production and stable yellow bird production, the lack of new grandparent breeding stock for white bird flocks will remain the greatest obstacle to increasing domestic poultry production.

The Decline of China's Breeder Imports	
2014	1.7 million units
2015	694,000 units
2016	580,000 units
2017	500,000 units (estimated)
Source: Industry Data	

The majority of Chinese white bird breeding stock is imported from abroad and most major suppliers have been cut off as a result of AI detections in their home country. In January 2015, the United States, which supplied 90 percent of China's white bird grandparent stock in 2014, was banned from exporting breeding stock to China (and most all other poultry and poultry products).¹ Currently, the only large producers which are able to import live breeding stock into China are New Zealand and Spain. However, this supply is currently insufficient to meet the needs of China's poultry industry and overall breeding stocks continue to decline.

In response to this new AI trading risk, the Chinese poultry industry is attempting to develop a domestic breeding industry. For example, a large Chinese poultry firm Shandong Yisheng, recently signed a 10 million dollar US\$, three-year contract with the French genetics firm Hubbard to import great-grandparent stock, primarily from France, but also from other locations located around the world that are unaffected by the ban. However, this strategy requires significant scientific and technical expertise which the Chinese poultry industry cannot yet implement on a large, commercially-viable scale. Post will be monitoring the situation to determine whether or not this strategy will relieve some of the pressure created by AI bans around the world.

In addition, China continues to use the practice of "forced molting" to increase egg production from its imported grandparent and parent stock. Forced molting is a process whereby artificial conditions are introduced into the growing environment to induce the natural molting process. After the breeders have undergone molting and entered phase 2 of their laying cycle, their average egg production rate increases. However, this technique is not widely practiced in most modern poultry industries due to animal welfare concerns. In addition, there are concerns about poultry mortality rates during the induced molting phase and a decrease in hatchability rates following phase 2. Through its use of forced molting, China has managed to soften the blow from the lack of new grandparent stock, but is still unable to find a long-term alternative. Therefore, the white bird production will still see a decrease in 2017.

In addition to production losses from a lack of new breeding stock, AI can also affect China's domestic production due to disease outbreaks. In 2016, China did not record any major outbreaks in commercial poultry flocks.² However, in late 2016, China reported over a hundred laboratory confirmed cases of

¹ The only current exemptions to the January 2015 ban are chicken meal and feather meal. Both of these processed poultry products may still be imported into China.

² Although the World Health Organization collects data on human health outbreaks of AI in China, the Chinese Government does not regularly publish official statistics on the number of poultry affected during these outbreaks.

human infections from avian influenza A(H7N9) virus. The vast majority of these cases were traced to live poultry markets. In response to these human outbreaks, Chinese provincial governments in Zhejiang, Guangdong, and Anhui provinces have strengthened their live poultry market regulations. In Jiangsu Province, some prefectures have outright banned live poultry markets. These human AI-related concerns are significant and have contributed towards the shift away from yellow-bird production and contributed to the growth in market share of white birds.³ On March 7, 2017, the United States had a confirmed case of avian influenza H7N9 virus in Lincoln County, TN. This is NOT the same as the China H7N9 virus that has impacted poultry and infected humans in Asia. Human infections of other subtypes of avian influenza have only rarely been reported in the United States.

Separate from AI-related issues, production costs in China have decreased as efficiency gains are realized and feed costs remain low. As discussed above, the shift towards high efficiency, high-output white broiler production should result in production gains. However, due to the lack of grandparent stock to sustain this type of system, many poultry facilities run at less-than-full capacity and these production gains remain unrealized.

Another factor that influences production is feed cost. The main feed components in China are corn and soy. In 2017, poultry farmers will continue to enjoy low feed costs as government stockpiles continue to be released into the market. This balancing of the China State Grain Reserves began in 2016 and is expected to continue throughout 2017. Due to the low feed costs, the domestic price of chicken continues to decrease, thus weakening the demand for imported poultry.

A final factor that influences production is China's growing attention to environmental issues. In the last five years, China's central government has implemented policies that have encouraged poultry farming away from crowded urban areas. These policies have contributed to the shift in production from yellow to white bird, and South to North. However, the Chinese poultry industry is less affected by environmental constraints than other animal livestock sectors, like swine.

Consumption:

Overall, broiler consumption in China has decreased and will continue to decrease throughout 2017. In the last GAIN Report (CHN 16061), Post forecast that consumption would decrease by 8 percent to 11.60 MMT. Post further revises this forecast down to 11.3 MMT. The driving force behind this drop in consumption is not price-related, but rather due to changes in Chinese consumer preferences and AI-related concerns.

³ For more information on China's human AI history, please see: <http://www.who.int/csr/don/17-january-2017-ah7n9-china/en/>



Photo by Sam Tsang, South China Morning Post

The first change is AI-related. Because AI is most commonly transferred from poultry to humans in traditional wet markets selling live chickens, Chinese regulators have begun to close these wet market outlets, encouraging consumers to purchase fresh-slaughtered poultry at retail outlets. As a result, while white bird production has been shrinking due to the lack of new breeding stock, which should normally encourage growth in yellow bird flocks, it appears that yellow bird flocks are not increasing to fill the market void because of these biosafety concerns at wet markets.

The second change is related to China's overall economy. As China's roaring growth slows to a more sustainable level, and labor costs continue to increase, manufacturing companies have been moving factories out of China into lower-cost markets, like Bangladesh and Malaysia. These factories generally have an onsite cafeteria and prefer to use white bird meat because of the cost-savings. But with the shuttering of so many factories, especially in Southern China, the consumption at factory canteens has dropped, reducing overall white bird consumption.

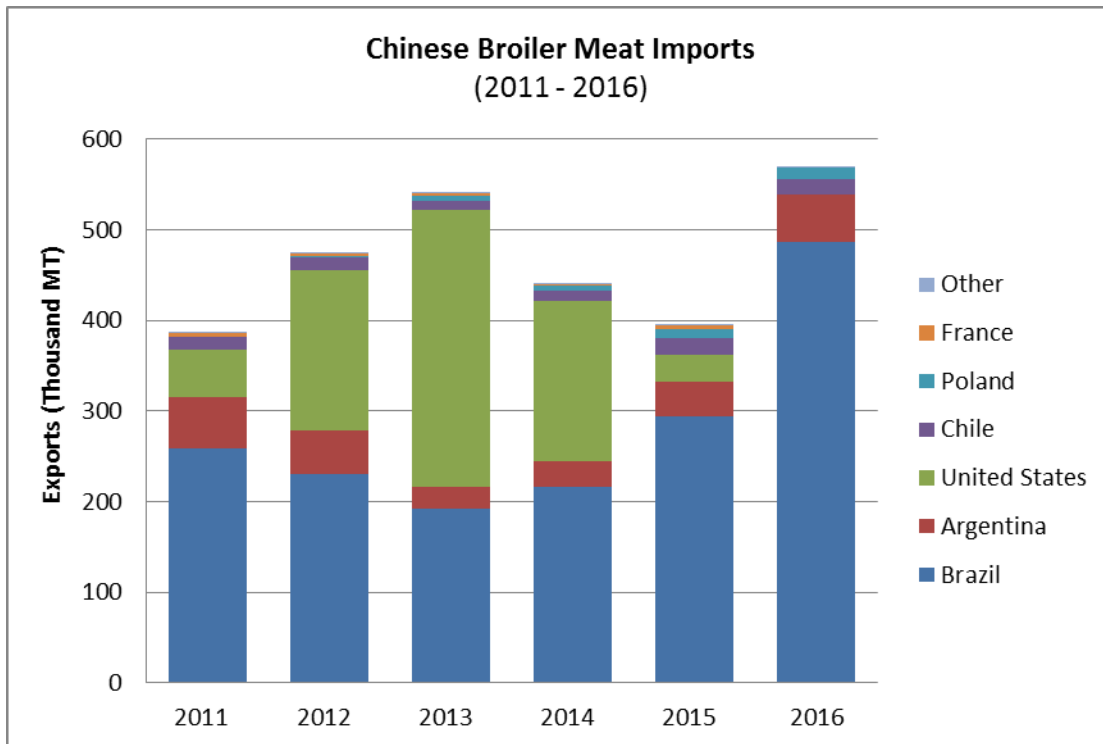
A third change that has contributed to China's decreased appetite for poultry is a change in the middle-class diet. As middle class families become more wealthy, they are consuming less poultry (either yellow bird or white bird) and consuming more beef, mutton, and seafood. In addition, duck and goose are becoming more widely available to urban dwellers through specialty shops and enjoy the perception of being healthier than chicken.

Trade:

Imports Will Increase in 2017, But Will Be Limited to a Few Markets:

As China's domestic production struggles, China's poultry imports will likely increase in MY 2017, up from 550,000 MT to 600,000 MT, making China the world's second largest poultry importer, behind Mexico. With the United States out of the market due to Chinese restrictions (see Trade Policy section below), Brazil has pecked its way to the top, accounting for over 85 percent of China's broiler meat

imports. Brazil's recent meteoric rise was possible as Brazil filled a vacuum created by AI-related bans in the United States and Europe. In addition, Chinese regulators continue approving Brazilian poultry production facilities for export at an unusually fast rate. Lastly, the depreciation of the Brazilian Real relative to the Chinese Yuan has also contributed to Brazil's export success. With the United States and Europe essentially out of the poultry meat market, Chinese demand for South American poultry has Brazil, Argentina, and Chile, crying "winner-winner chicken dinner."



Source: Global Trade Atlas

Note: Values above include chicken claws, which are not included as part of the PSD

China's Trade Policies Unfairly Hurt U.S. Exporters:

China imposes AI-related import restrictions that are inconsistent with the World Organization for Animal Health (OIE) guidelines. China requires countries to be free of both Highly Pathogenic AI (HPAI) and Low Pathogenic AI (LPAI) for at least 90 days before these countries can submit an application for removal of the ban. On the other hand, the internationally-recognized OIE guidelines recommend that countries be free of only HPAI (i.e., do not place a country-wide ban for LPAI). Another difference in the Chinese system is that once a country has fulfilled the necessary OIE requirements, China still requires that the country submit to a separate application process to lift the ban. This process is opaque and can take many months, if not years.

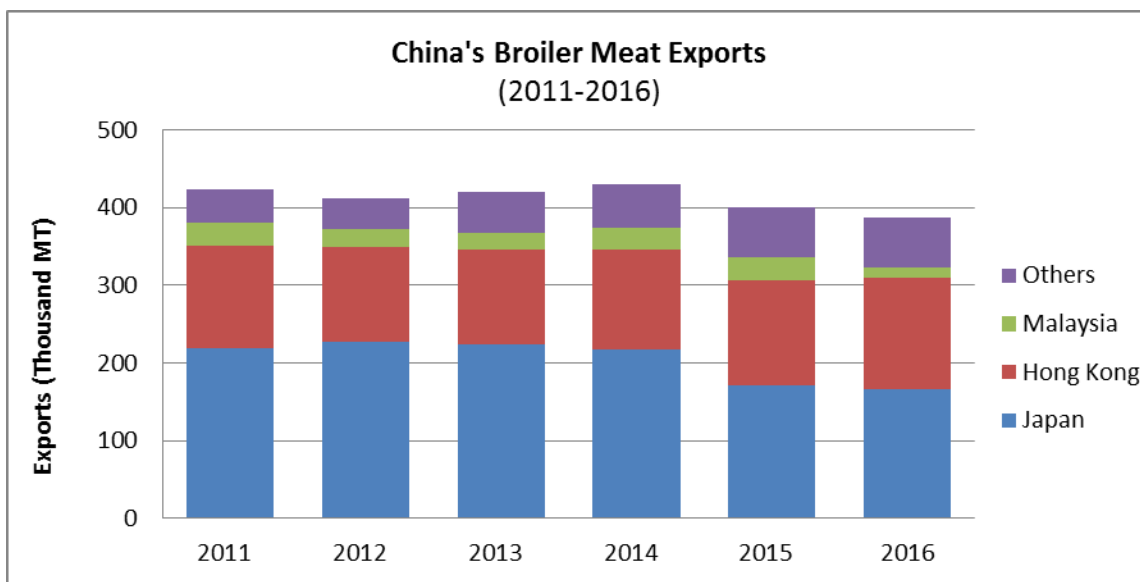
For example, the United States has been requesting removal of the HPAI restriction since April 22, 2016 (i.e., the waiting time recommended by the OIE guidelines), but China has yet to recognize the United States' HPAI-free status as determined by the OIE. Furthermore, China continues to implement country-wide bans in reaction to AI detections, ignoring the OIE guidelines which recommend regionalization (or zoning) methods. For geographically large countries, that have widely dispersed

poultry productions like the United States, Canada, France, and China, regionalization is an important risk-mitigation tool that can be safely applied in a scientific manner to minimize trade disruptions.

In addition, China has placed significant anti-dumping (AD) duties on U.S. poultry and poultry products. In 2013, a World Trade Organization (WTO) consultation panel found that China’s imposition of higher AD duties on chicken broiler products – which caused an 80 percent drop in U.S. exports – was unjustified under international trade rules. Even when the appellate body again found in favor of the United States, China has refused to comply with the WTO ruling to remove its AD duty on U.S. poultry. To date, the United States has not enacted any of the countermeasures it is allowed to invoke in the face of this non-compliance.

China’s Poultry Exports Remain Essentially Flat:

Post forecasts that China’s exports of broiler meat in MY 2017 will decrease by 1.4 percent to 350,000 MT as a result of tightening domestic supply. Although China is a net importer, it continues to be the primary poultry supplier to Japan and Hong Kong. China’s main exports to Japan are processed chicken (e.g., skewered chicken) and its main exports to Hong Kong are fresh/chilled cut chickens for retail sale.



Source: Global Trade Atlas

Note: China does not export chicken claws

Production, Supply and Demand Data Statistics:

China Broiler Meat Production, Supply, and Demand (PS&D) Table						
	2015		2016		2017	
	Jan 2015		Jan 2016 (adjusted)		Jan 2017 (forecast)	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	10100	10100	9800	9800	8300	8800
Beginning Stocks	0	0	0	0	0	0
Production	13400	13400	12700	12300	11500	11000
Total Imports	268	268	410	440	550	600
Total Supply	13668	13668	13110	12740	12050	11600
Total Exports	401	401	395	385	345	350
Human Consumption	13267	13267	12715	12355	11705	11250
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	13267	13267	12715	12355	11705	11250
Total Use	13668	13668	13110	12740	12050	11600
Ending Stocks	0	0	0	0	0	0
Total Distribution	13668	13668	13110	12740	12050	11600

Values in Million Head or 1,000 metric tons

Poultry Trade Matrices:

China Import Statistics								
(values in metric tons)								
	2011	2012	2013	2014	2015	2016	2015/16 Δ	2016 Market Share
Total China Imports:	385606	473208	540172	440262	394302	569336	44%	100%
Brazil	258628	230298	191898	216789	294661	487157	65%	86%
Argentina	57165	48247	23767	27602	37980	51651	36%	9%
United States	52531	176249	306649	177606	29188	0	NA	0%
Chile	14139	14783	10023	10304	18293	17844	-2%	3%
Poland	49	1577	5171	5880	10560	12426	18%	2%
France	3052	2043	2647	2050	3567	0	NA	0%
Other	42	11	17	31	53	258	387%	0%

Source: Global Trade Atlas

Note: This table includes chicken claw imports, which are not included in the PSD table

China Export Statistics								
(values in metric tons)								
	2011	2012	2013	2014	2015	2016	2015/16 Δ	2016 Market Share
Total China Exports:	422648	411382	420032	430274	400688	386390	-4%	100%
Japan	218714	226652	224129	217416	170900	165420	-3%	43%
Hong Kong	132251	122644	121886	127611	135884	143298	5%	37%
Malaysia	29426	22504	21300	28390	29827	14454	-52%	4%
Bahrain	5963	5371	7736	8116	7950	6689	-16%	2%
Iraq	5575	1571	1123	4522	7727	4720	-39%	1%
Netherlands	3860	4178	6334	7446	6702	7252	8%	2%
Afghanistan	1018	1983	2672	3185	5961	6569	10%	2%
Georgia	1079	2717	4330	5503	5503	4945	-10%	1%
Macau	2916	3139	3549	4476	5118	5632	10%	1%
United Kingdom	3934	3436	6129	4653	3912	2619	-33%	1%
Kyrgyzstan	5301	5593	4824	3225	3799	3589	-6%	1%
Mongolia	0	864	1536	1745	3457	6118	77%	2%
Korea, South	3235	2913	2548	2574	3370	3598	7%	1%
Others	9376	7817	11936	11412	10578	11487	9%	3%

Source: Global Trade Atlas

Note: China does not export chicken claws

Poultry Price Table:

China Average Retail Broiler Meat Prices							
(values in RMB/KG)							
	2011	2012	2013	2014	2015	2016	2015/2016 Δ
January	16.32	17.65	17.92	17.55	19.09	19.05	0.2%
February	16.71	17.46	18.41	17.15	19.28	19.50	-1.1%
March	16.33	17.04	17.90	16.83	19.08	19.13	-0.3%
April	16.32	16.99	16.39	17.15	18.73	19.05	-1.7%
May	16.45	16.73	15.32	17.93	18.56	19.11	-3.0%
June	16.95	16.74	16.00	18.22	18.43	19.09	-3.6%
July	17.49	16.71	16.40	18.32	18.65	18.90	-1.3%
August	17.94	16.90	16.89	18.78	19.10	18.90	1.0%
September	18.05	17.28	17.33	19.16	19.25	19.15	0.5%
October	18.00	17.43	17.45	19.22	18.95	18.96	-0.1%
November	17.57	17.50	17.40	19.14	18.82	18.96	-0.7%
December	17.39	17.70	17.51	19.06	18.96	19.00	-0.2%

Source: The Ministry of Agriculture.

(End of report)