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US breeder swine clear quarantine and settle in Guangdong

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General Information:

U.S. breeder swine clear quarantine and settle in Guangdong
On August 31, 2011, 1,265 pure bred U.S. pigs worth of $3.8 million were shipped by air to South China following 45 days of quarantine (and the culling of six piglets). The piglets entered into production in China’s largest pork consumption province – Guangdong, in a farm located in Qingyuan. From 2001-2010, Guangdong imported 9,993 head live hogs from the United States, Canada, United Kingdom, France, Denmark, and Australia. The recent onslaught live U.S. breeder swine into China comes as result of the central government’s relaxation of import policies that were implemented prior to the H1N1 swine epidemic outbreak three years ago in 2009. Wens Group, now the largest swine and poultry producer in China imported the August shipment. The Guangzhou based feed manufacturing giant is estimated to produce 6 million head swine by the end of 2011.

Sales facilitation: ATO Guangzhou and USDA cooperator groups such as the U.S. Grains Council and the U.S. Soybean Association – International Marketing have been working closely with the Wens Group and sourcing U.S. feed ingredients. For example, in June 2011, ATO Guangzhou, with support from the Emerging Markets Program funded and escorted a U.S. swine technical expert from Nebraska to Wens corporate headquarters and provided the senior manager the latest know-how on swine nutrition practices. ATO Guangzhou then presented research on the benefits of U.S. alfalfa hay products for gestating sow feed. Besides breeder swine, the Wens Group is a large buyer for U.S. soybeans, corn, corn DDGS, alfalfa hay, and breeder chicken. ATO Guangzhou has also assisted U.S. agricultural companies, state governments, and organizations from many States such as Iowa, Illinois, Nebraska, Missouri, Wisconsin, Washington and California to develop business relations with this company.

South China continues leading breeder swine production

Since the recent lifting of the import ban on live U.S. hogs, ATO Guangzhou has assisted several importers from Guangdong and Guangxi provinces to visit the States for breeder swine purchases. A joint delegation, consisting of swine farmers from three large Guangxi companies just returned from a trip to Illinois; and as a result, another jet cargo of live U.S. breeder hogs worth of $1.6 million was purchase and destined to arrive in South China in late December 2011 or early 2012.

According to a veteran Guangdong swine importer/breeder interviewed by ATO recently, South China (Guangdong and Guangxi in particular) have led the breeder swine industry in China and will continue to do so given the industry’s shared years of experience, know-how, and tacit knowledge amassed throughout the last two decades (specifically referring to Guangdong). In the meantime, Hubei, Henan, Shandong and other large swine producing provinces all plan to import breeder swine to build nucleus herds and expand production capacities. However, South China breeders do not anticipate head-on competition, since the China market is facing shortages of pork supply given meat consumption growth in urban cities grows at staggering rates of 200 percent by some measures. The growth in animal meat protein consumption is mostly driven by increased prosperity as a result of higher disposable incomes.

As the largest pork consumer in China, Guangdong annually purchases 20 million head swine from neighboring provinces such as Guangxi, Hunan, and Jiangxi.

Competition: Industry contacts also mentioned that United Kingdom breeders are increasing their promotion of breeder swine in China. In 2010, the U.K. industry impressed local swine breeders as trial shipments to South China farms during the ban on U.S. hogs yielded favorable and unexpected results that created a paradigm shift for many of those in the industry. However, the U.K. exports will be unable to capture a considerable market share even after the ban on U.S. hogs is lifted given their small scale farm production and limited supply capability. Compared to the United States, the U.K.’s recent success was almost miraculous given it is much harder to find enough high quality hogs in a short period to fill a cargo jet (approximately 500-600 head). Furthermore, U.K. exporters are still not familiar with business practices in China. This unfamiliarity led to delays due to logistical and transportation issues that ended up costing both U.K. exporters and local importers unusually higher costs. Lastly, it seems that the U.K. industry has limited funding mechanisms for periodic promotions and that the recent sales were connected to political goodwill orchestrated by the machinations of the central government.

The general impression on U.S. breeder hogs is good with well managed pedigree recording systems in place in every exporting breeder farm, modernized production facilities, years of consistent genetic improvement that is backed by research, and a favorable business reputation (from farmers, technicians, and supplier agents).

Challenges: Though demand is strong, potential importers face many challenges:

- **Quota set by Ministry of Agriculture (MOA):** All live breeder animal importations require approval from MOA which implemented a quota system to manage total import volume. Industry contacts complain that the application of the MOA quota is time consuming and lacks transparency.
- **Quarantine:** It requires a substantial amount of paperwork and coordination to arrange visits from quarantine and inspection officials to the United States. These are required to personally supervise hog selection, segregation, and transportation for the buyers. Plants must be approved to export to China before quarantine and inspection officials can even consider purchasing U.S. hogs
- **Lack of segregation farms in China:** All imported animals are required to be segregated for 45 days at designated sites before they are released into production farms. Located in Beijing, Tianjin, Shanghai, and Guangzhou, the four designated national segregation farms are not enough to house increased imports of live animals. Swine importers have to have local quarantine and inspection bureaus' approval to build temporary segregation farms which increase costs of importing and complexity of the business model.
- **High shipping and insurance costs:** All swine shipments require chartered airplanes with on board technicians. Insurance is purchased by most importers in South China to cover potential losses during the transportation or for other unexpected risks.

These costly barriers considerably drive up costs. For example, a breeder hog (piglet) is sold several hundred at a U.S. farm can easily be worth over $3,000 when it arrives at China's production farms.