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Report Highlights: During 2004 the detection of avian influenza in China, SE Asia and the United States will temporarily change the picture of China's poultry product trade. On February 7, 2004, China suspended imports of all US poultry products due to the outbreak of H7 avian influenza in the State of Delaware. As a result, China's total poultry imports during 2004 are forecast to fall about 25 percent to 300,000 MT. China's outbreak of highly pathogenic avian influenza (H5N1) resulted in over 40 countries banning the country's poultry products. Accordingly, China's poultry exports are estimated to decrease 15 percent from 388,000 Mt to 311,000 MT. Assuming China's AI situation is brought under control within several months, consumption levels recover and the industry replenishes poultry flocks, post forecasts China's poultry production will remain flat during 2004.

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Summary

During the first half of 2004, China's poultry market picture will be impacted by the outbreak of avian influenza in China, other SE Asian countries and the State of Delaware in the United States.

China suspended imports of US poultry and poultry products on February 7, 2004. As a result, China's broiler imports during 2004 are forecast to decrease about 10 percent from 329,000 MT to 297,000 MT on the assumption that China will resume imports from the United States within three months. In this report post also calculated 2002 and 2003 broiler import numbers using FAS Dairy, Livestock and Poultry Division's methodology. The figures were only slightly different from our original estimated found in our 2003 poultry product annual (CH3119). In the past, post did not have access to Hong Kong's re-export numbers. To calculate the new import figures, we used the World Trade Atlas (WTA) to calculate China's total world imports, then we subtracted Hong Kong from China's total imports, then we subtracted Hong Kong's chicken paw re-exports to China to get broiler meat re-exports to add back to China's imports, then we subtracted total US paws and spent hens exported to China.

During 2004, China's poultry product exports are forecast to fall to 311,000 MT, a decline of about 20 percent from last year, due to the ongoing outbreak of highly pathogenic avian influenza (HPAI), H5N1. About 41 countries have closed their markets to China's poultry products. According to ministry contacts, Chinese officials are now negotiating market access with these countries.

Finally, China's broiler production in 2004 is forecast at 10 MMT (million metric tons), the same as last year. This forecast assumes that China's AI situation is brought under control within several months, that poultry product consumption levels recover and that China's poultry industry replenishes flocks culled or lost due to HPAI. Post revised upwards the 2003 broiler production figure from CH3119 (dated 9/8/03) from 9.8 MMT 10 MMT, based on a recent forecast of the Ministry of Agriculture.

Please refer to post's most recent poultry report, CH4002, for more information about China's HPAI situation and government responses.

Production

China's broiler production during 2004 forecast to remain the same as last year

China's broiler production for 2004 is forecast to remain flat at 10 MMT due to the outbreak of HPAI in China limiting any growth typically seen year to year in this country. If the disease only impacts the market during February and March, production could rapidly recover as occurred during the SARS outbreak last year. Post will update production in our PSD table when China's poultry situation is clearer.

According to a February 4, 2004, report by the Ministry of Agriculture, since the first HPAI outbreak in January 2004, China has had 23 cases of HPAI. Five cases have been confirmed and 18 are suspected. There were 56,417 nationwide sick birds, 49,236 dead birds and 1.215 million culled birds, i.e. all within 3 km of any HPAI outbreak. Birds between 3-5 km of an outbreak received compulsory vaccination and quarantine.

In response to the HPAI situation, the central and local government will provide subsidies to farmers for killed birds. Compulsory quarantine is free of charge. It is not clear how the government at the two levels will share the cost. The industry indicated that the subsidies vary from province to province from RMB10 to RMB25 (\$1.20 to \$3.00) per bird for chicken, RMB35 per bird for geese, and something in between for ducks.

China's official cull figures (i.e., 1.2 million birds) represent only five percent of a single day's normal slaughter rate (i.e., 22 million birds/day or 8.3 billion birds/year). Thus, post is not forecasting a significant HPAI impact on China's total year production levels and will hold production constant in 2004.

At the time of writing this report, China has closed all live poultry wet markets and also banned poultry product sales at local markets of farm produce within 10 km around any outbreak. Transportation of live poultry has also stopped.

If the HPAI situation continues for over three months, small poultry-dependent farms that rely on wet market sales may go bankrupt. Larger-scale operations will likely increase their broiler production to meet any supplies shortages. These factors will likely slow the pace of nationwide broiler production.

Predominant broiler distribution at widely dispersed wet markets challenges China's efforts to modernize veterinary and food safety practices

About 75 percent of broilers in China are raised on small family farms. According to the China Poultry Association, exclusive poultry farmers total 13 million. Thus, production is highly dispersed throughout the country with a higher concentration in grain production areas. A large number of small-scale farmers raise both poultry and swine. The top three broiler producing provinces in 2003 were Shandong, Guangdong and Jiangsu.

The Chinese Government does not require that that broiler or cattle, like swine, be slaughtered and processed at government-approved facilities. Chinese consumers traditionally prefer purchasing live broilers at wet markets dispersed throughout China, the predominant processing/distribution points for broiler products. These traditional wet markets face a huge challenge to deal with increasingly stringent food safety requirements being implemented by China's authorities. For example, after HPAI started spreading in January 2004, the Government temporarily closed slaughtering and processing at wet markets in urban areas and rural areas within 10 km of any HPAI outbreaks.

China's poultry egg production for 2004 is forecast to increase three percent from 25.3 MMT in 2003 to 26.1 MT due to strong consumer demand. Thus far, the HPAI situation has not affected poultry egg production or consumption.

According to the National Statistics Bureau, China's per capita poultry consumption growth from January to November 2003 remained flat due to the SARS outbreak. Given the HPAI outbreak in China this year, per capita broiler consumption for 2004 will not likely increase but it is too early to tell.

Trade

During 2004, China's total poultry imports forecast to fall 25 percent from post's previous estimate due to avian influenza and continued import restrictions

China's broiler imports are expected to decrease from post's original September 2003 forecast of 400,000 MT to 300,000 MT due to the poultry product import ban on countries that have cases of avian influenza such as Thailand and the United States. The United States is the largest broiler supplier for China, accounting for over 90 percent of China's total broiler imports.

However, Brazilian poultry products, re-exported to China from Hong Kong, have gradually reduced US export share. Brazil provides the same poultry products, but lower labor costs in Brazil translate to a more competitive price for export. Until the markets for the United States and Thailand re-open, China will likely try to shift its import source to Brazil.

As evidence of this trend, the Chinese import data indicates that the US market share is increasing slightly from 2002 to 2003, but Hong Kong's re-export data indicates that Brazil's market share is on the rise. One possible explanation, according to the trade, is that Brazilian products are increasingly re-packed and enter China under a US health certificate.

Import tariffs for broiler products reduced about 20 percent in 2004

In accordance with China accession to the WTO, on January 1, 2004, the country reduced the tariff for broiler products 20 percent, on average. However, some traders do not believe they can benefit from the tariff reduction because China's tariffs for broiler products are based on weight. The Customs authorities use fixed prices for customs declaration in order to avoid under invoicing, but traders complain the authorities fix abnormally high tariff prices regardless of the prices actually paid by the trade. This reported Customs authorities' practice of raising the fixed price of poultry to possibly compensate for reduced duty levels appears to be WTO-inconsistent.

USDA's FSIS will start using new certificates, effective March 1, 2004, requested by AQSIQ as a measure to help crack down on counterfeit certificates used to smuggle products into China. The new certificate, coupled with the above tariff reductions, will possibly lead to more direct shipments into Mainland China.

Exports

China's boiler exports for 2004 are forecast to decrease about 20 percent to 311,000 MT. According to media reports, Japan, South Korea, Hong Kong and Macao may agree to re-open part of their market, but only for fully cooked broiler products from disease free-areas. Processed broiler products only account for 40 percent of China's total broiler exports.

At the moment, the four top broiler exporters in Guangdong, Jilin, Shandong and Beijing are suffering the greatest losses from the ban on Chinese poultry products. As a result, these companies will likely channel their broiler products originally destined for export markets into the domestic market.

AQSIQ has stopped issuing export quarantine certificate for any exporting companies from provinces affected by HPAI. This means that at least one-third of China's provinces cannot export poultry products.

According to media reports, Russia will regionalize broiler products from China after the HPAI outbreak is under control.

PSD Table

PSD Table

Country Commodity	China, Peoples Republic of Poultry, Meat, Broiler					
	(1000 MT)(MIL HEAD)					
Market Year Begin	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	287	560	0	580	0	600
Beginning Stocks	0	0	0	0	0	0
Production	9558	9558	9844	10000	10129	10000
Whole, Imports	0	0	0	0	0	0
Parts, Imports	435	331	415	329	400	297
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	435	331	415	329	400	297
TOTAL SUPPLY	9993	9889	10259	10329	10529	10297
Whole, Exports	0	0	0	0	0	0
Parts, Exports	438	438	420	388	440	311
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	438	438	420	388	440	311
Human Consumption	9555	9451	9839	9941	10089	9986
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9555	9451	9839	9941	10089	9986
TOTAL Use	9993	9889	10259	10329	10529	10297
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	9993	9889	10259	10329	10529	10297
Calendar Yr. Imp. from U.S.	510	167	0	222	0	215

Tariff Table

China's M.F.N. Tariff Rate of Chicken Products, 2001 - 2004 (Based on Weight) (Unit: RMB/KG)

HS Codes	2001	2002	2003	2004	% Change 2004/03
2007.1200 frozen whole broiler	1.6	1.6	1.3	1.3	-25.00%
2007.1411 frozen broiler cuts with bones	1.2	1	0.8	0.6	-16.67%
0207.1419 frozen broiler cuts, boneless	2.7	1.5	1.2	1	-10.00%
0207.1421 frozen broiler wings	2.3	1.2	1	0.9	-16.67%
0207.1429 frozen wingtips, paws, liver	1	0.8	0.6	0.5	0.00%
0504.0021 broiler gizzard	1.7	1.7	1.4	1.4	0.00%

Source: China Customs

End of Report