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China - Peoples Republic of
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Report Highlights:
For MY 2010/11 and MY 2011/12, Post estimates corn production at 162 and 163 MMT due to favorable weather in major corn producing regions. This trend is based on a lower production figure for MY 2009/10, which Post believes is 6 MMT lower than the official USDA estimate due to drought and poor weather. For MY 2011/12, wheat production is projected at 112 MMT, up 1.8 percent on expectations of a limited impact from the recent drought but lower than average yields, while rice production is estimated at 199 MMT, unchanged from last year

In MY 2010/11 and MY 2011/12, China corn imports are estimated to reach 1.5 MMT and 2.5 MMT on rising demand for feed and industrial use. Because of expectations of continued tight global exportable supplies, for MY 2010/11 and MY 2011/12 China's wheat imports are estimated to remain at 800,000 tons.

Executive Summary:

For MY 2010/11 and MY 2011/12, Post estimates corn production at 162 MMT and 163 MMT due to favorable weather in major corn producing regions. This trend is based on a lower production figure for MY 2009/10, which Post believes is 6 MMT lower than the official USDA estimate due to drought and poor weather. For MY 2011/12, wheat production is projected at 112 MMT, up 1.8 percent on expectations of a limited impact from the recent drought but lower than average yields, while rice production is estimated at 199 MMT, unchanged from last year. Wheat and rice stock levels are relatively higher than average. Corn stock levels have been gradually decreasing on continued high demand from the livestock industry.

In MY 2010/11 and MY 2011/12, China corn imports are estimated to reach 1.5 MMT and 2.5 MMT on rising demand for feed and industrial use. Because of expectations of continued tight global exportable supplies, for MY 2010/11 and MY 2011/12 China's wheat imports are estimated to remain at 800,000 tons. In MY 2009/10, the government discontinued favorable export policies (such as VAT rebates) for wheat, corn, and rice to ensure sufficient domestic supplies. Post expects these policies to remain unchanged for subsequent years.

From MY 2009/10 through MY 2011/12, Post estimates for wheat and corn production are lower than preliminary official Chinese government statistics since some of this data is based on provincial government figures, which can be inflated. Provincial governments may be tempted to overstate their annual grain production data in order to receive higher transfer payments from the central government (reports of higher production are rewarded with higher transfer payments). The central government offers transfer payments to the main grain producing provinces and counties since they have few other sources of taxable revenue (Chinese law stipulates that grain producer revenue cannot be taxed). In prior years, the central government taxed agricultural land, which had the reverse effect in that it reportedly influenced many local officials to understate total agricultural area (see GAIN CH7015).

Wheat

Production

For MY 2010/11, wheat production is estimated at 110 MMT, down 4 percent from the previous year due to drought damage. For MY 2011/12, total planted area is unchanged, but production is forecast at 112 MMT with expectations that damage from the recent drought will be minimal, but will produce less than average yields. Winter wheat acreage accounted for 93 percent of China's total wheat area, or 24.3 million ha. The majority of China's winter wheat varieties are similar to US soft red winter (SRW) and hard red winter (HRW) with protein levels between 12 to 15 percent. However, overall domestic wheat quality is not as high as US imported wheat. Spring wheat acreage accounts for approximately 7 percent of total wheat acreage, but has very low protein levels (in comparison to US spring wheat). In the major spring wheat producing provinces, such as Heilongjiang, spring acreage is gradually being replaced with rice due to higher profit margins.

Since October 2010, a drought has impacted some of China's major winter wheat producing areas, such as the southwestern tip of Shandong. However, other provinces, such as Henan, have reported a limited effect. According to the Chinese government, 8 provinces in China's northern plain accounts for 80 percent of its total winter wheat area.

Although weather patterns are very difficult to predict, these major wheat areas generally experience a period of little to no rainfall during the cold and dry winter months while the crop is dormant. Water is more critical at later growth stages. If these areas do not experience enough rainfall during these later periods, irrigation will be necessary to prevent poor yields. According to National Anti-Flooding and Drought Office, irrigation facilities are available for 80 percent of China's total winter wheat area. In some key wheat production counties, local governments have offered irrigation subsidies (RMB 10 per mu) or fertilizer to farmers.

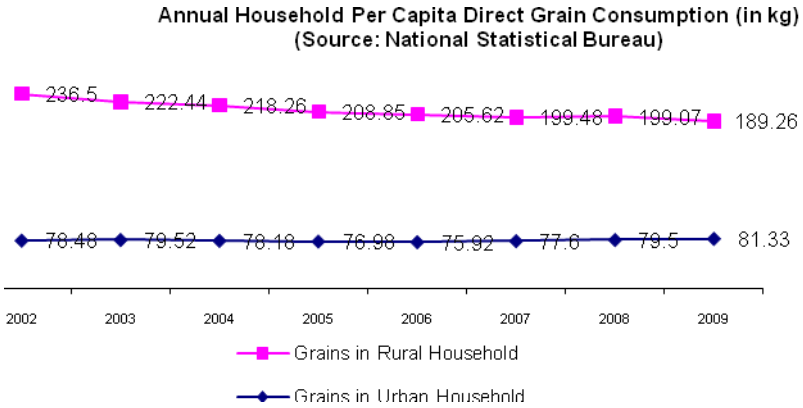
In the northern China plain, wheat is usually double-cropped with corn. Farmers favor this planting pattern as it has historically proven to achieve higher yields in lieu of sorghum, barley, millet or winter rapeseed. Double-cropping also allows farmers to maximize their land utility, which averages 0.3 to 0.4 ha per farmer. Mechanized planting and harvesting equipment are being used in more areas, which often are rented from one town resident who purchased the equipment with government subsidies (see Policy section).

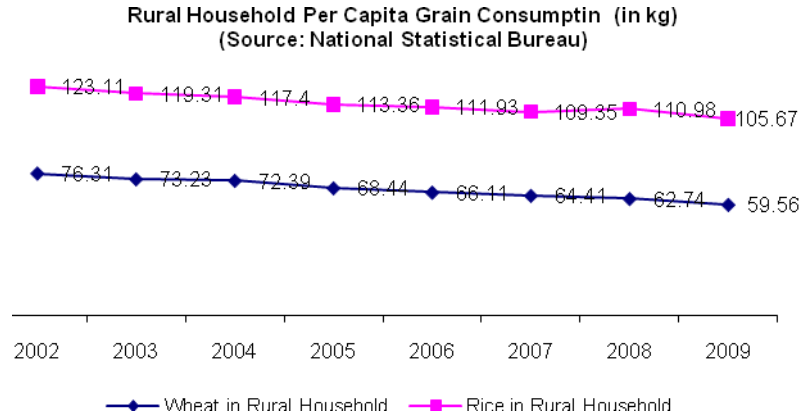
The vast majority of farmers prefer growing higher yielding varieties. The central government's floor price program provides incentives to only boost wheat production, and offers no additional price incentives for higher quality wheat. As a result, varieties that have higher protein or lower gluten content are generally not grown domestically.

Consumption

For MY 2010/11 and MY 2011/12, China's FSI consumption is steadily declining on expectations of less wheat consumption as more wealthier households, particularly in the rural areas, purchase more expensive animal proteins. According to National Statistics Bureau (NSB) data, from CY 2002 to CY 2009 in-home per capita consumption of grains in rural households dropped from 76.31 kg to 59.56 kg per year. Per capita grain consumption in urban households has remained stable in recent years.

For MY 2010/11, due to rising domestic corn prices, Post believes more feed quality wheat will be used in feed formulas. This trend is expected to continue for MY 2011/12, as China's corn supplies are expected to tighten, which will keep corn prices elevated.





Trade

For MY 2010/11, Chinese wheat imports are estimated at 800,000 MT, 43 percent lower than the previous year because of tighter exportable supplies and higher international wheat prices. In MY 2011/12, wheat imports are forecast to remain at 800,000 MT on expectations of a continued tight international market. All imports are forecast to use the private TRQ, which is 963,000 MT.

Consumer demand continues to grow for convenience foods, including instant noodles, biscuits, and bakery products. Unlike traditional homemade or home-style Chinese food products, convenience foods require wheat flour with specific gluten and protein content. Domestic flour millers meet these requirements by utilizing imported wheat and blending it with domestic varieties.

For MY 2010/11 and MY 2011/12, China's wheat exports are estimated at 800,000 MT, unchanged from the previous year on continued demand from neighboring export markets. Exporters must apply for export licenses to ship wheat outside China. Since 2008, the Chinese government has actively discouraged exports by removing the VAT export rebate (13 percent). Most of China's wheat exports are wheat flour or processed products, which are imported by North Korea, Hong Kong, Thailand, and South Korea.

Marketing

State grain reserve companies, such as Sinograin, are the main wheat distributors. On a weekly basis, 4.5 MMT of wheat are normally offered at auction. In order to mitigate price increases, in January 2011 the government recently stipulated that only large flour mills could attend wheat auctions (see Policy section). Moreover, all buyers must pay higher deposits before purchasing the wheat, and are required to regularly sell the product (i.e. it cannot be stocked in anticipation of future price increases). It is uncertain how the government will determine if a flour mill is purposely holding product.

If the above measure does not have the intended effect, the government will instruct state owned grain reserve companies to supply wheat to large-scale flour mills. These mills will be required to increase their production, and sell the product at a government-set price.

Stocks

While official grain stock level estimates for wheat are not available, Post estimates ending stocks for MY 2010/11 and MY 2011/12 will be 55.8 MMT and 57.8 MMT respectively. Most of China's wheat stocks are held in northern China by state own enterprises such as Sinograin.

Corn

Production

For MY 2010/11 Post estimates corn production at 162 MMT, up 6.5 percent from the previous year (this trend is based on a lower production figure for MY 2009/10, which Post believes is 6 MMT lower

than the official USDA estimate due to drought and poor weather). Good weather conditions for most major corn producing provinces contributed to strong yields. Corn acreage is estimated to rise 1 percent to 31.5 million ha since many farmers reportedly shifted production from oilseeds to corn (oilseeds were less profitable last year). In MY 2011/12 production is forecast to rise slightly to 163 MMT, which assumes continued strong yields and favorable weather conditions.

For MY 2010/11, in some provinces test weights were reported around 700 to 720 grams/liter (this is not an average test weight), with average moisture levels around 30 to 31 percent (after harvest). Industry contacts stated that moisture levels may fall to around 25 to 26 percent after warehouse delivery, and noted a substantial rise in plant density due to the use of better quality seeds, which some estimate increased from 45,000 to 50,000 plants per hectare from last year in some counties.

Some Chinese corn was poor in quality, a persistent challenge for many producers. For example, parts of NE China received heavy rains that washed away soil nutrients and prevented sufficient nitrogen intake (less nitrogen produces small, pale, and sometimes rubbery kernels that have low test weights). Other areas had high winds that caused lodging, which contributed to mold and pest infestations.

GMO corn is not commercially grown in China. In November 2009, China deregulated phytase corn, but it has not been approved for commercial production. The product must still undergo a variety registration process before it can be distributed through private enterprises. The Ministry of Agriculture oversees this process, and no definitive timeline has been set on when it would be completed. No other biotech corn varieties (including foreign) have been approved for planting purposes.

Consumption

Corn is used for: 1) feed; 2) the industrial production of sugar, starch and biofuels; and 3) food, which accounts for 72, 20, and less than 4 percent of domestic use.

Feed Consumption

For MY 2010/11, overall feed corn consumption increased by approximately 2 percent and is expected to grow through MY 2011/12 on rising livestock production and continued consolidation in the livestock industry (i.e. the creation of larger farms). Relatively higher corn prices will influence farmers to substitute corn with potentially less expensive foodstuffs, including feed quality wheat, early season rice, and low grade rice. Industry sources report that 10 percent of south China's rice consumption is for feed use. For CY 2010, the official Chinese government data estimates total meat production rising 3.6 percent, with pork (which represents over 60 percent of total livestock production) increasing 3.7 percent. For CY 2011, Post projects total livestock production will grow between 2 to 3 percent.

China: Feed Production by Type (1,000 tons)				
	Total	Compound	Concentrate	Premix
2003	87,120	64,280	19,580	3,260
2004	96,600	70,310	22,240	4,060

2005	107,000	77,610	24,980	4,780
2006	110,590	81,169	24,560	4,861
2007	123,310	93,189	24,912	5,209
2008	137,000	105,900	25,310	5,460
2009	148,132	115,350	26,863	5,925
2010	158,000	124,300	27,300	6,400
Growth in 2009	8.1%	8.9%	6.1%	8.5%
Growth in 2010	6.7%	7.8%	1.6%	8.0%
Source: China Feed Industry Office				

MOA's China Industrial Feed Association tracks national industrial feed production, but there are no official numbers for overall feed usage. According to MOA data, for CY 2010 feed production rose 6.7 percent to 158 MMT. Corn content is estimated somewhere between 55 and 65 percent of industrial compound feed mix. Industrial feed is estimated to be between 50 and 65 percent of total feed usage. At the household farm level, farmers purchase concentrate and premix (includes vitamins, minerals, and other microingredients) and blend the products with raw feed to reduce cost. Within the last few years, smaller livestock farms have gradually consolidated into larger enterprises, and are using more industrial feed in lieu of household scraps and tubers, which were traditional fed staples for many years. This trend is expected to continue into the future.

Industrial Use

Industrial use includes the production of starch sweetener, papermaking, textile production, other food-grade products (e.g. monosodium glutamate), and ethanol (both food and non-food use). For MY 2010/11, post estimates corn consumption for all industrial uses totaled 43 MMT, up 4 percent from the previous year as a result of rise in starch sugar and food-grade ethanol production, which is used to create a popular Chinese alcoholic drink called baijiu. For 2010/11, because domestic sugar production is projected to drop 10 percent on poor weather (which will cause prices to rise), demand for less expensive starch sugar is expected to grow for food processing companies. In MY 2011/12 this demand is projected to increase at a slower pace on expectations of continued strong domestic corn prices.

Because of high international sugar prices, for MY 2009/10 starch sugar exports reached a record 820,000 tons, up 32 percent from the previous year. For MY 2010/11, Post projects exports to remain high for some export markets due to tight exportable supplies from Brazil, Thailand, and Australia. The Chinese government has provided no signals that it plans to place export controls on starch sugar exports.

China's ethanol sector primarily uses corn, but also incorporates a wide range of feed stocks including wheat, rice, sweet potatoes, and cassava. Ethanol plants located in coastal provinces such as Shandong and Guangxi import tariff free dry cassava chips from Thailand and other ASEAN countries (free trade agreements were signed in 2003).

China Cassava Imports CY 2006-2010

Partner Country	Unit					
		2006	2007	2008	2009	2010
World	T	4,944,562	4,619,198	1,950,462	6,019,427	5,666,027
Thailand	T	3,864,204	3,202,647	1,247,513	3,862,663	4,596,916
Vietnam	T	935,401	1,273,240	584,725	2,010,561	944,591
Indonesia	T	144,784	139,124	110,820	143,074	122,701

Trade

For MY 2010/11 and MY 2011/12, imports of corn are estimated at 1.5 MMT and 2.5 MMT on expectations of continued strong feed and industrial demand. Post projects that corn imports are to occur later in the marketing year when US imports potentially could be more price competitive (i.e. when total available Chinese supplies are lower). Currently, the February 2011 price for US imported corn (CIF) for delivery from March thru May was USD $80 per ton higher than Chinese domestic corn.

China is not a traditional corn importer, and in MY 2009/10 imported the largest quantity of US corn in the last 10 years. The United States, Thailand, and Peru are the only countries that have market access, although sometimes neighboring SE Asian countries trade small quantities of gray market corn through Yunnan and Guangxi provinces. Industry sources report that Argentina is in the process of completing a pest risk analysis (PRA), which could give the country market access. It is unknown when the PRA will be completed.

Depending on relative pricing, Chinese feed mills substitute corn with DDGS and feed quality wheat, but DDGS has become more popular due to its higher quality (protein content) and price advantages (no VAT or TRQ). For CY 2010, China became the largest importer of US DDGS, purchasing 3.1 MMT. The Chinese domestic ethanol industry also produces DDGS; however, the product has a lower protein content and higher levels of vomitoxin and mycotoxin. Many buyers are willing to pay a price premium for a better quality and safer imported product.

Currently, DDGs comprises approximately 1.5 percent of total feed demand. Large-scale livestock operations have been the primary users, either buying from larger feed mills or importing the product directly. Because it is a relatively new feed ingredient, smaller to medium sized farms have little to no knowledge of the product, and do not use it. In December 2010, China initiated an anti-dumping (AD) case against US DDGS, and a final ruling may not be available for at least one year.

For MY 2010/11 and MY 2011/12, China's corn exports are unchanged and estimated at 150,000 MT. The government manages corn exports with tax incentives and export quotas, and in 2009, removed the VAT rebate to control exports and ensure higher domestic grain supplies. Post does not expect the rebate to be reinstituted anytime in the near future. The majority of China's corn exports are destined for North Korea, South Korea, Japan, and other southeast Asian countries.

Grains	Countries Allowed to Export to China
Wheat	Australia, Canada, France, Kazakhstan, Hungary, United Kingdom, United States, Serbia and Mongolia
Corn	Thailand, United States, Peru
Barely	Australia, Canada, Denmark, France and Argentina.
AQSIQ Official Notice (Updated in January 2011)	

Stocks

While official stock data is not available, from MY 2010/11 to MY 2011/12 Post estimates corn ending stocks to fall from 46.6 to 43.9 MMT. With a rising livestock population and continued consolidation in the livestock industry, Post expects China's feed demand to continue to put pressure on domestic production and overall grain supplies.

Heilongjiang, Jilin, and Inner Mongolia hold most of China's corn stocks. Provincial governments pay storage fees, estimated at an annual cost of USD $14.70 (RMB 100) per ton. The central government occasionally offers discounted rail rates to move corn to Dalian port for shipment to Guangdong Province.

Every marketing year (usually during the winter), the central government purchases corn to replenish stocks and ensure supplies are available to mitigate rising domestic prices. Beginning in January 2011, the State media reported that state owned corn processing companies were notified to stop purchasing corn so that Sinograin (a state grain reserve cooperation) could replenish public silos without having to compete for supplies, which would cause prices to rise. Post contacts estimate that the current market price is 3 percent higher than Sinograin's current asking price. Industry contacts believe farmers may not sell corn until later in the year, as many expect prices to increase.

Rice

Production

In MY 2010/11, total rice production is estimated at 199 MMT (unmilled), up 2 percent from the previous year. Total estimated planted area is 29.8 million ha. Early-season Indica rice production is estimated at 31.3 MMT, down 6 percent from last year on low spring temperatures and excessive summer rainfall and flooding. On the contrary, Japonica rice reportedly experienced above average yields for most provinces, particularly in Heilongjiang. For MY 2011/12 rice production is forecast at 199 MMT (unmilled), which assumes average yields. Acreage is forecast to rise slightly.

Consumption

For MY 2010/11 and MY 2011/12, overall rice consumption is projected to rise 136 and 137.5 MMT (milled). Southern Chinese prefer Indica rice while northern Chinese prefer Japonica rice. Rice consumption is steady as more consumers purchase meat products in lieu of grains.

A few commercial and small-scale swine and poultry farms use small quantities of low quality early rice varieties or stale/rancid rice in their feed compounds. While there is no reliable data on feed quality rice, for MY 2010/11 Post estimates that approximately 10 MMT of rice (unmilled) was used for feed.

Trade

In MY 2010/11 and MY 2011/12, rice imports are estimated at 400,000 MT. Most imports are Thai fragrant rice varieties, which are consumed in high-end hotels or restaurants located in affluent coastal cities. China does produce some fragrance rice varieties, but production does not satisfy demand. That being said, most Chinese consumers favor local rice varieties in lieu of fragrant rice.

For MY 2010/11 and MY 2011/12, rice exports are estimated at 600,000 MT on steady demand from Japan and South Korea. Only two state monopoly trading companies are licensed to export rice.

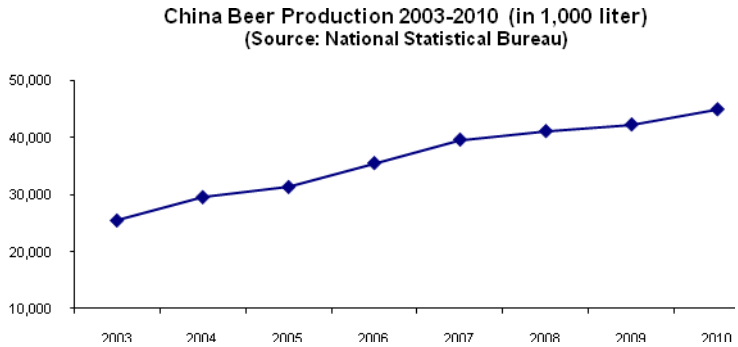
Stocks

Official national reserve data is not available**.** Japonica rice is mainly stored in Heilongjiang, and Indica varieties are stocked in some southern provinces. For MY 2010/11, ending stocks are estimated at 43.9 MMT (milled), and are projected to grow to 45.8 MMT as high production is expected to outweigh demand needs.

Barley

Production

In MY 2010/11 barley production is estimated at 2.5 MMT, 8 percent higher than last year on higher than average yields. Planted area is estimated at 650,000 ha, up 4 percent as more farmers have expanded planted area in Inner Mongolia, Jiangsu, and Gansu provinces (accounts for 50 percent of the national total). Portions of these provinces are mostly limited to barley production due to a lack of rainfall and less fertile soil. MY 2011/12 production is forecast to rise to 2.55 MMT, assuming average yields and continued planted area expansion. China does not consider barley to be an important feed grain, and the crop receives no financial or other assistance.



Consumption

Chinese barley is mostly used for brewing (beer is sometimes less expensive that water in China). For CY 2010, beer production is estimated at 44.8 million kilolitres, up 6.3 percent. From 2004-2008, China's total beer production grew 6 percent annually. Barley production can only meet approximately half of domestic malting barley demand, which is estimated at 4.5 MMT.

Trade

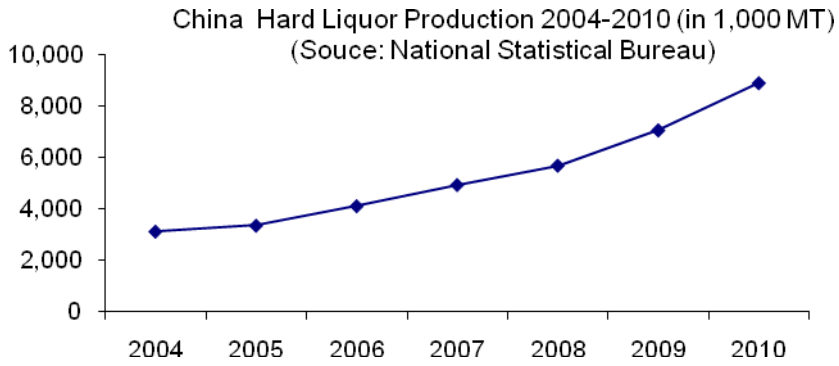
Australia, Canada, France, Denmark, and Argentina are currently the only countries that have market access to China; however, exportable supplies are not always guaranteed. For MY10/11, imports dropped by 30 percent to 1.5 MMT because of weather problems that lowered Australian and Canadian exportable supplies. For MY 2011/12, imports are expected to rebound on strong industry demand.

In order to minimize the impact of international markets, some brewers have reduced their dependence on imported malting barley and focus on producing lighter beers, using malting grain substitutes such as rice and wheat. Many Chinese consumers do not prefer strong flavors, so the current production model appears to meet demand needs. However, brewers are also experimenting with imported ingredients, and are researching on how to create higher quality products with hoppy and malty flavoring.

Sorghum

Production

For MY 2010/11, production is estimated up 7 percent to 1.8 MMT on higher than average yields. Sorghum planted area is 580,000 ha. In MY 2011/12 sorghum production and planted area are both forecast to increase by 3 percent on rising demand. Jilin, Liaoning, Heilongjiang and Inner Mongolia account for over 60 percent of total sorghum acreage, as part of these areas have little to no irrigation facilities. In order to meet local demand, hard liquor distillers in southern China provinces, such as Sichuan and Guizhou, contract with local farmers to maintain stable supplies. China does not consider sorghum to be an important feed grain, and the crop receives no financial or other assistance.



Consumption

The majority of China's sorghum is used to produce hard liquor, or baijiu. In CY 2010, hard liquor production is estimated at 8.9 MMT, up 27 percent. As the middle class continues to grow, hard liquor consumption is forecast to rise. Local governments support hard liquor production facilities since it generates sales tax revenues.

Policy

The 12th five-year-plan will continue to focus on rural development. During the previous 11th five-year-plan (2006-2010), China established support programs for rural development and grain production, which included direct payments for grain farmers, seed subsidies, agricultural machinery subsidies, and a floor price for wheat and rice. Post believes the 12th five-year-plan will further expand the current support programs and increase investment in the rural areas. Because arable land for grain production is limited, the Plan is expected to focus on providing monies for research to improve yields and develop infrastructure (such as irrigation facilities). Biotechnology is also expected to be an important component of the Plan.

In January, China released the 2011 No. 1 document. Since 2004, China has annually published 8 documents that have focused on a wide variety of agriculturally-related issues. This year, it concentrated on improving water conservancy and developing related infrastructure in the rural areas.

Price Controls and Market Stabilization Measures

At the end of 2010 and the beginning of 2011, the central government promulgated measures to mitigate price increases. In November 2010, the government revised a rule on grain auction participants, and stipulated that only feed millers, flour millers, or livestock/poultry producers could participate to prevent excessive purchasing and price hikes. It explicitly prohibits corn processing plants (for industrial corn use) from attending the auction. The rule states that purchases should not exceed a business' average monthly usage.

In December 2010, the State Council revised an administrative rule that further regulates market activities that it believes causes commodity prices to rise. The rule states that if an individual or firm

conducts activities that manipulate market prices, or conspire to raise market prices, it will be fined a maximum of RMB 5 million. A previous 2008 version of the rule stated that the maximum fine would be RMB 1 million. It is unknown what evidence would be used to prove that an individual or firm purposely caused prices to rise. Furthermore, in January 2011 a NDRC notice requested local governments to be "more scrupulous" when approving new corn processing plants and shut down those facilities that fail to meet requirements.

Outside of these measures, in order to maintain sufficient market supplies, the government regularly holds weekly auctions of wheat and rice. According to National Grain and Oil Information Center, the weekly auction for wheat, Indica rice, Japonica rice, and corn is around 4.5 MMT, 2 MMT, 100,000 tons, and 1.8 MMT.

Grain Production Support Program

Government Support Programs in 2005-2010 (in RMB)					
	Direct Payment	**Seed Subsidy**	**Machinery Subsidy**	**Fuel/fertilizer Subsidy**	**Total**
2010	**15.1 billion**	**NA**	**15.5 billion**	**NA**	**133.49 Billion**
2009	**15.1 billion**	**19.85 billion**	**13 billion**	**75.6 billion**	**123.45 billion**
2008	15.1 billion	12.07 billion	4 billion	63.8 billion	102.86 billion
2007	15.1 billion	6.66 billion	2 billion	27.6 billion	51.36 billion
2006	14.2 billion	4.1 billion	600 million	12.5 billion	31.4 billion
2005	13.2 billion	3.9 billion	300 million	0	17.4 billion

Note: In 2007 and 2008 seed subsidies covered soybeans, rice, wheat, corn, rapeseed and cotton. For 2009 and 2010, seed subsidies were extended to potatoes, hulless barley, and peanuts on a trial basis. Complete data for 2011 is not available. For CY 2011, state media reported that direct payments and fuel and fertilizer subsidies will rise by 14 percent (approximately RMB 98.6 billion).

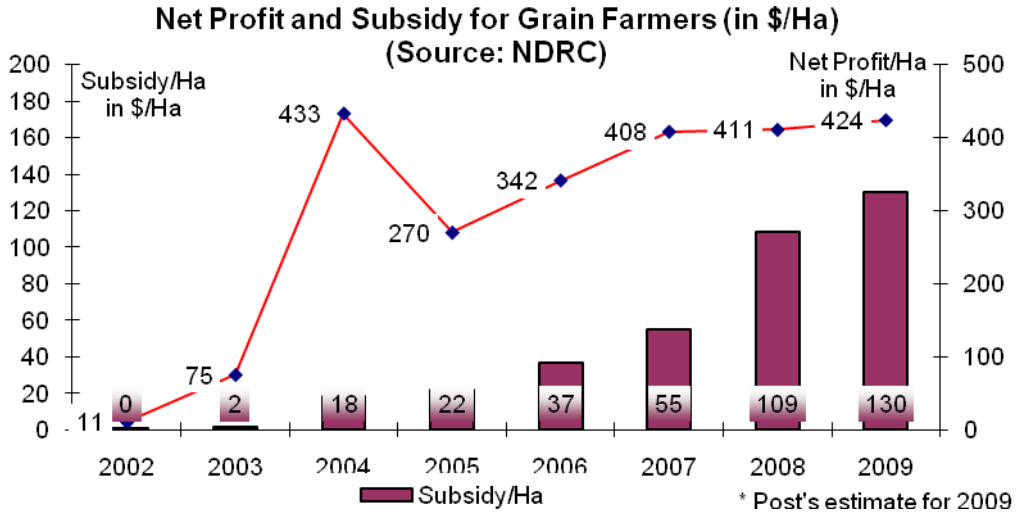
Government Subsidies and Farmer Income

Since 2004, in order to encourage grain production and maintain profit margins for farmers, China implemented a series of policies, including the elimination of taxes on agricultural land, direct payments to grain farmers, adjustments to price support programs, and a subsidy for the purchase of farm machinery. In 2006, China added a direct subsidy for fuel and fertilizers (See GAIN CH8012). For MY 2010/11 and MY 2011/12, Post expects the government of China to continue expanding these support programs.

These initiatives have had an impact on the Chinese agricultural economy. For example, 5.25 million units of agricultural equipment have been purchased by 4 million farmers. Accord to state media, more subsidies will be given to specialized or larger grain operations (i.e. agricultural cooperatives) to encourage land consolidation and greater scale commercial agriculture.

Subsidy and Net Profit for Grain Farmers (in USD $/Ha)							
	2003	2004	2005	2006	2007	2008	2009*
Subsidy/Ha	2	18	22	37	55	109	130

Net Profit/Ha	75	433	270	342	408	411	424
Source: NDRC (note: NDRC stopped publishing subsidy data in 2010)							



Price Support Programs

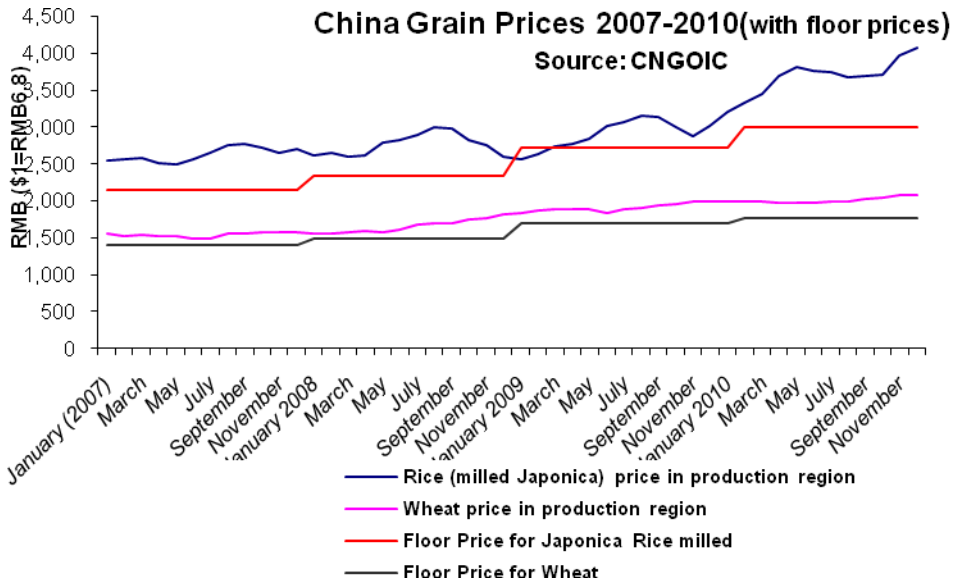
Grain Procurement Prices Increase

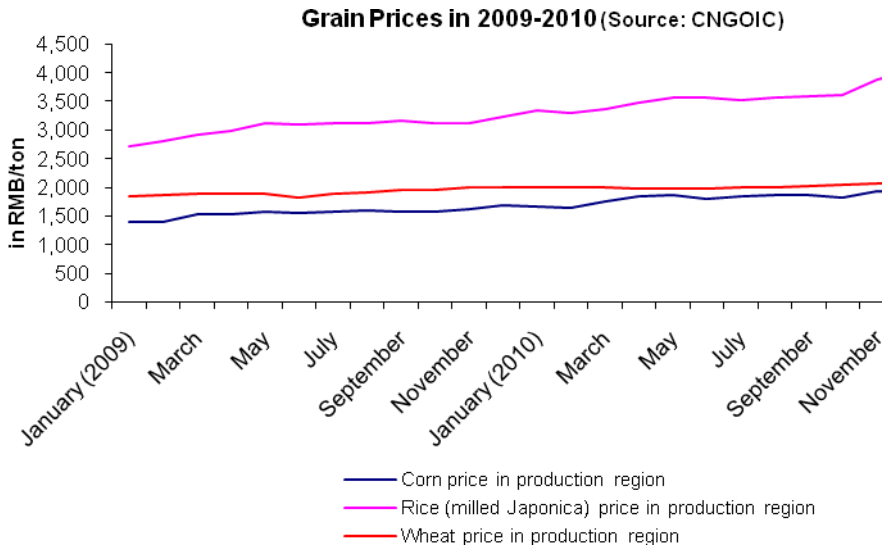
Since 2004, the Chinese government has gradually raised the floor price for both rice and wheat to maintain farmer profit margins and offset rising costs. For instance, the NDRC announced that in MY 2011/12 the floor price for Indica rice and Japonica rice will rise 9.7 percent and 22 percent from the previous year. Nonetheless, for this year market prices are higher than the support price due to lower domestic supplies and continued strong demand (see graphs below). For MY 2010/11, average market prices for wheat, corn, and rice rose 2, 15, and 26 percent over the previous year.

The central government price support program applies to only 13 major grain (wheat, corn, and rice) producing provinces, including Heilongjiang, Jilin, Liaoning, Inner Mongolia, Shandong, Hebei, Henan, Anhui, Jiangsu, Shanxi, Hunan, Hubei, and Jiangxi. These provinces produce about 80 percent of China's total grain supplies. In addition, a few other provinces not included in the price support program also set a floor price to encourage and sustain local grain production.

Government Floor Price for Grains in 2007-2010 (RMB/ton)							
	2008	2009	2010	2011	Growth in 2010	Growth in 2011	Purchase Period
Rice							
Early Indica (unmilled)	1,540	1,800	1,860	2,040	3.30%	9.68%	July-Sept
Japonica (unmilled)	1,640	1,900	2,100	2,560	10.50%	21.90%	Nov-Feb
Wheat							
White Wheat	1,540	1,740	1,800	1,900	3.40%	5.56%	May- Sept

Red Wheat	1,440	1,660	1,720	1,960	3.60%	13.95%	May- Sept
Wheat Average Floor Price	1,490	1,700	1,760	1,930	3.50%	9.66%	
Corn							
Corn Average Floor Price	1,500	1,500	1,800				Dec-April





Grain Tariff Rate Quota

Grain Tariff Rate Quota (TRQ): Allocation (Metric Tons)					
Commodity	**TRQ**	**Private Share**	**State Enterprise Share**	**Tariff rate within TRQ**	**Tariff rate out of TRQ**
Wheat	9,636,000	10%	90%	1%	65%
Corn	7,200,000	40%	60%	1%	65%
Rice (short and long grain)	5,320,000	50%	50%	1%	65%

After accession to the World Trade Organization (WTO), China established Tariff Rate Quotas (TRQs) for wheat, corn, rice, and several other commodities. Since 2004, the quotas have not changed.

PSD tables

Table 1. Wheat PSD table

Wheat China	2009/2010	2010/2011	2011/2012	
	Market Year Begin: Jul 2009	Market Year Begin: Jul 2010	Market Year Begin: Jul 2011	

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	24,290	24,290	24,300	24,300		24,300	(1000 HA)
Beginning Stocks	45,692	45,692	54,314	54,314		55,814	(1000 MT)
Production	115,120	115,120	114,500	110,000		112,000	(1000 MT)
MY Imports	1,394	1,394	1,000	800		800	(1000 MT)
TY Imports	1,394	1,394	1,000	800		800	(1000 MT)
TY Imp. from U.S.	382	382	0	200		200	(1000 MT)
Total Supply	162,206	162,206	169,814	165,114		168,614	(1000 MT)
MY Exports	892	892	1,000	800		800	(1000 MT)
TY Exports	892	892	1,000	800		800	(1000 MT)
Feed and Residual	10,000	10,000	12,000	12,000		14,000	(1000 MT)
FSI Consumption	97,000	97,000	96,800	96,500		96,000	(1000 MT)
Total Consumption	107,000	107,000	108,800	108,500		110,000	(1000 MT)
Ending Stocks	54,314	54,314	60,014	55,814		57,814	(1000 MT)
Total Distribution	162,206	162,206	169,814	165,114		168,614	(1000 MT)

Table 2. Corn PSD table

Corn China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	31,200	31,200	31,500	31,500		31,600	(1000 HA)
Beginning Stocks	53,169	53,169	53,314	47,287		46,637	(1000 MT)
Production	158,000	152,000	168,000	162,000		163,000	(1000 MT)
MY Imports	1,296	1,269	1,000	1,500		2,500	(1000 MT)
TY Imports	1,296	1,269	1,000	1,500		2,500	(1000 MT)
TY Imp. from U.S.	1,513	1,513	0				(1000 MT)
Total Supply	212,465	206,438	222,314	210,787		212,137	(1000 MT)
MY Exports	151	151	200	150		150	(1000 MT)
TY Exports	151	151	200	150		150	(1000 MT)
Feed and Residual	112,000	112,000	113,000	114,000		116,000	(1000 MT)
FSI Consumption	47,000	47,000	49,000	50,000		52,000	(1000 MT)
Total Consumption	159,000	159,000	162,000	164,000		168,000	(1000 MT)
Ending Stocks	53,314	47,287	60,114	46,637		43,987	(1000

							MT)
Total Distribution	212,465	206,438	222,314	210,787		212,137	(1000 MT)

Table 3. Rice PSD Table

Rice, Milled China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	29,627	29,627	29,820	29,820		29,900	(1000 HA)
Beginning Stocks	38,899	38,899	40,849	40,896		43,996	(1000 MT)
Milled Production	136,570	136,570	139,300	139,300		139,500	(1000 MT)
Rough Production	195,100	195,100	199,000	199,000		199,286	(1000 MT)
Milling Rate (.9999)	7,000	7,000	7,000	7,000		7,000	(1000 MT)
MY Imports	300	366	330	400		400	(1000 MT)
TY Imports	300	366	330	400		400	(1000 MT)
TY Imp. from U.S.	0		0	0		0	(1000 MT)
Total Supply	175,769	175,835	180,479	180,596		183,896	(1000 MT)
MY Exports	600	619	900	600		600	(1000 MT)
TY Exports	600	618	900	600		600	(1000 MT)
Consumption and Residual	134,320	134,320	136,500	136,000		137,500	(1000 MT)
Ending Stocks	40,849	40,896	43,079	43,996		45,796	(1000 MT)
Total Distribution	175,769	175,835	180,479	180,596		183,896	(1000 MT)

Table 4. Barley PSD Table

Barley China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	715	626	700	650		675	(1000 HA)
Beginning Stocks	453	453	781	799		534	(1000 MT)
Production	2,500	2,318	2,400	2,500		2,550	(1000 MT)
MY Imports	2,341	2,341	2,100	1,500		1,800	(1000 MT)
TY Imports	2,341	2,341	2,100	1,500		1,800	(1000 MT)

TY Imp. from U.S.	0	0	0	0		0	(1000 MT)
Total Supply	5,294	5,112	5,281	4,799		4,884	(1000 MT)
MY Exports	13	13	20	15		15	(1000 MT)
TY Exports	13	13	20	15		15	(1000 MT)
Feed and Residual	300	200	200	100		150	(1000 MT)
FSI Consumption	4,200	4,100	4,400	4,150		4,200	(1000 MT)
Total Consumption	4,500	4,300	4,600	4,250		4,350	(1000 MT)
Ending Stocks	781	799	661	534		519	(1000 MT)
Total Distribution	5,294	5,112	5,281	4,799		4,884	(1000 MT)

Table 5 .Sorghum PSD Table

Sorghum China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	450	559	430	580		600	(1000 HA)
Beginning Stocks	456	456	248	275		245	(1000 MT)
Production	1,650	1,677	1,700	1,800		1,850	(1000 MT)
MY Imports	83	83	25	30		80	(1000 MT)
TY Imports	83	83	25	30		80	(1000 MT)
TY Imp. from U.S.	0	0	0	0		0	(1000 MT)
Total Supply	2,189	2,216	1,973	2,105		2,175	(1000 MT)
MY Exports	41	41	50	50		40	(1000 MT)
TY Exports	41	41	50	50		40	(1000 MT)
Feed and Residual	100	100	50	60		60	(1000 MT)
FSI Consumption	1,800	1,800	1,700	1,750		1,800	(1000 MT)
Total Consumption	1,900	1,900	1,750	1,810		1,860	(1000 MT)
Ending Stocks	248	275	173	245		275	(1000 MT)
Total Distribution	2,189	2,216	1,973	2,105		2,175	(1000 MT)