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Intelligence

Review and Impact Analysis of Corn Subsidy Policies of Chinese Government

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1. Introduction

Research scope and targets

Region: China

Time scope: the early 2000s (the beginning years of carrying out China's agricultural subsidy policies) till 2016, unless otherwise stated or data unavailable

Product: corn

Aspects: policies related to corn planting and supply, corn import and export, and impact analysis through data on planting area and output of corn, import and export, stock, as well as price changes

2. Approach for this report

Research methodologies

- Desk research from various publications, government organizations and associations related to China's corn and agriculture industries
- CCM's database
- Interviews with experts with good knowledge of factors influencing China's corn policies

Data source

- CCM's database
- Published articles from periodicals, magazines, journals and third-party databases
- Statistics from governments and international institutes
- Telephone interviews
- Comments from industry experts
- Professional databases
- Information from the Internet

The data have been combined and cross-checked to ensure that this report is as accurate and methodologically sound as possible. Throughout the process, a series of discussions was held within CCM to systematically analyse the data and information and draw appropriate conclusions.

3. Executive summary

With Chinese government's growing efforts and governmental investments to ensure grain security after the grain supply shortage in the late 1990s and the early 2000s, China's corn supply, similar to that of wheat and rice, two other major grain crops, kept on improving since 2004.

China's corn output rose sharply during 2004–2015, from XXX million tonnes in 2004 to XXX million tonnes in 2015, with an increase of about XXX %, which increased fastest among all

the agricultural crops and was also much faster than the growth rate of XXX % and XXX % for wheat and rice respectively in the same period. With the continuous increase of domestic corn output, China's local supply could well meet its domestic demand in this period.

China's output growth of corn has been supported further by China's temporary corn reserve policy adopted from 2007, which aimed at stabilizing China's corn supply through ensuring farmers' income for corn planting, and protecting them from losses caused by market price fluctuations. Accordingly, China's corn output growth in this period remained fast, from XXX million tonnes in 2007 to XXX million tonnes in 2015, up by XXX % and at a CAGR of around XXX % in this period, growing the fastest among all agricultural crops. The corn output growth in China during 2007–2015 outpaced its domestic consumption growth, which rose from XXX million tonnes in 2007 to XXX million tonnes in 2015, an increase of XXX %. Accordingly, corn stocks were on the rise in this period.

China has increasingly become a net importer of corn, as the domestic corn was not as competitive as the imports in terms of price. The reasons for the uncompetitive price of domestic corn include rising costs of farm land, labour, agricultural materials, small farm scale, less efficient production and relatively low unit yield, etc. As a result, a large portion of rising domestic output of corn entered the state reserve stock.

Before 2010, China had been a significant net exporter, having exported as much as XXX million tonnes in 2002 at its peak. However, with export plunge in 2008 and low export volume since then and surging import in XXX and relatively big import volume since then, China has become a net corn importer from XXX, despite the fact that the rising domestic output has successfully limited the extent of China's corn import and resulted in very high levels of self-sufficiency rate of corn.

Maintaining a high stock level places a heavy fiscal burden on the Chinese government and managing these stocks has become a pressing concern, which has become an important factor driving Chinese government to adjust its corn subsidy policies from the late XXX.

Facing the difficulty from the triple-high phenomenon (high and growing domestic production, high and increasing imports and high and rising domestic stock), China has started to reform its corn subsidy policies in the last couple of years, such as lowering and even abolishing the government floor price, reducing and liquidating of corn stocks from state grain reserves, and carrying out the "XXX" programme.

As China's corn subsidy policy has been shifting to "XXX" and direct producer subsidies since the late XXX to deal with the huge stock of corn and ever increasing planting area as the top priority, reduced corn output and planting area are expected in China in the coming years.

It is forecasted that in the short run, direct government subsidies to producers will be the major measures adopted by Chinese government to facilitate the difficult adjustments that need to take place as corn production and stock are reduced. Only after these difficult adjustments

have been completed, can China adopt a less burdensome approach towards its intervention in the corn sector, with features of lower government spending and lower levels of production, and possibly a smaller gap between the domestic and the world market price.

4. What's in this report?

Note: Key data/information in this sample page is hidden, while in the report it is not.

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1 Background of China's corn subsidy policies and policy changes

1.2 Position of China's corn supply and demand in the global landscape

Corn, as one of the three major grain crops in the world with output and planting area both larger than the rest two grain crops, rice and wheat, has witnessed growing production and planting area in the world in general entering the 21st century, thanks to the growing demand from corn's major end uses as food, feed and for further processing into industrial products such as ethanol and corn starch.

Figure 1.2-1 Corn harvested area and output in the world, 2001–2014



Source: Food and Agriculture Organization (FAO)

1.3 China's corn supply and demand balance in recent years

With Chinese government's growing efforts and governmental investments to ensure grain security after the grain supply shortage in the late 1990s and the early 2000s, China's corn supply, similar to that of wheat and rice, two other major grain crops, kept on improving since 2004.

China's corn output rose sharply during 2004–2015, from 130.29 million tonnes in 2004 to XXX million tonnes in 2015, with an increase of about XXX %, which increased fastest among all the agricultural crops and was also much faster than the growth rate of XXX % and XXX % for wheat and rice respectively in the same period. With the continuous increase of domestic corn output, China's local supply could well meet its domestic demand in this period.

China's output growth of corn has been supported further by China's temporary corn reserve policy adopted from 2007, which aimed at stabilizing China's corn supply through ensuring farmers' income for corn planting, and protecting them from losses caused by market price fluctuations. Accordingly, China's corn output growth in this period remained fast, from XXX million tonnes in 2007 to XXX million tonnes in 2015, up by XXX % and at a CAGR of around XXX % in this period, growing the fastest among all agricultural crops.

Figure 1.3-1 Output, import, export, domestic consumption and stock of corn in China, 2007–2016



Note: Volume of domestic consumption, import and export is from Oct. in the current year to Sept. in the next year. Output volume is the data by calendar year. $Stock = Production + Import - Domestic\ consumption - Export$
 Source: National Bureau of Statistics of China, Chinese Agriculture Outlook Committee (CAOC), China National Grain & Oils Information Center, China Customs

2 China's corn subsidy policies in recent years and impact analysis

2.1 Policies on corn planting and supply

The “XXX” programme, launched by China's Ministry of Agriculture and implemented since November 2015, has been an important component for China's adjustment of its planting structure, with the program's focus being to cut corn production by converting XXX million

hectares of corn planting area to other crops by 2020, suggesting a fall by XXX % of China's total corn planting area from that in 2016. Under this programme, direct payments of USD XXX ha (RMB XXX /mu) are implemented to promote crop conversion and maintain land fertility mainly for replacing corn with soybeans, pulses and feed crops. In 2016, this programme covered around 100 counties at a total cost of RMB XXX billion, namely USD XXX million. The "sickle-shape region" covers parts of Northeast China, parts of northern China, mountainous areas of north central China, the deserts and grasslands of Northwest China, and mountainous and rocky areas of Southwest China.

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3 Forecast on Chinese government's policy trend on corn industry

With world market prices for corn and other grains remaining at lower levels, and China's corn imports being constrained by the XXX million tonnes corn tariff rate quota, and the high out-quota tariff of XXX %, China imported record amounts of substitute products such as sorghum, barley and dried distillers grains with solubles (DDGS), which further worsened the corn stock situation.

Facing these challenges, Chinese government adjusted its corn subsidy policy trends in recent couple of years, by first freezing the temporary corn procurement and stockpiling price in 2014, and then in 2015 reducing government floor price for corn by about XXX %, from RMB XXX /t to RMB XXX /t. It was announced in March 2016 by the National Development and Reform Commission of China that the temporary procurement and stockpiling programme for corn would be formally repealed in 2016 and replaced by "market procurement" and subsidies to corn producers.

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