

# AgriChina News Alert



## Contents

Editor's Note.....	1
Crops.....	1
2012 China's agricultural produces output sees increase.....	1
2013 Lowest purchasing price of rice released.....	1
China imports corn from Argentina for the first time.....	2
2012 Import & export of agricultural produces in China.....	2
MOA suggests increasing 2013 lowest purchasing price of rice drastically.....	2
China's main grain production area shifts northward.....	3
Gumuzhen: 2012 net profit would decrease by 80%-93%.....	3
Shaanxi: an important fruit production region both for China and the world.....	3
Edible Fungi Research Center founded in Yunnan Province.....	4
China's cigarette output up less than 2.4% in 2012.....	4
China brews soybean industrial policy adjustment.....	4
MOF allocates USD19.4 billion subsidies to support spring farming.....	5
China: cotton reserve measure facing with dilemma.....	5
Twelfth Five-Year Circular Agriculture and Crop Straw Utilization Policy Seminar held.....	6
Oil content of China's rape variety YN171 breaks world record again.....	6
Sinograin purchased 37.47 million tonnes of grain in 2012.....	6
China's accumulated occurrence area of pests and diseases to hit 367 million ha. in 2013.....	6
Five kinds of agricultural production supported by central financial.....	7
2012: China's enterprises purchased 314 million tonnes of grain.....	7
Agricultural means of production industry.....	7
Seed companies' competitiveness to be enhanced in future few years.....	7
Biological Industry Development Plan to benefit seven main sub-industries.....	8
Denghai Seeds invests in a new subsidiary.....	9
Seventh China Biological Industry Convention to be held in June 2013.....	9
China to build three state-level grain seed production bases.....	9
2012: China's pesticide technical output and profit both increase.....	10
2012: Abamectin-aminomethyl becomes the hottest registered pesticide in China.....	10
Both volume and value of China's pesticide import & export increase greatly.....	11
Domestic pesticide demand to see growth in 2013.....	11
Consolidation of pesticide industry accelerates in China.....	11
Canpotex to offer Sinofert one million tonnes of potash fertilizer in H1 2013.....	12
China Ocean University Organism signs agreement with World Horticultural Exposition.....	12
Overcapacity intensifies competition of China's fertilizer industry.....	13
Agricultural machinery and technology integration project launched in Wuhu, Anhui.....	13
MOA revises 2013 state supporting agricultural machinery product list.....	13
State-level High Yield & Quality of Alfalfa Demonstration Project located in Huanghua, Hebei.....	14
AGCO increases investment in China.....	14
Livestock & poultry industry.....	14
Fast-growing chicken calls for more supervision.....	14
Gaoping City again introduces live pig project.....	15
Chongqing to build state-level pig trading market.....	15
Twelfth Five-Year Plan for National Livestock & Poultry Breeding Pollution Prevention issued.....	15
DHN: 2012 net profit to increase by 8%-28% YoY.....	16
2012: Number of China's live pig slaughtering enterprises declines by 26.2%.....	16
Kondarl acquires the largest pig breeding enterprise in Xiamen.....	16
Zhengbang Group to invest USD317 million in pig industry in Bayan, Heilongjiang.....	17



<b>Sunner Development: 2012 net profit to decline by 70%-100%</b> .....	17
<b>Market risk fund of pig industry development launched in Ziyang, Sichuan</b> .....	18
<b>Pork price up sharply in early 2013 but may not continue in the whole year</b> .....	18
<b>Beef price rises for 11 consecutive years</b> .....	18
<b>China sees large increase in pork import</b> .....	19
<b>2012 Jiangxi leading animal husbandry enterprises gain USD16 billion in revenue</b> .....	19
<b>Sanquan Food intends to invest in pig breeding industry</b> .....	19
<b>Fishery industry</b> .....	20
<b>Output of Hubei's freshwater aquatic products ranks No. 1 for 17 years continuously</b> .....	20
<b>Strategic cooperation established between CMBC and China Fisheries Association</b> .....	20
<b>China's first state-level freshwater aquatic product wholesale market located in Jingzhou</b> .....	21
<b>Haid Group to invest USD188 million in nine feed projects</b> .....	21
<b>First aquatic index in China officially released</b> .....	22
<b>Baiyang Group intends to purchase 100% shares of Jiadexin Food</b> .....	22
<b>The U.S. launches countervailing investigation on shrimp from China</b> .....	22
<b>2012 Guangdong Port exports of aquatic products &amp; seafood see increase</b> .....	22
<b>Food industry</b> .....	23
<b>Yashili invests USD175 million to build new milk powder factory in New Zealand</b> .....	23
<b>Domestic vegetable prices continue to rise in Jan. 2013</b> .....	23
<b>Yunnan coffee tries to gain pricing right</b> .....	23
<b>Lu Zhou Lao Jiao makes great efforts to develop medium-end white spirit</b> .....	24
<b>Jiugui Liquor: net profit down 43% at least in Q4 2012</b> .....	24
<b>2012/2013 State reserve of sugar launched</b> .....	24
<b>Heilongjiang: Q1 2013 raw milk purchasing price determined</b> .....	25
<b>Huishan Dairy to launch infant formula</b> .....	25
<b>Shunxin Agriculture to invest USD76 in wine project</b> .....	25
<b>COFCO Tunhe: 2012 net loss predicted to hit more than USD111 million</b> .....	26
<b>Mengniu Dairy denies rumors of taking over Modern Farming</b> .....	26
<b>China intends to finish existing food standards clear-up work by the end of 2013</b> .....	26
<b>Macroeconomy</b> .....	26
<b>China's CPI in Dec. 2012 up 2.5% YoY</b> .....	26
<b>China's urbanization rate hits 52.57% in 2012</b> .....	27
<b>China's 2012 GDP growth at 7.8%</b> .....	27
<b>China's 2012 foreign trade growth misses 10% target</b> .....	27
<b>Online shopping continues surging in 2012</b> .....	27

## Editor's Note

In order to provide you with more comprehensive and timely information on Chinese agriculture, the publication of AgriChina Investor will be changed from monthly issue to daily update online since February 2013. We can also provide weekly or monthly report as per your request.

The modified edition of AgriChina Investor, hereafter named as AgriChina News Alert, will feature diverse news classified by industries, including macroeconomy, crop planting, agricultural means of production, live stocks & poultry, fishery, food, etc. The number of news issued online depends on the quantity of industry news reported that day.

Specifically, in cases like holidays of China National Day from October 1 to October 7, and holidays of Chinese Lunar New Year (Spring Festival) in January or February, the online publication of AgriChina News Alert will be suspended till the holidays have passed.

## Crops

### 2012 China's agricultural produces output sees increase

According to the Ministry of Agriculture (MOA), the output of agricultural produces in China witnessed growth in 2012, which is mainly boosted by the nine-year continuous increase of China's grain output, as well as the output increase of sugar, meat, oil crops and vegetables.

It is reported that the output of sugar crops has reached a total of 135 million tonnes in 2012, up 7.8% year on year. Besides, China's meat output has increased to 82.21 million tonnes in 2012 with a year-on-year growth rate of 5.4%, while the outputs of eggs and milk have climbed by 1.8% and 2.3% to 28.61 million tonnes and 37.44 million tonnes respectively, according to the MOA.

In addition, despite a decline in planting area, the outputs of oil crops and cotton have increased to 34.76 million tonnes and 6.84 million tonnes in 2012, with year-on-year growth rates of 5.1% and 3.8%, respectively. According to the MOA, the planting area of China's oil crops declined by 66,667 ha. (1 million mu) in 2012, while that of cotton dropped by 206,667 ha. (3.1 million mu).

The output of China's vegetables has increased to a record high of 702 million tonnes in 2012, seeing a growth rate of 3.4% year on year.

### 2013 Lowest purchasing price of rice released

In order to stabilize farmers' enthusiasm for planting, the lowest purchasing prices of Chinese early rice, late indica rice and japonica rice in 2013 have been raised to USD21.0/50kg, USD21.4/50kg, USD23.8/50kg, up 10.0%, 8.0% and 7.1% respectively over the previous year, according to data from the National Development and Reform Commission.

**TABLE 1:** Lowest purchasing price of rice in China, 2011-2013

Year	Early rice		Late indica rice		Japonica rice	
	USD/50kg	RMB/50kg	USD/50kg	RMB/50kg	USD/50kg	RMB/50kg
2013	21.0	132	21.4	135	23.8	150
2012	19.0	120	19.8	125	22.2	140
2011	15.8	102	16.6	107	19.8	128

Source: National Development and Reform Commission

### China imports corn from Argentina for the first time

According to data from China Customs, China imported 48.1 tonnes of corn from Argentina in Oct. 2012, which is the first time that China has imported corn from Argentina since China signed the plant quarantine agreement with Argentina in April 2012. On 18 Dec. 2012, the Argentine government claimed in a notice that the two containers carrying 48.1 tonnes of corn had passed the health quarantine by China, indicating the corn from Argentina has entered Chinese market, though the corn was ever detained at the port because some GMO ingredients not permitted by China was detected.

"Although this first import volume of corn from Argentina was quite small, that Argentina's corn can meet the requirements of quarantine standards of China means significant to Argentina." Said Norberto Yawar, Secretary of Argentina Department of Agriculture.

Compared with corn imported from the US, corn from Argentina has price advantage. The CIF price of the imported corn was USD321/t in Oct. 2012 while the CIF price of corn from the US was about USD380/t. Shandong Liuhe Group Co., Ltd. (Shandong Liuhe), the importer of the 48.1 tonnes of corn, praised that the corn has high cost performance. It is a large progress for China to import corn from Argentina for the import of corn from other main corn exporters other than the US may be kicked off. It is predicted that China may import more corn from Argentina.

### 2012 Import & export of agricultural produces in China

According to data from the Ministry of Agriculture, in 2012, the total import and export value of agricultural produces in China reached USD175.77 billion, up 12.9% year on year. Thereinto, the export value amounted for USD63.29 billion, up 4.2% year on year; the import value USD112.48 billion, up 18.6% year on year; the trade deficit USD49.19 billion, up 44.2% year on year.

Among the total import, the cereal grain import was 13.98 million tonnes, up 156.7% year on year. Meanwhile, the cereal grain export was only 1.01 million tonnes in the same period, down 16.4% year on year.

The huge increase of the cereal grain import has caused wide worries for grain security in China.

TABLE 2: China's import of major agricultural produces in 2012

Product	Import volume, '000 tonnes	YOY change
Wheat	3,701	194.2%
Corn	5,208	197.0%
Rice	2,369	296.2%
Barley	2,528	42.4%
Cotton	5,413	51.8%
Sugar	3,747	28.4%
Edible oilseeds	62,280	13.6%
Edible vegetable oil	9,600	23.1%

Source: Ministry of Agriculture

### MOA suggests increasing 2013 lowest purchasing price of rice drastically

The Ministry of Agriculture (MOA) suggests increasing the lowest purchasing price of rice drastically in 2013, in consideration of the increasing planting cost of rice in China. For example, in 2012, the planting cost of rice in Jiangxi Province grew by more than 20% over the previous year. Besides, due to continuous rain in harvesting period, the labor cost of rice harvesting in Heilongjiang Province increased by USD238/ha.-USD476/ha. in 2012. In order to stabilize farmers' enthusiasm for planting, the lowest purchasing price of rice is expected to increase largely in 2013. Actually, it is reported that the lowest purchasing prices of per kilogram of early rice, late indica rice and japonica rice in 2012 have been raised by 17.7%, 16.8% and 9.4% respectively over the previous year.



Besides rice, the planting costs of other grain crops like wheat have also increased. According to investigation from the National Development and Reform Commission (NDRC), the net profit of wheat planting has been decreasing for three years and is expected to continue to drop this year owing to planting cost rise.

### China's main grain production area shifts northward

In 2012, the grain yield of seven main production areas in Northern China accounted for 46.3% of the nation's total, up 6.5% compared with that in ten years ago, indicating that the main grain production areas have gradually shifted to Northern China. And this trend is becoming more significant, especially with the declining planting area in sales areas and balanced areas of production & sales in China.

In China, the grain yield of 13 main production areas around China covering Heilongjiang Province, Jilin Province, Liaoning Province, Inner Mongolia Autonomous Region, Henan Province, Shandong Province, Hebei Province, etc. contributed 75.7% to the nation's total in 2012, up 4.7% over that in 2003. Meanwhile, it's reported that the total planting areas and yields of the southeast coastal areas including Zhejiang Province, Fujian Province, Guangdong Province, Guangxi Zhuang Autonomous Region and Hainan Province have decreased by 1.2 million ha. and 950,000 tonnes from 2003 to 2012.

**TABLE 3:** Regional division of grain functional zone in China, 2012

Category	Provinces and regions
Main production areas	Northern China: Heilongjiang, Jilin, Liaoning, Inner Mongolia, Hebei, Henan, Shandong; Southern China: Jiangsu, Anhui, Jiangxi, Hubei, Hunan, Sichuan
Main sales areas	Beijing, Tianjin, Shanghai, Zhejiang, Fujian, Guangdong, Hainan
Main balanced areas of production & sales	Shanxi, Ningxia, Qinghai, Gansu, Tibet, Yunnan, Guizhou, Chongqing, Guangxi, Shaanxi, Xinjiang

Source: Ministry of Agriculture

### Gumuzhen: 2012 net profit would decrease by 80%-93%

On 22 Dec, 2012, Gumuzhen Bio-technology Co., Ltd. (Gumuzhen) released that its net profit in 2012 would decrease by 80%-93% year on year. Huang Qinghua, Secretary of Chairman of Gumuzhen, indicated that the intensified competition had resulted in this unsatisfactory performance. In the past few years, China's edible fungi industry has developed very quickly with both edible fungi producers and output increasing significantly. The company's gross profit and product price suffered a lot from the intensified competition. It is reported that the company experienced the first loss during Q1-Q3 2012 since it got listed in December 2010.

Gumuzhen is mainly engaged in R&D, planting, processing and sales of edible fungi. In the past few years, the company has been dedicated to integration of industry chain and construction of brand. In terms of sales strategy, the company will put more efforts into the sales promotion in shopping malls and supermarkets, targeting the high-end market.

### Shaanxi: an important fruit production region both for China and the world

In 2012, the export of fruits in Shaanxi Province has shown a good performance, with export volume and export value reaching 587,000 tonnes and USD495 million respectively, as well as the fruit variety for export increasing to 13. Besides, the export destinations has increased to 63 countries and regions around the world covering Southeast Asia, Europe, Africa, America, etc. Currently, the total planting area and annual output of fruits in Shaanxi Province have reached 1.14 million ha. and 14.2 million tonnes respectively, indicating that Shaanxi has become an important fruit production region for both China and the whole world.

It is reported that fruit industry is one of the six important pillar industries in Shaanxi Province. In recent years, Shaanxi Provincial Government has attached great importance to exploiting overseas market, especially lifting the export ban in nine main foreign countries, including lifting the ban on apple export to Canada, Australia, Chile, Mexico, Argentina, Peru, Mauritius and South Africa; pear export to Australia, Chile, Mexico, Argentina, Peru, Mauritius and South Africa; citrus export to Chile and Peru, as well as grape export to New



Zealand.

In addition, Shaanxi Province has vigorously strengthened the management of export registration for fruit planting bases and processing companies. At present, the number of registered orchards and processing companies for export has increased to 644 and 89 respectively. Besides, Shaanxi Province has also actively encouraged companies and planting bases to carry out the work of international quality certification and promote the construction of quality and safety demonstration areas for exported fruits. Meanwhile, Shaanxi Province has established good relationship with many port inspection and quarantine authorities and has signed memorandums of cooperation with nine ports successively in recent years, in a bid to reduce the export risk of fruit exporters.

### **Edible Fungi Research Center founded in Yunnan Province**

In late December 2012, the Edible Fungi Research Center, with total investment of USD19 million (RMB120 million) by Yunnan Fungi Science and Technology Group Co., Ltd. (Yunnan Fungi Group), was founded in Jinning Industrial Park, Yunnan Province. It is reported that the center covers a total area of 42,000 square meters and mainly includes the National Supply and Marketing Cooperatives Edible Fungi Engineering Technology Research Center and Yunnan Edible Fungi High-Tech Industry Demonstration Project. Specifically, the construction consists of a fungi breeding center, a modern industrial cultivation workshop, an edible fungi processing & deep processing workshop, a cold chain logistics warehousing center, an information center, a wholesale market and related supporting facilities. According to Ji Xiangyang, Deputy Director of Kunming Institute of Edible Fungi, the only ministry-level institute of China's edible fungi industry, the center will be put into operation in two years, with estimated annual output value of USD24 million (RMB150 million), which will provide technological support for the upgrade of China's edible fungi industry.

China is the world's largest production country and consumption market of edible fungi, with Yunnan Province owning the richest edible fungi resources. Yunnan Fungi Group, which is mainly engaged in research, production and sales of edible fungi, can make full use of Yunnan Province's rich resources to improve the competitiveness of domestic edible fungi products in international market.

### **China's cigarette output up less than 2.4% in 2012**

China's output of cigarettes hit 49.50 million boxes (In China, a standard box of cigarette means 50,000 cigarettes.) in 2012, increasing by less than 2.4% year on year, said Jiang Chengkang, head of the State Tobacco Monopoly Administration.

China planted 1.51 million ha. of flue-cured tobacco in 2012, said Mr. Jiang, and the crops brought USD7,063 in income to each farming household on average, up 48.4% year on year. China's tobacco industry paid USD137.94 billion in taxes in 2012, up 15.7% year on year. China has set a goal of implementing a public smoking ban during the 2011-2015 period and some cities have enacted related local legislation, which may hinder the output increase of cigarette to some extent.

### **China brews soybean industrial policy adjustment**

China is brewing soybean industrial policy adjustment, eyeing that the import volume of soybean hit a new record high in 2012 while domestic soybean production and processing industry continued to shrink in recent years. It's estimated that China would issue some new policies, hoping to improve the enthusiasm of farmers to grow soybeans and enhance the self-sufficiency rate of domestic soybean.

In recent years, China's soybean import volume showed an upward trend year by year while the output of domestic soybean has been declining. According to China Customs, China has imported 58.38 million tonnes of soybean in 2012, with an increase rate of 10.9% year on year.

At present, soybean industry insiders and food experts are expecting the supporting policy on the adjustment of soybean price eagerly. Price subsidy is considered to be a helpful policy tool. It is understood that the government would subsidize the price difference when the target price which provides a reasonable return to farmers is higher than current market price. Some experts also suggest that China



should develop policies to support domestic soybean enterprises, including but not limited to tax incentives and government grants.

### **MOF allocates USD19.4 billion subsidies to support spring farming**

In order to support the spring farming, the Ministry of Finance (MOF) recently has allocated USD2.4 billion (RMB15.1 billion) of grain direct subsidies and USD17.0 billion (RMB107.1 billion) of subsidies for agricultural means of production to provinces, autonomous regions and municipalities.

In addition, the MOF has also allocated USD5.0 billion (RMB31.5 billion) of grants for 2013 grain risk fund. Coupled with USD1.1 billion (RMB6.7 billion) that allocated by local government, the current amount of grain risk fund has risen to USD6.1 billion (RMB38.2 billion).

The grain risk fund, established in 1994, is aiming to protect the interests of grain growers, and further to stabilize grain markets and to ensure national grain safety. In order to alleviate the financial burden of the main production areas, the grain risk funds in China's 13 main production areas have all been paid by the MOF.

**TABLE 4:** Subsidies for spring farming and 2013 grain risk fund in China

<b>Item</b>	<b>Department</b>	<b>Amount, billion USD</b>	<b>Amount, billion RMB</b>
Grain direct subsidy	MOF	2.4	15.1
Subsidy for agricultural means of production	MOF	17.0	107.1
Grain risk fund	MOF	5.0	31.5
	Local governments	1.1	6.7

Source: *The Ministry of Finance (MOF)*

### **China: cotton reserve measure facing with dilemma**

It is reported that China has reserved 5.6 million tonnes of cotton from 1 Sept., 2012 to 14 Jan., 2013, according to the China National Cotton Reserves Corporation (CNCRC), a wholly state-owned enterprise which is responsible for the management of state cotton reserves. The reserve measure helps many cotton farmers in China to escape the severe market risk provisionally. However, it will be trapped in a dilemma: if the reserve goes on, China's finance will be overwhelmed under the financial pressure coming from cotton reserve; without cotton reserve measure, the market fluctuation of cotton will be violent, which will hurt domestic cotton farmers and hit the cotton industry seriously.

In order to resolve the problem that domestic cotton is unsalable, China published a measure of temporary cotton reserve with the purchasing price of USD3,094/t (RMB19,800/t) in Sept. 2011. In Sept. 2012, China decided to re-start the measure of temporary cotton reserve with the purchasing price of USD3,238/t (RMB20,400/t), USD793/t (RMB5,000/t) higher than that of the international price.

Some insiders estimated that China's reserve volume of cotton will be 8.5 million tonnes as of April 2013, which is almost equivalent to the use amount of all domestic cotton textile enterprises for a whole year. It means that China will have to pay a capital of no less than USD27.5 billion (RMB173 billion, based on USD3,238/t in Sept. 2012) for purchasing cotton, which will bring great financial pressure to the government.

China is facing more risks in reserving cotton as the reserve volume of cotton increases rapidly. Currently, the international price of cotton is lower than that of domestic price. Besides, the reserve price of cotton is lower than the average domestic price of cotton but higher than the international price. If the CNCRC sells the reserve cotton at the international market price, it will bear a huge loss. But if CNCRC sells reserved cotton at the purchasing cost, domestic textile enterprises could not afford it.





## **Twelfth Five-Year Circular Agriculture and Crop Straw Utilization Policy Seminar held**

On 19 Jan. 2013, the Twelfth Five-Year Circular Agriculture and Crop Straw Utilization Policy Seminar, sponsored by the Resource and Environmental Policy Institute of the Development Research Center of the State Council, was held, aiming to promote resource utilization and clean production process, especially to promote the comprehensive utilization of crop straw, and further to improve the rural ecological environment.

China is a large grain production country in the world and produced 590 million tonnes of grain in 2012, with the output of crop straw hitting 700 million tonnes. For years, crop straw has been burned in various rural areas, which has resulted in waste of resources as well as severe air pollution. And It is reported that the volume of burned crop straw has accounted for about 30% of the total at present.

Since 2000, China has attached great importance to the comprehensive utilization of crop straw. In 2008, the State Council has issued the Opinion on Accelerating the Promotion of Comprehensive Utilization of Crop Straw, which has promoted the development of the comprehensive utilization of crop straw. Currently, the application fields of crop straw have extended to fertilizers, feeds, edible fungi base materials, industrial raw materials and fuel purposes from the usage on energy and livestock feed only in rural areas.

In addition, it is suggested that companies should become the main force in the process of comprehensive utilization of crop straw. And companies that engage in R&D in crop straw utilization should be supported in various aspects like financing vigorously.

## **Oil content of China's rape variety YN171 breaks world record again**

A new rape variety named YN171, bred by Wang Hanzhong, researcher of Oilcrops Research Institute, Chinese Academy of Agricultural Sciences, as well as chief scientist of the National Rape Industrial Technology System, has broken the world record of oil content again from the previous record of 54.74% which was also created by Professor Wang. It is reported that the oil content of YN171 has hit a high record of 64.8%, which will provide valuable parent resources for China's rape breeding and research on gene regulation on high oil content. Meanwhile, it indicates that the oil content of China's rape has a huge room for improvement.

In addition, Professor Wang and his team also bred a high-yield rape variety named 11-zy293 with oil content of 49.57%, which gained an oil output of 1,434 kilograms per hectare in 2011-2012 regional test, 193 kilograms per hectare higher than that of common rape variety. Besides, 11-zy293 in the regional test also showed good performances like lodging resistance, disease resistance, etc. which is suitable for mechanical sowing and harvesting.

## **Sinograin purchased 37.47 million tonnes of grain in 2012**

China Grain Reserves Corporation (Sinograin), a state-owned enterprise which plays a key role in carrying out state initiatives to ensure China's food security and economic growth, purchased 37.47 million tonnes of grain and 4.37 million tonnes of rapeseed in 2012. Meanwhile, the contracted grain production area hit 1.13 million ha., 60,000 ha. more than that in 2011.

## **China's accumulated occurrence area of pests and diseases to hit 367 million ha. in 2013**

On 23 Jan. 2011, the National Agro-Tech Extension and Service Center (NATESC) released its forecast on China's pest and disease occurrence in 2013 according to the data from a national discussion forum organized by NATESC with hundreds of crop protection experts during 6-7 Dec. 2012.

Based on local cardinal number research in late 2012, climate situation, planting structure and annual pest and disease occurrence situation, China's general accumulative occurrence area of pests and diseases in 2013 is forecasted to reach about 366.67 million ha., almost the same as that in 2012.



Some pests are predicted to break out in 2013, such as plant hoppers and leaf rollers on rice, wheat aphids and corn borers. In detail, the total occurrence area of rice plant hopper is predicted to reach 26.67 million ha., while that of rice leaf roller to hit 18.67 million ha., armyworm 6.67 million ha. and wheat aphids 16.67 million ha. Moreover, the total occurrence area of rice blast is forecasted to reach 5.33 million ha., while that of wheat scab will also hit 5.33 million ha.

### **Five kinds of agricultural production supported by central financial**

Five kinds of agricultural production will be more strongly supported by the central financial, according to the revised Central Financial Fund Management Measures for Modern Agricultural Production released by the Ministry of Finance recently.

The five kinds of agricultural production include:

- 1 Grain production, including rice, wheat, corn, potato, etc. Fund will be mainly allocated to infrastructure construction such as farmland irrigation and water conservancy.
- 2 Livestock and poultry industry, such as raising of pigs, cattle, sheep and chickens. Fund will be mainly allocated to construction of farming community.
- 3 Aquaculture industry, such as fish, the raising of shrimp, etc.
- 4 Industry of fruits, such as apple, citrus, etc. Fund will be mainly allocated to infrastructure construction as well as breeding and promotion of improved seedlings.
- 5 Production of other economic crops, such as woody oil plants, vegetables, tea, sugarcane, flowers, etc. Fund will also be mainly allocated to infrastructure construction and breeding & promotion of improved seedlings.

### **2012: China's enterprises purchased 314 million tonnes of grain**

In 2012, domestic grain enterprises purchased a total of 314 million tonnes of grain, of which 131 million tonnes are purchased by state-owned enterprises as reported. In addition, increasing price of state purchasing and storage benefited the grain growers to increase revenue with USD5.6 billion in 2012.

Ren Zhengxiao, Director of the State Administration of Grain, indicated on 2013 National Grain Circulation Conference held on 22 Jan. 2013 that grain purchasing played an important role in ensuring grain supply and stabilizing grain price. It is also reported that the performance of state-owned grain enterprises has been improved significantly in recent years, with a total net profit of USD1.3 billion in 2012, receiving a six-year continuous increase. In addition, with the promotion of grain and oil industry adjustment, transformation and upgrading, the total output value of the nation's grain and oil industry has hit USD365 billion in 2012, up 19.5% year on year.

However, China's grain supply is still tight in general. And grain safety has become an important issue especially with the increasing demand for grain in recent years, expressed by Director Ren.

### **Agricultural means of production industry**

#### **Seed companies' competitiveness to be enhanced in future few years**

On 26 Dec 2012, the State Council formally released the National Modern Crop Seed Industry Development Plan (the Plan). According to the Plan, seed companies that integrate breeding, production and promotion will be cultivated and the market share of top 50 seed companies is expected to exceed 40% by 2015. And in 2020, large-scale seed industry groups will be cultivated, with the market share of top 50 companies taking up over 60%.

It is worth noticing that seed companies are encouraged to engage in seed breeding, and scientific research institutions and colleges & universities will be separated from affiliated seed companies in commercial breeding step by step till 2015, which aims to cultivate large-scale seed companies and improve domestic seed industry's competitiveness, revealed by Zhang Yuanhong, Director of the



Industry and Regional Economy Research Office of Rural Development Institute, Chinese academy of Social Sciences.

For years, scientific research institutions coupled with colleges & universities have been the main forces in seed breeding in China, while domestic seed companies are weak in R&D and competitiveness, as well as proprietary intellectual property rights. Besides, the concentration of seed industry is low as there are over 6,000 seed companies with most of them are medium-and-small-scale ones at present. In addition, market competition has been intensified recently since foreign seed brands have been taking more and more shares in domestic market.

In order to encourage the development of domestic seed companies, government has also issued some preferential policies in the Plan. Firstly, eligible seed companies that integrate breeding, production and promotion will enjoy exempted enterprise income tax; Secondly, high-tech seed companies can enjoy preferential tax policy; Thirdly, seed companies can also enjoy preferential tax policy for related assets evaluation value increment, debt restructuring income and land & housing ownership transfer that occur in mergers and acquisitions. The plan, which involves the whole industry chain from seed breeding and production to promotion, will better guide the development of domestic seed industry.

### **Biological Industry Development Plan to benefit seven main sub-industries**

Recently, the State Council has issued the Biological Industry Development Plan (the Plan), aiming to develop biological industry to become one of China's pillar industries by 2020. According to the plan, the average annual growth of the output value of biological industry is expected to maintain over 20% during 2013-2015. And in 2015, the ratio of output value of biological industry to GDP is expected to be double over that in 2010. Besides, the plan sets clear goals for seven main sub-industries including biological medicine, biomedical engineering, biological agriculture, biological manufacturing, biological energy, biological environmental protection and biological service.

In biological medicine industry, the plan requires related departments to carry out biotech drugs development program and to speed up the R&D of new products such as biotech drugs, chemical medicine, traditional Chinese medicine, as well as the development and industrialization of new technologies. During 2013-2015, the average annual growth of the output value of biological medicine industry is expected to maintain over 20%. And new products with proprietary intellectual property rights and large-scale enterprises with annual output value exceeding USD1.6 billion (RMB10 billion) will both be promoted in the market.

In biomedical engineering industry, the plan requires related departments to carry out high performance medical equipment industrialization. In 2015, the output value of biomedical engineering industry is expected to reach USD63.5 billion (RMB400 billion). Besides, some core technologies will be mastered and some high-end biomedical engineering manufacturers will be promoted.

In biological agriculture industry, the plan requires related departments to accelerate the development of biological breeding industry and biological products for agricultural use, as well as industrialization and comprehensive utilization of marine biological resources. In 2015, the output value of biological agriculture industry is expected to reach USD46.2 billion (RMB300 billion). And new products & technologies and large-scale biological agricultural enterprises will be promoted in the market.

In biological manufacturing industry, its output value is expected to reach USD119.0 billion (RMB750 billion) in 2015. Besides, Some progresses are expected to be achieved in the substitutions of bio-based products for petrochemical materials as well as biological process for traditional chemical process. As to biological energy industry, its output value is expected to reach USD23.8 billion (RMB150 billion) in 2015, equivalent to an annual consumption volume of 50 million tonnes of standard coal. And CO<sub>2</sub> emission reduction is estimated to hit 95 million tonnes in 2015. As to biological environmental protection industry, its output value is expected to increase with an average annual growth of over 15% during 2013-2015 and to reach USD23.8 billion (RMB150 billion) in 2015. In biological service industry, its annual output value is expected to increase to USD23.8 billion (RMB150 billion) in 2015 and some large-scale enterprises with international advanced level will be promoted too.



**TABLE 5:** Expected output value of main biological sub-industries in China, 2015

Sub-industries	Output value in 2015	
	Billion USD	Billion RMB
Biological manufacturing	119.0	750
Biomedical engineering	63.5	400
Biological agriculture	46.2	300
Biological energy	23.8	150
Biological environmental protection	23.8	150
Biological service	23.8	150
Biological medicine	N/A	N/A

Source: *Biological Industry Development Plan*

### Denghai Seeds invests in a new subsidiary

On 9 Jan. 2013, Shandong Denghai Seeds Co., Ltd. (Denghai Seeds) announced to jointly set up a subsidiary named Shandong Denghai Daoji Seeds Co., Ltd. (Denghai Daoji) with Beijing Daoji Putai Agricultural Technology & Service Center (Daoji Putai), aiming to integrate the company's human and technology resources, to accelerate the pace of technological innovation, to cultivate improved varieties with independent intellectual property rights that suit the market demand, to improve the company's core competitiveness, to expand the market with advantage of location and to improve the scale economy of the company. It is reported that Denghai Daoji is totally registered with USD4.8 million (RMB30 million), with 51% coming from Denghai Seeds. Denghai Daoji is mainly engaged in seed breeding, production and promotion; technology development, consulting and transfer of agricultural produces; and marketing of agricultural means of production. Shandong Denghai released that this investment has no significant impact on its own financial performance since the investment only accounts for 1.35% of its net capital (based on the company's 2011 annual report).

Shandong Denghai is a leading domestic corn seed supplier. In Q3 2012, the company has totally generated revenue of USD6.58 million and net profit of USD1.90 million. As of 30 Sept. in 2012, Shandong Denghai has realized revenue of USD57.15 million and net profit of USD9.00 million.

### Seventh China Biological Industry Convention to be held in June 2013

The Seventh China Biological Industry Convention, China's largest annual event for biological industry, is scheduled to be held in this June in Kunming City, Yunnan Province, according to the organizing committee at a press conference.

It is reported that main content of the convention will include forums and exhibitions on development trends and technological research progress, as well as meetings, serving as a platform that offers communication and cooperation opportunities for research institutions and enterprises in the industry. Besides, an annual report on the development of China's biological industry will be presented at the convention to reveal investment opportunities for various sub-industries.

According to the Biological Industry Development Plan issued by the State Council recently, China aims to develop biological industry to become one of China's pillar industries by 2020.

### China to build three state-level grain seed production bases

According to the National Modern Crop Seed Industry Development Plan (2012-2020) (the Plan) released by the Ministry of Agriculture (MOA) on 26 Dec. 2012, China will build three state-level grain seed production bases namely Northwest hybrid corn seed production base, Southwest hybrid rice seed production base and Hainan breeding base.

Besides, China will also build 100 regional seed production bases in major grain production areas and build some county-level seed



production bases in counties with seed production area of more than 667 ha.

In addition, some large seed processing centers will be constructed to support seed production bases according to the plan. And financial subsidies for seed will be increased in a bid to arouse the enthusiasm of enterprises to take part in the national seed reserve. As for agricultural insurance, insurance for the production of hybrid corn seed and hybrid rice seed, which are both with high risks in seed breeding, will be raised.

### **2012: China's pesticide technical output and profit both increase**

In 2012, China's pesticide technical output has reached 1.12 million tonnes (converted to 100% technical), up 11% over the previous year. Besides, the profit of pesticide is expected to hit USD2.1 billion (RMB13 billion), around 3% higher than that in 2011, released by China Crop Protection Industry Association (CCPIA) on 11 Jan. 2013.

Li Zhonghua, Secretary of CCPIA, indicated that China's pesticide industry would face several challenges in 2013 such as higher non-trade barriers from the member states of the EU and the WTO, intensifying competition from homogeneous products in domestic market and new foreign patented products, as well as fake and shoddy products.

Li also suggested that China's pesticide industry should pay much attention to increasing the degree of industry concentration in 2013, to enhancing innovation ability of pesticide producers, to encouraging mergers and acquisitions, as well as to encouraging investments in environment-friendly products that with high added value.

### **2012: Abamectin-aminomethyl becomes the hottest registered pesticide in China**

According to the Institute for the Control of Agrochemicals, Ministry of Agriculture (ICAMA), pesticides whose newly increased registration number ranked the forefront during 2010-2012 include abamectin-aminomethyl, abamectin, chlorpyrifos, imidacloprid, glyphosate, acetamiprid, lambda-cyhalothrin, etc. Thereinto, the newly increased number of abamectin-aminomethyl has exceeded abamectin which ranked the first both in 2010 and 2011, hitting 153 in 2012 from 64 in 2010 and ranking the first both in quantity and growth rate in 2012.

Driven by its advantages in low toxicity with no residue, high efficiency with low dosage and broad spectrum, abamectin-aminomethyl has developed very quickly in China, which is expected to be the main reason for more enterprises to have registered this product.

**TABLE 6:** Newly increased registration number of main pesticides in China, 2010-2012

Product	Newly increased registration number		
	2010	2011	2012
Abamectin-aminomethyl	64	109	153
Abamectin	136	127	132
Imidacloprid	86	105	96
Glyphosate	82	84	65
Chlorpyrifos	125	59	64
Lambda-cyhalothrin	40	44	62
Difenoconazole	26	82	60
Acetamiprid	51	50	54
Tebuconazole	17	42	43

Source: ICAMA

## Both volume and value of China's pesticide import & export increase greatly

According to China Customs and the Institute for the Control of Agrochemicals, Ministry of Agriculture (ICAMA), the total import & export volume of pesticide in China has increased to 1.66 million tonnes during the period from 1 Jan. 2012 to 11 Dec. 2012, with a year-on-year growth rate of 14.60%. Besides, its value has hit USD8,495 million, increasing by 26.94% year on year. And the number of export destinations is 181, the same as that in 2011.

Data has presented some traits in China's pesticide import & export trading. First, both volume and value of pesticide import & export have increased significantly; Second, the growth rate of pesticide export value is significantly higher (13.87 percentage points) than that of export volume; Third, the growth rate of volume and value of pesticide import & export is more than 20% higher than that of the nation's import and export trading.

**TABLE 7:** Import and export situation of pesticides in China, 1 Jan. 2012-11 Dec. 2012

Item	Volume, tonne	Growth rate YoY	Value, million USD	Growth rate YoY
Export	1,607,200	14.25%	7,927	28.12%
Import	53,800	26.29%	568	12.48%
<b>Total</b>	<b>1,661,000</b>	<b>14.60%</b>	<b>8,495</b>	<b>26.94%</b>

Source: China Customs; ICAMA

## Domestic pesticide demand to see growth in 2013

According to the investigation data from plant protection stations in 31 provinces and areas (including municipalities and autonomous regions), domestic pesticide demand in 2013 is predicted to be over 334 thousand tonnes (converted to 100% AI), up 4.68% over 2012. And the total pesticide demand in 2013 including TC and formulation is predicted to reach 1.02 million tonnes.

The pesticides with predicted demand volume in 2013 exceeding 10,000 tonnes are glyphosate, dichlorvos, acetochlor, copper sulfate, carbendazim, chlorpyrifos and atrazine. In terms of geographic distribution, the demand volume in Shandong, Heilongjiang, Hunan, Sichuan and Henan will exceed 20,000 tonnes respectively and those in Guangdong, Yunnan, Jiangsu, Liaoning, Hubei, Guangxi, Anhui, Hebei, Zhejiang, Jilin and Jiangxi are predicted to reach 10,000 - 20,000 tonnes respectively.

**TABLE 8:** Predicted pesticide demand in 2013 (converted to 100% AI)

Pesticide	Predicted demand volume in 2013, tonnes	YoY change
Insecticides	120,800.00	-5.18%
Herbicides	114,200.00	16.32%
Fungicides	84,710.00	6.64%
Plant growth regulators	3,712.13	6.86%
Acaricides	10,900.00	0.00%
Rodenticides	113.38	-12.75%
<b>Total</b>	<b>334,435.51</b>	<b>4.68%</b>

Source: Plant protection stations in 31 provinces and areas

## Consolidation of pesticide industry accelerates in China

In 2012, consolidation pace of domestic pesticide industry was further accelerated. There are now about 2,000 pesticide manufacturers in China, among which there are about 500 pesticide technical manufacturers and about 20 listed pesticide enterprises. The number of large-scale pesticide enterprises was 800 as of late 2012, with an increase of 27 compared with that in 2011.

Except for the acquisition cases, M&A and expansion cases among domestic pesticide enterprises have also witnessed growth, which



lays a foundation for the industry to become bigger and stronger. 13 merger and acquisition cases have taken place in domestic pesticide industry in 2012, more than 6 in 2011.

For example, Jiangsu Lanfeng Biochemical Co., Ltd. (Jiangsu Lanfeng) merged Taicang Dazhong Chemical Co., Ltd. (Taicang Dazhong) to gain 98% carbofuran technical production, in order to complement its insecticide products chain.

Jiangsu Good Harvest-Weien Agrochemical Co., Ltd. purchased Jiangsu Shenghua Pesticide Co., Ltd. to gain hot pesticide productions such as 2,4-D and dicamba which will bring along considerable income in the near future.

Zhejiang Wynca Chemical Industry Group Co., Ltd. (Zhejiang Wynca), one of the largest glyphosate producers in China, acquired 51% equities of Shandong Xinfeng Seed Co., Ltd. (Shandong Xinfeng), a large seed enterprise in Shandong Province, to set foot in seed industry.

### **Canpotex to offer Sinofert one million tonnes of potash fertilizer in H1 2013**

Recently, Canpotex Limited (Canpotex) has reached an agreement with Sinochem Fertilizer Macao Commercial Offshore Limited (Sinofert Macao), a subsidiary of Sinofert Holdings Limited (Sinofert), to supply one million tonnes of potash fertilizer in the first half of 2013 at a price of USD400/t, USD70/t lower than that in the last contract set in March, 2012. The agreement is pursuant to the three-year memorandum of understanding signed with Sinofert Macao in October, 2010. This latest agreement demonstrates the continued confidence that Sinofert holds in Canpotex's ability to meet the increasing demand for potash fertilizer in China, said by Steven Dechka, President and Chief Executive Officer of Canpotex.

As the largest potash fertilizer import country in the world, China's demand for potash fertilizer plays an important role in the global market. Canpotex expects that this agreement will change the slump demand since the fourth quarter of 2012. In addition, this agreement is also expected to promote the cooperation between Canpotex and India, which is also a large consumption market for potash fertilizer. In fact, negotiations have started between Canpotex and India but without reaching an agreement in the second half year of 2012 mainly due to the price.

Started since 1972, Canpotex is an exclusive offshore marketing company owned by three potash fertilizer manufacturers in Canada, namely Agrium Inc., Mosaic Canada Crop Nutrition, LP (a subsidiary of the Mosaic Company) and Potash Corporation of Saskatchewan Inc. As a long-term business partner of Canpotex, Sinofert is China's largest fertilizer supplier and distributor integrating the whole industrial chain including resources, R&D, production, marketing and service.

### **China Ocean University Organism signs agreement with World Horticultural Exposition**

On 6 Jan. 2013, China Ocean University Organism Project Development Co., Ltd. (China Ocean University Organism) signed an agreement with World Horticultural Exposition. According to the agreement, China Ocean University Organism has been specified as the exclusive supplier of horticultural fertilizers for the 2014 Qingdao International Horticultural Exposition, with sponsoring Seawinner seaweed fertilizer with equivalent value of USD0.8 million (RMB5 million) for free in return.

Shan Junwei, Chairman of China Ocean University Organism, showed confidence in this cooperation. It is reported that, together with Qingdao Municipal Government, the company has built an Innocuous Treatment & Utilization Base of Enteromorpha covering an area of 4 ha. in 2009, which is also the only base to treat and process green seaweed in China. The company's products are widely used in the production of horticulture and have shown good performance, which is considered to be one main reason for this cooperation. And another main reason is that the company's product concept, namely eco-friendliness and low carbon, is consistent with the theme of the World Horticultural Exposition, said by Shan Junwei.

China Ocean University Organism, established in 2000 and mainly engaged in marine resources exploitation, technology



industrialization, production and sales of seaweed fertilizer products, has become the largest seaweed fertilizer producer in Asia currently. Relying on advantageous marine technology of Ocean University of China, the company has possessed 16 patented technologies and has been given titles as Qingdao Enterprise Technical Center, National Hi-Tech Industrial Enterprise, and China (Qingdao) Blue Economy Brand. Currently the company owns five main series including more than one hundred of new fertilizer products.

### **Overcapacity intensifies competition of China's fertilizer industry**

Currently, the overall capacity of China's fertilizer industry has risen to 200 million tonnes per year. However, the total annual output has been around 50 million tonnes in recent years with an operating rate of 25%, leading to intensified competition in fertilizer industry, which can be reflected from the following aspects.

Firstly, the concentration ratio of fertilizer industry in China is low. It is reported that the annual output of top ten fertilizer producers only accounted for 29% of the nation's total in 2010. Besides, there is no leading brand nationwide.

Secondly, medium-and-small-scale fertilizer producers face more challenges than before. In the past few years, the capacity growth rate of the majority medium-and-small-scale fertilizer producers has averaged at 7%-8%, while the figure has been over 40% for some leading fertilizer producers.

Thirdly, the profit of the whole fertilizer industry has been declining due to serious product homogeneity and unfair competition such as price war. The gross profit of the whole industry is estimated to decline with an annual rate of 3-5% in the future few years.

Fourthly, the competition among the top ten fertilizer producers has also been intensified in recent years, with great fluctuations in their outputs and rankings.

### **Agricultural machinery and technology integration project launched in Wuhu, Anhui**

On 6 Jan. 2013, the agricultural machinery and technology integration project of China National Hybrid Rice R&D Center was launched formally in Wuhu City, Anhui Province. This project aims to integrate agricultural machinery and technology in the whole industry chain from planting and cultivation to postprocessing, aiming to further exert the advantages of improved varieties of rice, said by Yuan Longping, Academician of the Chinese Academy of Engineering and Director of China National Hybrid Rice R&D Center. According to the project, Yuan Longping will propose technical guidance and advice on agricultural machinery that suits rice production. And as another partner of this project, Chery Heavy Industry Co., Ltd. (Chery H.I.) is responsible for providing complete solutions to rice production mechanization. It is reported that agricultural machinery that used by China National Hybrid Rice R&D Center will be produced by Chery H.I.

China National Hybrid Rice R&D Center, founded in 1995, is a world-renowned hybrid rice professional R&D institution. Chery H.I., a large machinery manufacturer specializing in agricultural equipment, industrial vehicles, heavy machinery and auxiliary power assembly, as well as the R&D, production, sales and service of the core components, has established good relationship with Yuan Longping since May 2012. The company's agricultural machinery for paddy field covers the whole production process of rice, mainly including rice seedling machinery, planting machinery, paddy field tractors & farm machinery, harvesting machinery and drying machinery. Therefore, Chery H.I. is considered to be the sole domestic agricultural machinery manufacturer that has the ability to provide complete solutions for rice production mechanization.

### **MOA revises 2013 state supporting agricultural machinery product list**

On 10 Jan. 2013, the Ministry of Agriculture (MOA) released the 2013 draft for 2012-2014 State Supporting Promotion of Agricultural Machinery Product Catalog (the Catalog). It is reported that 2,178 agricultural machinery products from 737 companies that have passed the assessment have been added to the catalog. The revised draft is organized by the MOA on the basis of the Management Method for





State Supporting Promotion of Agricultural Machinery Product Catalog (the Method). According to the Method, the whole adjustment process mainly includes three steps namely declaration from agricultural machinery companies, recommendation from provincial departments in charge and assessment from experts.

During this adjustment process, 861 companies in total filed declaration applications for 2,768 agricultural machinery products. However, only 737 companies with 2,178 agricultural machinery products have passed the assessment and have been successfully added to the catalog.

### **State-level High Yield & Quality of Alfalfa Demonstration Project located in Huanghua, Hebei**

Recently, a State-level High Yield & Quality Alfalfa Demonstration Construction Project (the Project) has been located in Huanghua City, Hebei Province. It is reported that Huanghua City will obtain state funds for four consecutive years to support new varieties of high-quality alfalfa with expected planting area of more than 3,333 ha. (50,000 mu). In fact, four alfalfa planting units, namely Huanghua Lv Feng Alfalfa Planting Professional Cooperatives, Cangzhou Modern Grass Co., Ltd., Huanghua Gaojie Pasture Planting Professional Cooperatives and Huanghua Maosheng Park Alfalfa Planting Professional Cooperatives, have obtained USD1.1 million (RMB7.2 million) of state financial subsidies in total in 2012.

The project, implemented by the Ministry of Agriculture (MOA) together with the Ministry of Finance (MOF), is an important part of the Action to Revitalize Dairy Industry and to Promote Alfalfa Industry. Huanghua City is reported to own a planting area of 11,267 ha. (169,000 mu) of alfalfa and a total alfalfa hay production capacity of 150,000 tonnes per year. It is believed that the project will further promote the upgrade of alfalfa industry in Huanghua City.

### **AGCO increases investment in China**

AGCO, a global agricultural machinery leader, has increased its investment in China in recent years. "China is one of the most important agricultural production bases in the world and the agricultural machinery market is very huge. We have increased our investment in China in recent years, and we have established localized management teams and developed marketing network, aiming to provide the best products to Chinese users," revealed by an insider from AGCO.

AGCO has five production bases in China and the investment in China accounted for 20% of its global investment. As revealed by the company, since local companies in China have done very well in the production of low horsepower tractors, the company will mainly introduce big horsepower tractor production lines to China.

## **Livestock & poultry industry**

### **Fast-growing chicken calls for more supervision**

Fast-growing chicken, a term used to refer to a white-feathered commercial variety in China, has generated growing concern over the use of hormones by poultry suppliers and exerted great impact on the whole industry chain since it was exposed on 18 Dec, 2012. It is reported that the unit price of white-feathered baby chicken has decreased to USD0.03 - USD0.06 on 1 Jan. 2013 in Shandong Province, down around 90% over that on 17 Dec. 2012. Not only white-feathered chicken, other chicken varieties also showed sharp price decrease. The whole chicken industry chain from the supply of baby chicken to its downstream consumption has been greatly influenced by the fast-growing chicken issue.

Experts consider that the out-of-control of the supervision over breeding mode (namely the cooperation between the company and farmers) is the main reason for the emergence of fast-growing chicken. According to an insider from the industry, the most commonly used mode in China is that the company provides unified baby chickens, drugs, feeds and technology services to farmers and purchases from farmers with unified price when chickens grow up, which owns the advantage of enlarging production scale in a short time. However,



it lacks efficient supervision especially in breeding as some illegal drugs are added to feed chickens driven by more profit.

In fact, not all domestic companies ignore the supervision of breeding. Some large-scale companies have realized the risk of this mode and detached technicians to breeding plant to be responsible for the purchase of feeds and drugs. In addition, some large-scale companies have turned to integrating industry chain including breeding, slaughtering and marketing, with all links supervised by themselves. But this kind of integration of breeding needs a large amount of investment, which is unpractical for the whole chicken industry as domestic chicken production still mainly relies on farmers now, said Li Chaoguo, Chairman of Hubei Provincial Poultry Industry Association. Another expert, Kong Xiangzhi, Vice Director of School of Agricultural Economics and Rural Development, Renmin University of China, suggested that more supervision should be exerted on the breeding of companies, rather than changing current breeding mode.

### **Gaoping City again introduces live pig project**

After several rounds of negotiation, Gaoping City, Shanxi Province has signed cooperation agreement with Yurun Group Co., Ltd. (Yurun Group) on a 200,000 head of pigs project recently. During 28 - 30 Dec. 2012, Gaoping City proceeded further talks with Yurun Group on the project, aiming to put the project into operation as soon as possible.

Gaoping City has established good relationship with Yurun Group. It is reported that this project is the second large cooperation between Gaoping City and Yurun Group. Early in Jan. 2011, a 2 million head of pigs project, with total investment of USD37.15 million (RMB240 million) by Yurun Group, was successfully put into trial run in Gaoping City.

For years, Gaoping City has been dedicating to the integration of industry chain from feed supply and live pig breeding to pork marketing. On one hand, Gaoping City has been actively promoting cooperations with domestic famous companies such as Yurun Group, New Hope Group, Shanghai Genon Biological Products Co., Ltd., etc. On the other hand, Gaoping City has registered Gaoping Live Pig brand to improve its competitiveness in the market. Moreover, Gaoping City has also issued preferential policies to promote cooperation mode among leading enterprises, farmer cooperatives, breeding bases and farmers, in a bid to achieve a win-win goal.

### **Chongqing to build state-level pig trading market**

On 9 Jan. 2013, a state-level integrated trading platform of the pig industry chain namely Chongqing (Rongchang) Pig Trading Market was launched jointly by the Ministry of Agriculture and Chongqing Municipal Government in Rongchang, with the main purpose of maximumly reducing the investment risks for farmers. It is reported that this trading market will create a management system involving the whole industry chain including live pig breeding, feed R&D, slaughtering, brand construction and marketing.

Currently, domestic pig market mainly relies on spot trading. Therefore, the biggest worry for farmers is that they can not seize the price fluctuation of pigs timely, said Liu Linsen, Director of the Office of the Chongqing Agricultural and Livestock Exchange. And the Chongqing (Rongchang) Pig Trading Market is expected to perfect the medium-and-long-term price forecast model of pig and related products, which will benefit farmers to reduce risks in advance.

As a national modern animal husbandry demonstration area in Chongqing, Rongchang's animal husbandry industry has generated a total output value of USD1.5 billion (RMB9.6 billion) in 2012. According to the memorandum of cooperation signed, Chongqing (Rongchang) Pig Trading Market is expected to become a multifunctional center that integrates pricing, information dissemination, technology R&D, exhibition trading and logistics distribution, further to promote the sustained and healthy development of the national pig industry towards specialization, standardization, scale production and branding. It is reported that this trading market is expected to put into use in the second half of this year.

### **Twelfth Five-Year Plan for National Livestock & Poultry Breeding Pollution Prevention issued**

Recently, the Ministry of Agriculture (MOA) and the Ministry of Environmental Protection (MEP) jointly issued the Twelfth Five-Year



(2011-2015) Plan for National Livestock and Poultry Breeding Pollution Prevention (the Plan). The plan puts forward specific requirements on prevention objectives and major prevention tasks in the future few years.

In recent years, China's livestock and poultry industry has developed very quickly and has been playing a more and more important role in ensuring the supply of livestock products both in urban and rural areas, as well as increasing farmers' income. However, with the continuous development of livestock and poultry industry, the pollution generated from livestock and poultry breeding is also becoming increasingly serious. Data showed that the chemical oxygen demand and ammonia emissions of China's livestock and poultry industry hit 11.84 million tonnes and 0.65 million tonnes in 2010, respectively accounting for 45% and 25% of the nation's total emissions, indicating that the pollution of livestock and poultry has become an important source of environmental pollution.

According to the plan, the key targets are large-scale and concentrated farms with large breeding capacity and severe pollution, as well as key river valleys and regions. In 2015, the chemical oxygen demand and ammonia emissions of China's livestock and poultry industry are expected to decrease by over 8% and 10% respectively compared with those in 2010, with newly increased capacities of emission reduction reaching 1.4 million tonnes per year and 100,000 tonnes per year.

### **DHN: 2012 net profit to increase by 8%-28% YoY**

On 9 Jan. 2013, Guangdong Dahuanong Animal Health Products Co., Ltd. (DHN) announced that the company's net profit in 2012 would reach USD28.6 million (RMB180 million)-USD34.0 million (RMB214 million), with a year-on-year growth rate of 8%-28%, mainly attributed to the improvement of product quality and the substantial growth in revenue.

Established in August 2004, DHN is a high-tech enterprise devoted to R&D, production and sales of veterinary drugs. As of June 2012, the company has obtained nine new veterinary drug certifications, three invention patents and six utility model patents. The company's products are sold to 30 provinces in China and are also exported to Southeast Asia, Middle East and Africa.

### **2012: Number of China's live pig slaughtering enterprises declines by 26.2%**

According to the website from the Ministry of Commerce (MOC), the number of domestic appointed live pig slaughtering plants has declined to 4,585 in 2012 from 5,919 in 2011. And the number of live pig slaughtering enterprises in China has decreased to 14,720 in 2012, down 26.2% over the previous year.

On 17 Jan. 2013, the MOC together with other eight departments held a television and telephone conference to summarize the qualification examination and cleanup work on live pig slaughtering during December 2011 to November 2012. According to the conference, the qualification examination and cleanup work on live pig slaughtering is helpful to eliminate backward capacities and to improve meat quality and further to accelerate the pace of slaughtering and processing industry adjustment.

However, there is still a long way to go in China's whole live pig slaughtering industry adjustment. Some rules and supervision mechanisms should be drawn up and enhanced, according to the conference.

### **Kondarl acquires the largest pig breeding enterprise in Xiamen**

On 18 Jan. 2013, Shenzhen Kondarl (Group) Co., Ltd. (Kondarl) held a signing ceremony on purchasing 100% shares of Xiamen Muxing Industry Co., Ltd. (Xiamen Muxing), the largest pig breeding enterprise in Xiamen City. This acquisition aims to help Kondarl build low-carbon agriculture with complete industry integration, said Luo Aihua, Chairman of Kondarl. Besides, Kondarl will increase the investment in Xiamen Muxing's ecological pig breeding.

Founded in 2000, Xiamen Muxing has owned four pig breeding plants and its brand namely Yuanxiang Black Pork is well-known in Xiamen City. What's more, the company has set up an innovative business mode of high-quality pork including ecological breeding and

brand marketing strategy. Early in November 2012, Kondarl has signed the letter of intent about the share purchasing of Xiamen Muxing.

Li Mingxing, Chairman and General Manager of Xiamen Muxing, indicated that this acquisition would also benefit the company to enlarge market of its products and to promote brand upgrade.

Kondarl, established in 1979 and listed in 1994, is mainly engaged in pig and chicken breeding, production and sales of feed, real estate development and property management, etc. With years of quick development, the company now owns over ten subsidiaries in China.

### Zhengbang Group to invest USD317 million in pig industry in Bayan, Heilongjiang

On 23 Jan. 2013, Zhengbang Group Co., Ltd. (Zhengbang Group) signed a framework agreement on a one-million-pig industrial and regional integration project with Bayan County, Heilongjiang Province. According to the agreement, Zhengbang Group will invest USD317 million during 2013-2017 in live pig breeding, feed processing, as well as traceable pig slaughtering and processing.

It is reported that Zhengbang Group will establish five agriculture and animal husbandry ecological demonstration areas and a 2,000 ha. area of high-yield planting demonstration zone to form an annual capacity of one million head of commercial pigs and supporting capacity of baby pigs in the future five years. In addition, Zhengbang Group will set up a feed production company with a capacity of 500,000t/a and a warehousing logistics park that integrates grain warehousing and distribution. And in the terms of traceable live pig slaughtering and processing, Zhengbang Group will invest to build a project with slaughtering capacity of one million head of pigs per year and a 200,000t/a of meat processing project, with an annual output value expected to reach USD238 million to USD286 million when the projects are put into production.

Zhengbang Group is a leading enterprise in agricultural industrialization in China and the largest agricultural enterprise in Jiangxi Province. The main businesses of Zhengbang Group are divided into industries including animal husbandry, crop planting, agricultural means of production, circulation industry and the financial industry.

PICTURE 1: Project signing ceremony between Zhengbang Group and Bayan County, 23 Jan. 2013



Source: Zhengbang Group

### Sunner Development: 2012 net profit to decline by 70%-100%

Recently, Fujian Sunner Development Co., Ltd. (Sunner Development) announced that its net profit in 2012 would decline by 70%-100% year on year. Sunner Development explained that feed cost increase and chicken price decrease, as well as the influence of fast-growing chicken have resulted in the performance decline.



According to Sunner Development, KFC has been contributing around 20% to the company's revenue in recent years. Suffered from the fast-growing chicken incident, KFC eliminated a supplier involved from its list, which might be a good news for Sunner Development. However, the after-effect of fast-growing chicken especially the antibiotics crisis will still influence the whole chicken industry.

It is reported that Sunner Development adopts a whole industry chain model including self-breeding and self-slaughtering and marketing, which owns the advantage of reducing the risk from upstream or downstream industry changes to some extent. However, profit growth rate of this whole chain is generally considered to be slower than that of revenue under the influence of various factors.

### **Market risk fund of pig industry development launched in Ziyang, Sichuan**

On 22 Jan. 2013, a market risk fund of pig industry development was launched at the kick-off meeting held in Ziyang City, Sichuan Province, aiming to help pig farms or individuals reduce market risk.

As disclosed at the meeting, five units are chosen to proceed the first phase of pilot demonstration namely Sichuan Excellent Million Animal Husbandry Co., Ltd., Ziyang Kehui Animal Husbandry Co., Ltd., Ziyang New Hope Farming Co., Ltd., Ziyang Dong'an Pig Professional Cooperatives (Yanjiang District) and Ziyang Shenghong Pig Professional Cooperatives.

### **Pork price up sharply in early 2013 but may not continue in the whole year**

Data from the Ministry of Agriculture (MOA) shows that the price of pork has increased significantly since December 2012. Experts believe that the rising price is mainly attributed to seasonal factor and the approaching of Spring Festival, which will not have great impact on the Consumer Price Index (CPI). And pork price is not expected to rise sharply this year.

It is reported that three main reasons have led to the rising price of pork. Firstly, suffered from fast-growing chicken, the substitution of pork for chicken increases; Secondly, the growing costs of production and circulation drive the pork price up especially during the rain and snow in many regions around China. Thirdly, some breeding farmers are unwilling to sell pigs in order to gain a higher price.

However, the temperature is reported to rise from the middle of January. And the impact of the seasonal factor on pork price and CPI will decline to some extent, expressed by Yu Qiumei, a senior statistician of the City Department of the National Bureau of Statistics. In addition, the gap between supply and demand during the boom season is expected to be narrowed after Spring Festival, which will prevent the pork price from growing sharply.

Ensuring supply is the main way to keep pork price and CPI stable as reported. Experts suggest that the support for the production of live pigs and the prevention against pig epidemic should be strengthened and pork reserve system should be completed as well.

### **Beef price rises for 11 consecutive years**

The average retail price of beef rose by more than 30% on Jan. 14, 2013 compared with that on Jan. 1, 2013, according to the Xinhua News Agency and the national price monitoring system of agricultural produces and agricultural means of production. In terms of regions, the average price of beef rose in all regions of China, among which, Shandong, Yunnan and Guangxi ranked the top three respectively.

As a matter of fact, beef price has been rising for 11 consecutive years in China since the year of 2000. The price of beef in Jan. 2013 is significantly higher than that in 2011, even though the beef price once hit a record high point to USD6/kg (RMB37/kg) in 2011.

Experts said that demand exceeds supply is the key factor driving the beef price increase. Learned from the Cattle Industry Branch of the China Animal Husbandry Association, China's output of beef was 6,475,000 tonnes in 2011, with an average annual growth rate of 2.4% since 2000, while domestic beef consumption showed a significant growth in the past 11 years, with an average annual growth rate of about 4.2%.



## **China sees large increase in pork import**

According to China Customs, the import volume of pork in China has reached 399,000 tonnes in the first three quarters of 2012, soaring 59.5% year on year. And the average import price of pork has increased to USD1,881/t, seeing a year-on-year growth rate of 19%. Imported pork has accounted for a rising market share in China.

Actually, some large pig breeding countries have attached great importance to the huge market of China. Some countries such as Ireland, Denmark, the US, Canada, etc. have signed pork trade agreements with China since 2005 as reported. And in recent two years, the imported pork from Mexico and Finland has also entered Chinese market.

According to insiders, the price of imported pork is lower than homemade pork while its quality is higher, which is the main reason for the rapid growth of import volume of pork. It was reported that the cost of Chinese pork averaged at USD2.2/kg in 2012, while the CIF (cost, insurance and freight) price of frozen pork from the US was only USD1.1/kg. In addition, the imported pork is mainly provided by large-scale farms which carry out standardized production with clear provisions of feed and veterinary drugs, thus the meat stays at a higher level of safety.

Experts showed different views on the entry of imported pork. The Pig Industry Branch of China Animal Agriculture Association expressed the anxiety that the rising dependence on imported pork would strike domestic pig breeding industry and further drive the international pork price go up. While some other experts believed that the imported pork would have a positive impact on restraining domestic pork price to grow sharply.

## **2012 Jiangxi leading animal husbandry enterprises gain USD16 billion in revenue**

In recent years, animal husbandry industry in Jiangxi Province has developed very quickly with the number of newly increased provincial leading animal husbandry enterprises hitting 27 last year. In 2012, there have been 132 provincial leading animal husbandry enterprises in Jiangxi, 12 of which are state-level ones. And the total revenue of the 132 leading enterprises in 2012 has exceeded USD16 billion, up around 23% year on year.

In addition, the processing ability of animal husbandry products in Jiangxi has been improved accordingly, with annual live pig & beef cattle slaughtering capacities of 12 million head and 400,000 head respectively and annual poultry processing capacity of 110 million units, as well as eggs & fresh milk processing capacities of 200,000t/a and 300,000t/a respectively.

## **Sanquan Food intends to invest in pig breeding industry**

In order to secure raw material supply and food safety, Zhengzhou Sanquan Food Co., Ltd. (Sanquan Food) intends to invest in pig breeding and feed processing industries. It is reported that the company's breeding farm is located in Dengfeng City, Henan Province, which is ready for construction.

The company's plan is mainly based on the consideration of two aspects. First, pork accounts for a large share in the company's total raw materials and its price change can affect the company's profit to a large extent, expressed by Zheng Xiaodong, Board Secretary of Sanquan Food. In addition, the demand for pork has been increasing with the process of the company's capacity expansion. Second, food safety accidents derived from pork problems have taken place frequently in the past few years, which have affected and also alerted the whole food industry as well as many domestic food enterprises including Sanquan Food.

Sanquan Food is a large frozen food production enterprise in China with a market share of over 27%.

## **Fishery industry**

### **Output of Hubei's freshwater aquatic products ranks No. 1 for 17 years continuously**

In 2012, the output of freshwater aquatic products in Hubei Province has reached 3.9 million tonnes, ranking No.1 for seventeen years continuously in China, which is mainly attributed to the preferential policies issued by the government, the investment increase and the coordinative development of related industries.

Hubei Province has attached great importance to the development of aquatic products with increase in both aquaculture area and output value for years. In 2012, its aquaculture area and output value have increased to 680,000ha. and USD10.2 billion (RMB64.1 billion) respectively, with year-on-year growth rates of 2.0% and 17.4% correspondingly. Besides, Hubei Province has obtained USD93.5 million (RMB589 million) of provincial or above financial special funds, with USD16.5 million (RMB104 million) used for modern fishery infrastructure. At present, there are around 240 fishery processing companies in Hubei Province, with the total processing capacity exceeding 1.1 million tonnes per year, increasing by 22% year on year. And there are around 320 large-scale freshwater aquatic products wholesale markets in Hubei Province with total transaction amount and trading volume hitting USD12.7 billion (RMB80 billion) and 5 million tonnes respectively in 2012.

It is reported that the freshwater aquaculture area in Hubei Province is expected to maintain over 666,667ha. in 2013, with total output and output value estimated to be 4.1 million tonnes and USD11.1 billion (RMB70 billion).

### **Strategic cooperation established between CMBC and China Fisheries Association**

On 7 Jan. 2013, China Minsheng Banking Corp. Ltd. (CMBC) signed a strategic cooperation agreement with China Fisheries Association, Distant Water Fisheries Branch in Beijing, aiming to promote the industrialization of ocean fishery and to build modern ocean fishery by integrating financial capital and industrial resources.

It is reported that CMBC has attached great importance to ocean fishery and has set up a specialized institution named Financial Center for Ocean Fishery, in a bid to provide comprehensive and professional financial services, further to boost the integration of financial capital and industrial resources and to promote the industrialization of ocean fishery industry.

Started in 1985 and driven by the support from policies set by the government, China's ocean fishery industry has developed very quickly and China has become an important ocean fishery country in the world. However, China still falls behind developed countries in equipment level, production efficiency, technology support and comprehensive development ability. The financial support from CMBC is expected to play an important role in enhancing the competitiveness of China's ocean fishery industry.

**PICTURE 2:** Signing ceremony of strategic cooperation between CMBC and China Fisheries Association, 7 Jan. 2013



Source: China Fisheries Association

### China's first state-level freshwater aquatic product wholesale market located in Jingzhou

On 8 Jan. 2013, the Ministry of Agriculture signed a memorandum of cooperation with Hubei Provincial Government to build a state-level freshwater aquatic product wholesale market in Jingzhou City (which is recognized as the top city of China's freshwater fishery), Hubei Province, which is China's first state-level freshwater aquatic product wholesale market and the sixth state-level wholesale market for agricultural produces established by the Ministry of Agriculture.

Zhao Xingwu, Director of the Bureau of Fisheries of the Ministry of Agriculture, states that Jingzhou City is one of the main production areas of China's freshwater aquatic products with rich freshwater resources and advanced aquatic products processing technology. The establishment of the state-level freshwater aquatic product wholesale market in Jingzhou City is helpful to promote the sustained and healthy development of China's freshwater fisheries and to enhance the competitiveness of China's freshwater fisheries in international market.

According to the project, the wholesale market will be put into operation in 3-5 years with annual trading volume of over 1.5 million tonnes. And the wholesale market is expected to become a multifunctional center that integrates logistics distribution, pricing, information dissemination, exhibition trading, science and technology exchange and fishery tourism.

### Haid Group to invest USD188 million in nine feed projects

On 22 Jan. 2013, Guangdong Haid Group Co., Ltd. (Haid Group) announced to invest a total USD188 million (RMB1.19 billion) in nine feed projects with funds planned to be raised of USD175 million (RMB1.10 billion), in a bid to complete productivity layout of feed industry and further to improve the company's competitiveness.

It is reported that the nine feed projects will be put into production in two years and they are expected to bring a total increased net profit of USD35 million (RMB220 million) per year to the company.

According to Haid Group, the competition of feed industry has been intensified in recent years with the acceleration of industry integration. And large-scale companies have been playing an important role in the market, which is reported to be the main reason for Haid Group to increase investment in feed project.

Haid Group, listed in November 2009, is a hi-tech corporation focused on R&D, production and sales of aquatic feed, livestock and poultry feed and premix of aquatic feed as well as healthy culture. In the first three quarters of 2012, the net profit of the company has reached USD66 million (RMB414 million), up 32% year on year.

**TABLE 9:** Planned projects and investments of Haid Group, 2013

No.	Subsidiary	Project	Total investment, million USD	Funds planned to be raised, million USD
1	Wuhan Zeyi Feed Co., Ltd.	32,000t/a premix of feed	21.94	20.35
2	Wuhan Zeyi Feed Co., Ltd.	Annual output value of USD48 million of probiotics	28.83	25.68
3	Honghu Haid Feed Co., Ltd.	220,000t/a mixed feed	15.65	15.14
4	Jingzhou Haid Feed Co., Ltd.	220,000t/a mixed feed	17.52	16.92
5	Dongting Haid Feed Co., Ltd.	200,000t/a mixed feed	20.58	17.87
6	Yangjiang Haid Feed Co., Ltd.	200,000t/a mixed feed	19.71	18.51
7	Anhui Haid Feed Co., Ltd.	240,000t/a mixed feed	23.81	22.91
8	Nantong Haid Feed Co., Ltd.	180,000t/a mixed feed	20.3	20.3
9	Hainan Haiwei Feed Co., Ltd.	78,000t/a special feed	19.85	17.08
<b>Total</b>			<b>188.19</b>	<b>174.76</b>

Source: Haid Group





### **First aquatic index in China officially released**

On 21 Jan. 2013, China's first aquatic index namely Zhoushan International Aquatic City Index is officially released.

For Jiangsu Province, Zhejiang Province, Shanghai City, Fujian Province, Shandong Province, Zhoushan City is an important distribution center of aquatic products from the East China Sea. It is reported that the trading volume and value of aquatic products in Zhoushan City have reached 610,000 tonnes and USD1.3 billion (RMB8.2 billion) respectively in 2012.

Zhoushan International Aquatic City Index includes aquatic product price index, aquaculture market sentiment index and foreign trade index. And in the near future, some other indexes such as consumption index, fishing index, breeding index, etc. will be gradually added. According to Hu Xiaoshan, Chairman of Zhoushan Aquatic City, the release of Zhoushan International Aquatic City Index will provide suggestions for enterprises and guide the healthy development of aquaculture industry, and further to enhance the position of Zhoushan in domestic aquatic industry.

### **Baiyang Group intends to purchase 100% shares of Jiadexin Food**

On 28 Jan. 2013, Baiyang Aquatic Group, Inc. (Baiyang Group) announced that the company intended to purchase 100% shares of Hainan Jiadexin Food Co., Ltd. (Jiadexin Food), a subsidiary of H.K. Zhuoyue Investment Limited (Zhuoyue Investment). It is reported that the transaction amount is estimated to be USD3.17 million-USD7.94 million.

Jiadexin Food, established in 2002 and located in Hainan Province, is mainly engaged in processing and export business of frozen aquatic products, agricultural produces and frozen foods. Baiyang Group is a leading enterprise in China with complete aquaculture industry chain integrating R&D, breeding and service of aquatic products, as well as production, processing and export businesses of aquatic feed, aquatic foods, aquatic biological products, etc. This purchasing will benefit Baiyang Group to complete its industrial layout and further to enlarge market share of its main products in China as reported.

### **The U.S. launches countervailing investigation on shrimp from China**

On 18 Jan., the U.S. Commerce Department announced that it was launching countervailing investigations on frozen warmwater shrimp from 7 countries, namely China, Ecuador, India, Indonesia, Malaysia, Thailand and Vietnam. The U.S. may impose countervailing duties on shrimp from these countries after the investigations.

According to data from the U.S. Commerce Department, the U.S. imported about USD153.7 million of frozen warmwater shrimp from China in 2011, 8.4% less than 2010. The U.S. government now has already slapped antidumping duty orders on frozen warmwater shrimp from Brazil, China, India, Thailand and Vietnam.

### **2012 Guangdong Port exports of aquatic products & seafood see increase**

According to China Customs, the export volume and export value of aquatic products and seafood from Guangdong Port reached 321,000 tonnes and USD1.63 billion respectively in 2012, seeing year-on-year growth rates of 10.5% and 17%. Besides, the average export price was USD5,074/t, up 5.8% year on year.

Global demand increase and rising cost are the two main reasons for the export volume and price increase as reported. For one thing, driven by flourishing demand for aquatic products and seafood from North America, ASEAN, Hong Kong, etc., global demand for aquatic products and seafood increases accordingly. In addition, China has been devoting to exploring some emerging markets such as Latin America and Africa. For another, the cost including oil price, labor force, feed and logistics has been rising in recent years, which drives the export price to go up to some extent.



## **Food industry**

### **Yashili invests USD175 million to build new milk powder factory in New Zealand**

Guangdong Yashili Group Co., Ltd. (Yashili), a leading infant formula processor in China, announced that the company would build a new milk powder factory in New Zealand which is expected to be launched in the second half of 2014. By that time, the factory will become Yashili's main overseas production base supplying high-quality milk source.

Disclosed by Zhao Yingxiang, General Manager of Yashili New Zealand Dairy Co. Ltd. (Yashili New Zealand), a wholly-owned subsidiary of Yashili, the total investment of the new factory is about USD175 million (RMB1,100 million). Among which, USD151 million (RMB950 million) will cover the acquisition of land and cost of construction, and the rest USD24 million (RMB150 million) will function as the working capital of Yashili New Zealand. The factory is expected to mainly produce finished and semi-finished products of infant formula with a total capacity of 52,000t/a.

It's understood that more than 90% of Yashili's raw milk powder are purchased directly from overseas suppliers, of which New Zealand is the largest milk source base at present. As a matter of fact, Yashili has clearly put forward that the company would set up milk powder production base overseas as early as Nov. 2010.

### **Domestic vegetable prices continue to rise in Jan. 2013**

Monitoring results of the Ministry of Agriculture (MOA) showed that domestic vegetable prices kept increasing in Jan. 2013, due to the lower than average winter temperature and the approaching Chinese New Year.

In Jan. 2013, prices of nearly 80% of vegetables are significantly higher than those in the same period of last year. It is reported that domestic vegetable prices have been increasing continuously since Nov. 2012. The domestic average price of vegetables in Dec. 2012 rose by 17.5% over that in Nov. 2012. According to the Ministry of Agriculture, the prices of rape, cucumber, cabbage, celery and tomato in late Dec. 2012 separately increased by 31.7%, 30.0%, 21.2%, 16.3% and 15.3% compared with those in late Nov. 2012. Moreover, the average price of vegetables in the first week of 2013 increased by 4.5% week on week to USD0.66/kg (RMB4.17/kg). Later, it increased slightly to USD0.68/kg (RMB4.29/kg) in mid Jan. 2013, up 2.9% over early Jan. 2013.

Some analysts pointed out that the average prices of vegetables will continue to increase albeit not to a large extent, due to the increasing production and transportation costs since temperatures are dropping recently. But the vegetable prices would be stable with a slight decline if the temperatures turn warmer in the next few weeks.

### **Yunnan coffee tries to gain pricing right**

Eyeing the low purchasing price for coffee bean, coffee enterprises in Yunnan Province try to gain pricing right. In addition, Pu'er City, a main planting area for coffee in Yunnan Province in China, is working hard to create local coffee brand, planning to support some large coffee enterprises to form a complete industrial chain of coffee. Besides, the local government is also planning to apply for a Protected Designation of Origin to ensure the healthy development of coffee industry in the future.

Actually, coffee industry giants such as Nestle SA and Starbucks Corp have been the major purchasers for Yunnan coffee in recent years. However, their purchasing prices for coffee are generally low, close to the planting cost, particularly at the end of last year. Scattered coffee farmers do not have the discourse right for coffee price, even though they feel it is very unfair.

In order to help coffee farmers to weather the storm, Dehong Hogood Coffee Co., Ltd., a regional leading planter and roaster of coffee in Yunnan Province, expressed that the company would start purchasing and storing coffee with a protection price if the purchasing prices of international buyers are below the planting cost price.



It is reported that Yunnan's planting areas for coffee have increased to 87,000 ha. in 2012 from 26,000 ha. in 2008, accounting for 98% of the total planting areas in China.

### **Lu Zhou Lao Jiao makes great efforts to develop medium-end white spirit**

Lu Zhou Lao Jiao Co., Ltd. (Lu Zhou Lao Jiao), a China-based company principally engaged in the production and sale of Luzhou Lao Jiao series spirits, is dedicated to developing medium-end white spirit products to seize more market shares, eyeing the bright market prospect in the near future.

To seize the development opportunity in China, Lu Zhou Lao Jiao has invested more funds to the TV advertisement of its medium-end white spirit brands. In addition, the company has also decided to increase the prices of its Tequ series of white spirit before New Year's Day in 2013, showing a special attention on the medium-end products.

According to some insiders, 2013 will be a tough year for the white spirit industry in China, particularly for high-end white spirits. Lu Zhou Lao Jiao will conduct a reform of its own products due to the weakness in high-end white spirit market in 2012. The company will eliminate some products with weak market demand and retain some flagship products such as Jiaoling, Bainian, Tequ old liquor, etc.

Actually, some leading liquor players are also seeking new market place for medium-end white spirits to gain more profits, such as Kweichow Moutai Co., Ltd., Wuliangye Yibin Co., Ltd., Shanxi Xinghuacun Fen Wine Factory Co., Ltd. and so forth.

### **Jiugui Liquor: net profit down 43% at least in Q4 2012**

The net profit of Jiugui Liquor Co., Ltd. (Jiugui Liquor), a listed liquor company in China, would be only USD3 million (RMB21 million)-USD10 million (RMB61 million) in Q4 2012, down 43%-80% year on year, according to the company's pre-announcement of profit increase issued on 15 Jan. 2013.

The performance of Jiugui Liquor in Q4 2012 is concluded from the company's previously issued financial announcements in 2012. In line with the company's pre-announcement, Jiugui Liquor's net profit in 2012 is predicted to reach USD76 million (RMB480 million)-USD83 million (RMB520 million), up 149%-170% year on year, which is mainly attributed to the substantial rising sales volume and the effective control over production cost. Besides, the total net profit of Jiugui Liquor in the first three quarters of 2012 was USD73 million (RMB459 million), in accordance with the company's financial announcements issued before. Respectively, the net profit of Jiugui Liquor in Q1, Q2 and Q3 of 2012 reached USD19 million (RMB119 million), USD23 million (RMB143 million) and USD31 million (RMB197 million).

Experts said that Jiugui Liquor's low profit in Q4 2012 was mainly caused by the plasticizing agent issue. As a result, Jiugui Liquor suffered a serious attack and the profit in this quarter is far below those in the previous three quarters.

### **2012/2013 State reserve of sugar launched**

On Dec. 24, 2012, the National Development and Reform Commission of China (NDRC) and some other governmental departments co-issued the notice on 2012/2013 (Oct. 2012-Sept. 2013) state reserve of sugar, which indicates the state reserve of sugar has been finally determined.

In the notice, national government would reserve three million tonnes of sugar meeting first grade or above as stated in GB/T 317-2006 in two batches with 1.5 million tonnes for each batch. For the first batch, the government would reserve sugar with the basic price of USD968/t (RMB6,100/t) by two times, namely 800,000 tonnes on Dec. 27, 2012 and 700,000 tonnes on Jan. 22, 2013 respectively.

The state reserve volume of sugar is a little higher than expected and 200% higher than that in 2011/2012. "The state reserve this time



does not mention the sales of reserved sugar which usually negatively affects sugar market." Said Li Panfeng, an analyst of sugar market. Since the first batch of state reserve will be implemented before Spring Festival (Feb. 9-15, 2013), domestic market price of sugar will be supported by the state reserve and is not likely to see obvious downtrend before the Spring Festival.

### **Heilongjiang: Q1 2013 raw milk purchasing price determined**

According to Heilongjiang Provincial Bureau of Animal Husbandry and Veterinary, the purchasing price of raw milk in Heilongjiang Province in the first quarter of 2013 has been determined, with a basic price of USD0.54/kg (RMB3.42/kg). In addition, the purchasing price shall not be higher than USD0.62/kg and not lower than USD0.49/kg.

It is reported that the current production of raw milk in Heilongjiang Province has entered the off-season, while the marketing of dairy products enters the busy season. Therefore, the lowest purchasing price of raw milk in Q1 2013 has increased to USD0.49/kg from USD0.47/kg in Q4 2012.

As a large dairy province in China, Heilongjiang Province's dairy industry has developed very quickly in recent years, ranking the second position in terms of both the number of dairy cattle and the production of raw milk. In the whole year of 2012, the number of dairy cattle and the output of raw milk in Heilongjiang Province are expected to reach 2.9 million heads and 8.57 million tonnes, respectively seeing year-on-year growth rates of 10.1% and 10.2%.

### **Huishan Dairy to launch infant formula**

On 7 Jan. 2013, Huishan Dairy Holding Co., Ltd. (Huishan Dairy) held a new products pre-market promotion conference in Shenyang City, Liaoning Province and announced the launch of its infant formula products in late January, indicating the company's target in infant formula market.

The new infant formula products are produced and packaged by Huishan Dairy with the raw milk supplied from its self-operated dairy farms. It is under the brand of "Huishan" including four ranges: Golden Empress, Jinzhuang, Puzhuang, and Xingan. Though the detailed prices are still unclear to date, Huishan Dairy indicated that Golden Empress range will retail at over USD48/900g can (RMB300/900g can), targeting the premium market, while Xingan range will retail at about USD6.4/400g bag (RMB40/400g bag), targeting the low-end market. The products will be mainly sold in Northeast China market in 2013, such as Liaoning, Jilin and Shandong Provinces, in accordance with the company.

Huishan Dairy, based in Liaoning Province, is mainly engaged in liquid milk, ice cream and fruit juice production, operating its own dairy farming activities. So far, the company owns 52 dairy farms, breeding about more than 120,000 imported milk cows, including over 112,000 Holstein cows and 8,000 Jersey cows. Huishan Dairy is the largest breeding base for Jersey cows in China as reported. Both Holstein and Jersey are regarded as the best milk cows in the world, as they can produce more high-quality raw milk.

### **Shunxin Agriculture to invest USD76 in wine project**

On 21 Jan. 2013, Beijing Shunxin Agriculture Co., Ltd. (Shunxin Agriculture) announced that the company intended to invest USD76 million (RMB480 million) in the construction of Niulanshan winery and upgrading project (phase two). According to Shunxin Agriculture, this investment aims to update the 18 backward production lines, to improve R&D and office environment and to increase 27 new production lines of compound wine. It is reported that the company's newly increased capacity of compound wine will reach 50,000t/a and its storage capacity of high-quality base liquor will hit 12,000t/a when the construction is finished. And it will bring an annual revenue and net profit of USD238 million and USD12 million respectively for the company.

Shunxin Agriculture's main business mainly includes wine as well as slaughtering and meat products processing, with their revenues in the first half year of 2012 hitting USD295 million and USD245 million, respectively accounting for 40.87% and 33.93% of the total. What's



more, the gross profit margin of wine hit 47.62%, much higher than that of slaughtering and meat products processing (5.84%), which is considered to be an important reason for the company's investment in wine.

In addition, the upgrading project mainly includes building new cooked food workshops with an area of 17,900 square meters as well as 71 sets of production and processing equipments. The capacity of the company's cooked food products is expected to hit 30,000t/a when the project is put into production, with annual newly increased revenue and net profit of USD106 million and USD4.8 million respectively.

### **COFCO Tunhe: 2012 net loss predicted to hit more than USD111 million**

COFCO Tunhe Co., Ltd. (COFCO Tunhe), a leading producer and supplier of fruit and vegetable products in China, announced on 22 Jan. 2013 that its net loss in 2012 may hit USD111 million (RMB700 million)–USD122 (RMB770 million). According to the announcement of COFCO Tunhe, there are two main reasons leading to the serious loss in 2012.

On one hand, tomato paste business showed a serious loss in 2012 due to high operating cost. In 2012, the company's sales cost was higher than the sales price even though the price of tomato paste rebounded in the late of 2012 with the output decrease of tomato in China affected by climate disasters in 2012. Some plants of COFCO Tunhe had to suspend operation owing to the shortage of raw materials, which caused a large loss from idleness.

On the other hand, the company's beet sugar processing business also suffered loss in 2012 due to the higher production cost. In 2012, the price of sugar slipped back from the peak, but the raw material (beet) cost remained high. The inventory costs of some beet sugar factories of COFCO Tunhe were even higher than the sales price in late 2012.

### **Mengniu Dairy denies rumors of taking over Modern Farming**

On 16 Jan. 2013, Mengniu Dairy, a leading dairy products manufacturer in China, denied rumors of taking over Modern Farming, a big milk supplier in China. However, a high official from Mengniu Dairy later stressed that the company was always planning to invest vigorously to improve milk sources such as cooperating with or taking over big milk suppliers, or developing its own milk farm.

At present, Modern Farming is a major milk source for Mengniu Dairy and most of the milk produced by Modern Farming is sold to Mengniu Dairy. Insiders also revealed that Mengniu Dairy's takeover of Modern Farming was still possible in the future.

### **China intends to finish existing food standards clear-up work by the end of 2013**

It is reported that the Chinese government intends to finish revising current around 5,000 standards of edible agriculture produces' quality and safety, food hygiene and quality, as well as industrial standards by the end of 2013. And the new revised standard called Pollutants Limit in Food is to come into effect on 1 June 2013.

According to an insider from the Ministry of Health (MOH), the new standard clears up all the previous regulations on food pollutants limit and sets more than 160 limit indexes covering 13 pollutants in over 20 kinds of food including grain, vegetables, fruits, meat, aquatic products, condiments, beverages, wine, etc., which can basically meet the demand for the pollutants control in food.

## **Macroeconomy**

### **China's CPI in Dec. 2012 up 2.5% YoY**

On Jan. 11, 2013, the National Bureau of Statistics (NBS) announced that China's consumer price index (CPI) rose by 2.5% year on year in Dec. 2012, and by 0.8% month on month.



Analysts said that the CPI increase in Dec. 2012 was mainly driven by the sharply increasing food price, especially the prices of vegetables. After the China New Year, the growth pressure of food prices is estimated to be weakened with the temperature gradually turning warmer. In Dec. 2012, CPI in both urban areas and rural areas rose by 2.5% year on year. Meanwhile, food prices in this month rose by 4.2% year on year while non-food prices increased by 1.7%; prices of consumer goods and services both rose by 2.5%.

As for the whole year of 2012, China's CPI rose by 2.6% year on year, according to the statistical data from the NBS.

### **China's urbanization rate hits 52.57% in 2012**

China's urbanization rate, urban population/the country's total population, hit 52.57% at the end of 2012, up 1.3% from a year earlier, according to data released by the National Bureau of Statistics (NBS) on 18 Jan. 2013. China's total population was 1.35 billion at the end of 2012, 6.69 million more than the figure at the end of 2011, released by the NBS.

### **China's 2012 GDP growth at 7.8%**

China's GDP (gross domestic product) hit USD8.28 trillion (RMB51.93 trillion) in 2012, up 7.8% year on year, according to data released by the National Bureau of Statistics (NBS) on 18 Jan. 2013. The GDP growth rate was 9.3% in 2011 and 10.4% in 2010, and last year is the first time that the GDP growth rate has dropped below 8% since 1999.

China's GDP growth rate rose to 7.9% in Q4 2012, ending a seven-straight-quarter slowdown, as shown by the data from the NBS. The GDP growth rate was 7.4% in Q3 2012, 7.6% in Q2 2012 and 8.1% in Q1 2012. Although China's GDP growth rate in 2012 recorded the lowest point in recent ten years, it was still higher than most forecasts, boosted by the strong trade performance in December, as well as improved consumption and investment near the end of the year.

### **China's 2012 foreign trade growth misses 10% target**

According to data from the General Administration of Customs of China, China's export and import value hit USD3.87 trillion in 2012. The growth rate decreased sharply from 22.5% in 2011 to only 6.2% in 2012, failed to achieve the target (a growth rate of 10%) set by the government.

In detail, China's export value rose by 7.9% in 2012 over the previous year while the import value increased by 4.3% year on year. Meanwhile, the foreign trade surplus was expanded to USD231.1 billion, up 48.1% than the level in 2011.

Trade value with the United States, who exceeded Europe to be the biggest buyer of China's products, increased by 8.5% year on year in 2012. Trade value with Europe, China's biggest trade partner, was down 3.7% year on year. Trade value with Japan, the previous fourth largest trade partner of China (who became the fifth in 2012), was down 3.9% year on year, impacted by the strained relations in 2012.

China's export was impacted by the slow world economic recovery and the deepening debt crisis in the Eurozone, while the import was impacted by the downward pressure on the domestic economy. However, China's foreign trade in 2013 will be better than that in 2012 and it has already shown certain rebound in Dec. 2012.

### **Online shopping continues surging in 2012**

China's online shopping continued surging in 2012. According to a report released recently by China Internet Network Information Center (CNNIC), the trade value of China's online shopping was USD204.8 billion, hit a new record high and exceeded RMB1,000 billion (USD160.7 billion) for the first time.

The increasing purchasing power of Chinese residents, as well as frequent sales promotions launched by e-commerce companies, has



boosted the number of online shoppers in China, as disclosed in the report. The number of online shoppers amounted to 242 million by the end of 2012, up 48.07 million from a year earlier.

The report also predicted that online shopping would still witness a fast development in 2013 and the trade value may hit USD225.1 billion.

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