CHINA’S AGRICULTURAL POLICY AT A CROSSROAD: NEW INITIATIVES AND LONG-TERM IMPACTS

A Multi-Client Study

JULY 2014

With the ascension of China into the WTO in 2001, food demand in China has been a central theme in global agricultural trade and production. Since 2001, China’s imports of major grains (corn, wheat, sorghum) have increased almost 400% to 17.4 MMT and oilseed (soybeans and rapeseed) imports have increased 600% to 75.7 MMT.

Certainly the growth of the Chinese economy has been a primary driver of grain and oilseed imports as rising incomes and a growing middle class have boosted consumer demand for food items such as pork. Since 2001, per capita pork consumption in China has increased 24%, total pork consumption has increased 32%, and pork imports have increased 300%.

While the link between the macro economy in China and Chinese imports of grain and oilseeds is clear, less well understood is the impact of Chinese agriculture policy on the general agriculture situation in China and particularly on the level of Chinese grain and
China’s Agricultural Policy At A Crossroad

oilseed imports. Recent announcements from the Chinese government indicate that a major agricultural policy shift within China is underway, changes that have the potential to profoundly impact Chinese grain and oilseed production and by extension, alter the trajectory of Chinese grain and oilseed imports.

This new multi-client study by China’s National Grain and Oilseed Information Center (NGOIC) and Informa Economics Group (IEG) will “lift the veil” on current and anticipated Chinese agricultural policy. By combining NGOIC’s unique insight into China’s agricultural policy arena with IEG’s comprehensive ability to analyze global commodity markets, clients of this study will be at the forefront of understanding the major impacts of the ongoing changes in Chinese agricultural policy. IEG’s China affiliate, PolyResource International LLC also will participate in the overall project development and execution of the research.

Introduction

At the beginning of this year, the Chinese central government announced major agricultural policy initiatives for 2014 and beyond. These core agricultural policy initiatives include: enhancing the security of the national food grain supply; introducing pilot programs for a target price mechanism; and, speeding up land use rights transfer to maintain long-term sustainability of China’s agricultural production. Though detailed implementation measures are still under development, early indicators are available for a meaningful fact-based assessment of the potential impact of these policy shifts. If these policy initiatives get fully implemented, it could fundamentally change China’s current grain and oilseed production and marketing system and in turn change China’s foreign trade pattern in the foreseeable future.

Key Questions Answered by the Study

- **How does the Chinese government intend to enhance the security of the national food grain supply?**

Will China mainly rely on itself to feed the domestic population through more price incentives, improved technology, and increased production efficiency? Or, will China more actively utilize the world agricultural market and agricultural resources to fill the gap between domestic food supply and demand in the future?

- **What will be the mechanism of the target price program and what would be the potential timeline for the implementations?**

At present, the Chinese government supports domestic production through the domestic price support program. When the domestic prices are low, the State Reserve steps into the market to buy from farmers at the support price. A pilot target price program will be introduced in 2014 to displace the existing price support program for the soybean and cotton crops, which will essentially end the current
State Reserve’s stockpiling programs. If the pilot program is successful, the target price program may well expand into major grain commodities, such as corn, wheat and rice. Assessing the potential timeline for the target price program application to grains will be a major component of this research as it will help to anticipate the timing of the market impact for each related commodity.

- **What will be the potential impact of the target price program on the domestic supplies and what will be the long-term impact on major grain and oilseed balances?**

The new target price program could be problematic for the Chinese government. Though the intention is to encourage production while keeping domestic price competitive, farmers might react negatively at the initial stage due to the uncertainty of the program. The long-term impact of this new price mechanism will be one focus of this study.

- **How will the State Reserve operate under the new target price system?**

When transitioning into the target price system, the State Reserve’s large-scale stockpiling of domestic grain and oilseed products under the current support price program might come to an end. Will this reverse the current trend of the State Reserve’s stocks buildup of key agricultural commodities in the future? If the State Reserve wants to carry a comfortable stocks level as a measure of greater food security and reduced price volatility, might it increase imports from the world market?

- **With limited land and water resources, can China continue to maintain its self-sufficiency in grain and oilseed production over the next decade?**

China is using 7 percent of global arable land and 6 percent of global water resources to feed about 20 percent of the world’s population. Food consumption has been growing rapidly over the past 10 years and is expected to continue growing at a rapid pace in the foreseeable future. How will the Chinese government plan to increase food productivity to keep up with the ever-growing demand?

- **What is the progress on farmland consolidation and what will be the implications of the farmland consolidation?**

Arable land is limited in China and the only way to keep up with the growing food demand is through increasing land productivity. Chinese farms are very fragmented and small with average farm size around 3.7 acres per farm family. Rapidly rising income from outside the farms and limited income from farming had discouraged farmers from increasing land productivity. The fragmentation of cropland becomes the largest obstacle to agricultural modernization in China. As a result, land consolidation becomes a major policy focus as the government attempts to combine 100 million small farms into large farms, in order to generate economies of scale.
China’s Agricultural Policy At A Crossroad

What will farmland consolidations mean to the agricultural machinery and equipment market, GMO seed technology and other farm technology, and transportation and logistics infrastructure in the future?

• **Will China’s changing policy environment impact their potential strategy for securing supplies from the world market?**

As the Chinese government realizes that China’s imports of grain and oilseeds will grow over time, acquiring international trading houses and overseas agricultural investments will become part of China’s strategy to secure reliable import channels and supply sources. COFCO’s majority stake in Nidera and Noble’s agribusiness arm are good examples of the implementation of this strategy. Will China pursue more international acquisitions and more overseas investment in the future?

• **Will China reform its current import quota system to better accommodate its actual import needs in the future?**

With the prospects of increasing grain and oilseed imports down the road, we understand that the Chinese government is researching to reform its current import quota allocation system to better reflect its growing import needs in the future. In this study, we will discuss what could be the potential new import quota allocation mechanism and how it will affect China’s import behavior in the future.

**Preliminary Study Outline**

**China’s Agricultural Policy At A Crossroad:**
New Initiatives and Long-Term Impacts

I. **Overview of China’s Agricultural Policy Changes**
   1.1 Overview of China’s agricultural policies under the planned economy
      - Collective production and very low commercialization
      - State monopoly of the grain purchases and marketing
      - Food demand rationing under limited supplies
   1.2 Overview of China’s agricultural policies in the 1980s and 1990s
      - Rural household production responsibility system
      - Grain production and marketing with limited price incentives
      - Rising grain production and commodity rate
   1.3 Overview of China’s agricultural policies in the 2000s
      - Overview of policies that led to more free grain/oilseed marketing
      - Overview of China’s agricultural subsidy programs
      - China’s agricultural trade policies under WTO environment
      - Overview of China’s agricultural tax reforms
   1.4 China’s key agricultural policies in recent years
      - Agricultural price support program
China’s Agricultural Policy At A Crossroad

- State reserve’s grain and oilseed stockpiling program
- Farmland usage rights transfer and consolidation
- Government’s interventions in domestic grain and oilseed market
- Agricultural mechanization and modernization

1.5 Merits and shortcomings of the major agricultural policies
- Rising farm income under the price support programs
- Strong incentives that led to rising grain supplies
- Burdensome stocks of selected commodities
- Distorted prices put domestic agricultural production at comparative
disadvantage against imports

II. Transition From Support Price Purchases to Target Price Mechanism

2.1 Reasons behind introducing target price system
- Rising financial burdens to the government
- Support price distortions of domestic supply and demand balances
- Impact of high prices on downstream industries
- Rising imports due to the good import margins

2.2 Progresses on introducing target price system
- Target price under China’s twelfth five-year plan (2011-15)
- The general idea, principle and method of the target price system
- Pilot target price programs introduced in 2014

2.3 2014 soybean and cotton target price policies
- China’s soybean target price program and its potential impacts
- China’s cotton target price program and its potential impacts
- The success of pilot target price program and its importance in transitioning
into major grain commodities

2.4 Potential timeline and path of target price program development
- Difficulties in applying target price program to major grain products
- Potential transition timeline among different grain products
- Supply and demand balances and their impacts on the timeline

2.5 Potential impacts of the target price program on grain/oilseed trade
- Potential changes in the state reserve’s stockpiling behavior
- Potential impacts on China’s grain and oilseed imports

III. Resources, Reform Dividend, and Economic Growth

3.1 China’s land resources and related policies
- Farmland situation and policies to secure grain-growing area
- Development and future trend of China’s farmland consolidation
- Land consolidation dividend to the rural reform and productivity

3.2 China’s water resources
- China’s current water resource situation
- Limited water resource and its impact on agricultural production
- Agricultural Irrigation and Investment in water conservancy

3.3 China’s agricultural mechanization progress
- Rate of agricultural mechanization in China
- Impacts of mechanization to agricultural production in China
- Agricultural mechanization and seed technology
3.4 China’s economy growth and population growth
- China’s economic growth outlook
- Income growth, structure and consumption pattern
- Population growth and urbanization

IV. China’s Long-Term Corn, Wheat, Rice and Soybean Supply and Demand Outlook
4.1 China’s supply outlook under the new policy scenario
- Acreages and future trend
- Yield projections over the next ten years
- Production situation and projection
4.2 China’s domestic demand outlook
- Domestic meat consumption trend and trade forecast
- Food grain consumption outlook
- Feed consumption growth over the next ten years
- Protein meal demand from livestock and poultry sectors
- Corn industrial use and its future trend
- Vegetable oil demand outlook
- Projection of soybean crushing demand
- Projection of soybean food and industrial demand
- Interactions between sectors that can impact demand
4.3 China’s supply and demand balance projection
- Supply and demand balance for each crop over the next decade
- Stock situation for each crop and its future trend
- Assessment of the import potential for China for each major crop

V. China’s Aggregate Import Outlook and Evolving Import Strategies
5.1 China’s aggregate grain and oilseed import outlook
5.2 Pro value-added imports or import product diversification
5.3 Potential changes in the import quota allocation system
5.4 Acquisition of import channels and overseas farmland investment
5.5 Major Implications to world grain and oilseed trade
STUDY DELIVERABLES AND SCHEDULE

Deliverables

The project will involve several specific products and services for the participating clients, including:

Pre-Study (“kick-off”) Webinar. A webinar of participating clients and IEG study staff will be held to review the detailed plans for the study and to identify particular issues to receive special attention. This webinar provided by IEG will update clients on current developments, and enable specific client comments and interests relating to each to be noted.

Comprehensive Study Report and Presentation Materials. Clients will receive the fully documented study report, China’s Agricultural Policy At A Crossroad. The report will include all relevant background statistics, analyses and evaluations, empirical projections and supporting detail developed during the study. Clients also will receive copies of all PowerPoint presentation materials used in reporting study results. (All materials will be available both electronically and in hard copy.)

Post-Study Webinar. IEG staff will present the results of the study at a webinar with ample time for the group to participate in discussing the implications of the findings.

Optional Report Presentation at Clients' Offices. IEG staff can travel to client offices to present the final report and conduct in-house seminars, as requested. These seminars are tailored to each client’s individual needs and interests, and provide a unique opportunity to stimulate discussion and bring an outside viewpoint to within an organization. IEG staff will present these findings at the clients’ offices for travel expenses plus a minimal speaking fee.

Preliminary Project Schedule
(Dates to be finalized once signup is complete)
August 2014 pre-study conference and study begins
November 2014 study completed – final report sent to clients
December 2014 client seminar to review report
January 2015 individual presentations at client offices

Who Should Subscribe to This Study?

- Exporters and Grain Handlers
- Processors
- Banks and Financial Institutions
- Policy Specialist
- Transportation Companies
- Livestock Producers
- Traders and Merchants
- Commodity Groups
China’s Agricultural Policy At A Crossroad

- Input Providers
- Food Manufacturers
- Government Policy Makers
- Equipment Manufacturers

Study Fees
The fees for participating in the study are $15,500 for IEG clients and $18,500 for non-clients. One half will be billed upon initiation of the study and the remaining one half upon receipt of the final written report. The fees include the pre-study conference and the subscriber group review webinar. Individual presentations of the study findings at subscribers’ offices are available upon request, for an additional flat fee of $2,000 plus travel expenses.

Study Team

About the Informa Economics Group
IEG is the world leader in broad-based agribusiness, energy and transportation consulting and commodity market analysis. Founded in 1977, the company now serves hundreds of firms and institutions worldwide. In December 2003, the company was acquired by plc, a global business information group. The IEG Group now encompasses Agra CEAS Consulting, Informa Economics FNP Brazil and Washington Policy & Analysis, creating an international network of services and clients with offices in the U.S., Canada, the United Kingdom, Belgium and Brazil, and employing roughly 225 people.

IEG offers several broad categories of services:

- Management consulting for agribusinesses, energy companies, renewable fuels companies, transportation service providers/users, related trade associations and government agencies;
- Agricultural and energy commodity market analysis;
- Risk management strategies;
- Education and training; and
- Newsletters and other publications.

Our Mission: "To be a vital force in the success of agriculture, food, energy and transportation interests around the world."
Commodity Market Analysis

IEG offers a comprehensive package of well-respected, timely and highly detailed commodity market information, constructs estimates and forecasts of U.S., Canadian and world crop and livestock/meat supply and demand fundamentals and prices. Additionally, IEG analyzes energy markets, transportation, government policies and long-term sector trends. The scope of this work covers the following areas:

- All major grains, oilseeds and products, cotton and fibers;
- Livestock, meat, poultry and dairy;
- Soft commodities, including sugar;
- Specialty vegetable oils;
- Energy;
- Transportation services;
- Weather services; and
- Long-term forecasting.

IEG has developed a global framework for conducting long-term forecasts of supply/demand balances of crops (primarily grains and oilseeds) and livestock, meat and poultry for major countries and world regions. In addition to forecasting global supply/demand balances, prices are forecast for major commodities traded in North America. While Informa’s ongoing short-term commodity market analysis is contained in its standard reports for clients, the long-term forecasting service is provided on a project basis and can be customized to each client’s needs.

Consulting Services

Informa’s Consulting Group provides management and economic consulting services to organizations in the agriculture, renewable fuels, food processing, foodservice and conventional energy sectors. Clients include corporations, cooperatives, trade associations and government agencies in the U.S., Canada and overseas. IEG advises clients on a broad range of economic, market, risk management, financial, strategic and regulatory issues. In order to meet client objectives, IEG utilizes a variety of methods, including:

- Business plan development;
- Strategic planning;
- Financial projections and feasibility determination;
- Site selection studies;
- Market research;
- Economic impact analysis;
- Econometric analysis; and
- Risk management strategies.
In addition to business- and market-related services, Informa’s Consulting Group conducts analyses of government policies and regulations. IEG consults with government agencies, non-government organizations, agribusinesses and trade associations regarding the impacts of policies and regulations on the agricultural and energy markets and industries. Additionally, IEG provides expert testimony for legal cases and government hearings.

**Renewable Fuels Services**

- Feasibility studies (market and financial);
- Business plans;
- Independent market consultant's reports (in connection with project finance);
- Due diligence reviews;
- Strategy development;
- Market analyses and price forecasts (short and long term);
- Transportation assessments;
- Risk management plans, audits and system design, and
- Ongoing commodity and risk management advisory services; and
- Policy analysis.

**About National Grain and Oils Information Center (NGOIC)**

China National Grain and Oils Information Center (NGOIC) was a division within the State Grain Bureau, a government branch mainly in charge of macro control of grain and oil supply and demand; arranging grain procurement; setting trade policies and standards; and managing state grain and oil strategic reserves.

NGOIC is the premiere grain and oilseed production, trade and policy research institute in China. Its subscribers include all government branches that oversee the grain and oilseed industry as well as most of the leading players in the grain and oilseed industry.


It has a nationwide network that collects firsthand information, including: crop conditions and development, more than 300 market price series, regional supply/demand situations, industry developments and government policies.

NGOIC routinely organizes conferences and forums between government officials and industry leaders to discuss the supply/demand situation and exchange views on the government’s policies and regulations.
Its research findings are frequently quoted by the national and international news media such as Reuters, Bloomberg, Dow Jones, China Daily, People’s Daily, and CCTV. The NGOIC’s research findings are used by the central government in its policy formulating process.

The Market Monitoring Group under the NGOIC, which is collaborating on this project, is responsible for organizing and setting up the national grain and oilseed information system, tracking the dynamic market movements. It provides short-term market monitoring as well as intermediate and long-term grain and oilseed market analysis and projection. In addition, the NGOIC serves as a government think-tank to provide firsthand grain and oilseed information and in-depth market analysis to assist the government in setting its agricultural production and trade policies and conducting macro supply/demand management.
ENROLLMENT FORM

☐ Yes, I want to participate in the special multi-client study, **CHINA’S AGRICULTURAL POLICY AT A CROSSROAD**. The cost of the study is $15,500 for current Informa Economics clients and $18,500 for non-clients.

**Please Return This Form to Informa Economics, Inc.**
Via Fax: (901) 766-8158 or Email to an Address Listed Below

☐ Please have someone contact me to provide further information.

Name: ____________________________ Signature: ____________________________

Title: ______________________________

Company: __________________________

Street Address: __________________________

City, State, ZIP: __________________________

Telephone: __________________ Fax: __________________

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**Please feel free to contact us with questions:**

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Biographies of Project Team Members

Bruce A. Scherr, Chairman of the Board and Chief Executive Officer Emeritus
Dr. Scherr has been with Informa Economics, Inc. (formerly Sparks Companies, Inc.) from 1987 to July 2014 in several executive capacities including President and CEO, and he is currently emeritus. In addition, he was an Advisor for Metalmark Capital LLC, a private equity fund. Formerly he was president of Sparks, Jacobs, Scherr, Inc. (SJS), a sister company to Sparks, and president of Agri-Commodities, Inc., an agriculture consulting firm based in Andover, Massachusetts, which was acquired by SJS. Prior to forming Agri-Commodities, Dr. Scherr was a divisional vice president at Data Resources, Inc., where he developed and utilized for the public and private sectors the first commercially available econometric model for US agriculture. Dr. Scherr received his bachelor's degree from Rutgers University and his master's degree and doctorate from Purdue University, all in agricultural economics. Currently, he is a member of the Board of Trustees of the North American Electric Reliability Corporation; E. Ritter & Company; Santa Energy Company; and Chairman of the Board of Legumex Walker, Inc. In addition, he served as a member of the Global Strategy Institute Advisory Council of the Center for Strategic and International Studies; as a member of the Board of Directors for Desert STAR Inc., an electrical transmission Independent System Operator for the Desert Southwest from January 2000 through February 2002; and as a member of The University of Tennessee's (UT) Institute of Agriculture Agricultural Development Board and UT’s Committee for the Future. He was named a 2007 Distinguished Agriculture Alumni from Purdue University and he is a member of several honorary research and agricultural societies, a member of the National FFA Foundation Sponsors’ Board 2000 through 2001 and a former advisor to the President's Council of Economic Advisers and National Aeronautics and Space Administration.

Thomas P. Scott, Chief Executive Officer
Mr. Scott has been with Informa since 1989. Mr. Scott's specialized work has included business strategy, agribusiness economic development, feasibility and site selection work, as well as various market analyses. In addition to his work in North America, Mr. Scott has extensive experience in the agribusiness sectors of Central Europe, Southeast Asia and South America. He has been involved in many training programs developed and delivered by Informa Economics. Prior to joining the company, he had various assignments in management, trading, logistics and merchandising with Continental Grain Company. He received his bachelor's degree in agricultural economics and business from Cornell University and a master's degree in business administration from the Amos Tuck School of Business Administration at Dartmouth College where he was an Amos Tuck Scholar.

Richard S. Andersen, Executive Vice President
As co-executive of Informa's Livestock, Meat, Poultry and Dairy activities, Dr. Andersen's primary responsibilities include market research, client service and business consulting related to these sectors. Prior to joining the company in 1978, Dr. Andersen was a regional extension economist for the Alberta Agriculture Department, a livestock market analyst and policy advisor to the Alberta Minister of Agriculture, and a research economist for Cook Industries, Inc. He received his bachelor's and master's degrees in agricultural economics from the University of Alberta and his doctorate degree in agricultural economics from The Ohio State University.
Rob M. Westmoreland, Executive Vice President
Mr. Westmoreland is executive vice president of the Informa Economics grains, oilseeds, other crop and food ingredient research and analysis functions and client services. His many food and agribusiness consulting assignments include commodity planning, price risk management and business strategic planning for a wide spectrum of US and international food and agribusiness companies. Mr. Westmoreland also directs Informa’s commodity merchandising and futures/options training schools. Before joining the company in 1987, Mr. Westmoreland was group vice president and general manager of Pillsbury Industrial Foods where his management experience included economic analyses and commodity risk management, business strategic planning, marketing, and general management in food processing. He is an economics graduate of Rice University and of the Stanford University Graduate School of Business.

Donald G. Frahm, Senior Vice President, Chief Economist
Dr. Frahm has been with Informa Economics since 1980. His primary responsibilities are long-term forecasting/planning and client service. Additionally, he coordinates across commodities the consistency of Informa’s Crop Group market analyses. Prior to joining the company, Dr. Frahm worked with two grain merchandising and brokerage companies and as a senior economist with the American Soybean Association. Earlier, he held positions at the University of Nebraska and Purdue University. He received his bachelor's degree at The Ohio State University and his master's and doctorate degrees from Purdue University, all in agricultural economics.

Don A. Riffe, Vice President, Director of Crops Economic Research
With the company since 2000, Mr. Riffe oversees Informa Economics’ fundamental supply/demand and market research activities related to the major crops. Prior to working in this capacity, he was responsible for Informa's wheat and rice research from 2007 to 2012 and the manager of Informa's farm-level consulting business, Producer Services, from 2000 to 2006. Before joining Informa, Mr. Riffe was owner of Agri-Business Specialties, LLC, an agricultural consulting firm that published the Cottonseed Digest. Prior to that work, Mr. Riffe was a market analyst for Land O'Lakes, Fort Dodge, Iowa, for nine years, where he provided economic and agricultural market analyses and trading advice as well as managed hedging operations and developed and implemented futures and options risk management programs. Mr. Riffe also has held positions as senior agricultural economist for the agricultural chemicals group of W.R. Grace & Company, Memphis, as agricultural economist with the Farm Credit Banks of Omaha, and as economist for the Federal Reserve Bank of Dallas. He received his bachelor's and master's degrees in agricultural economics from Oklahoma State University.

William T. McCary, Jr., Director, World Acreage and Production
Mr. McCary has 30 years of experience working in Informa's acreage and production division. Mr. McCary’s responsibilities include analyzing acreage and yield prospects for the world. Mr. McCary primarily is responsible for maintaining and analyzing the company's monthly/weekly acreage and production crop surveys and issuing Informa's monthly world crop production estimates. Mr. McCary also is Informa's seasoned crop evaluator, having conducted field crop surveys in the Americas as well as Europe. He received his bachelor's degree from Mississippi State University.
Jay Lou, President, PolyResource International LLC. Mr. Lou has specialized in Chinese agricultural commodity market research and consulting for over 10 years. With his networks and contacts in China, Mr. Lou has worked extensively with companies to develop firsthand market and policy information sources in China, to organize and manage market research programs, to assist agribusinesses and public sector in strategic planning and business development, and to serve as an advisor on several China Strategic Advisory Boards. Mr. Lou worked previously at the market research department of Informa Economics (formerly Sparks Companies, Inc.) and the export business department of Dunavant Enterprises Inc. He received his bachelor’s and master’s degrees in agricultural economics from Zhejiang Agricultural University and a master’s in agricultural economics with emphasis in international trade and agricultural marketing from North Dakota State University.