INSTITUTE OF AGRICULTURAL ECONOMICS AND DEVELOPMENT, CAAS

Beef production situation and policy support in China

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Outline

1. Beef cattle inventories and beef production
2. Prices, costs and profitability of beef production
3. The Import and export for beef in recent years
4. Policy support for beef cattle
5. The perspective for beef cattle

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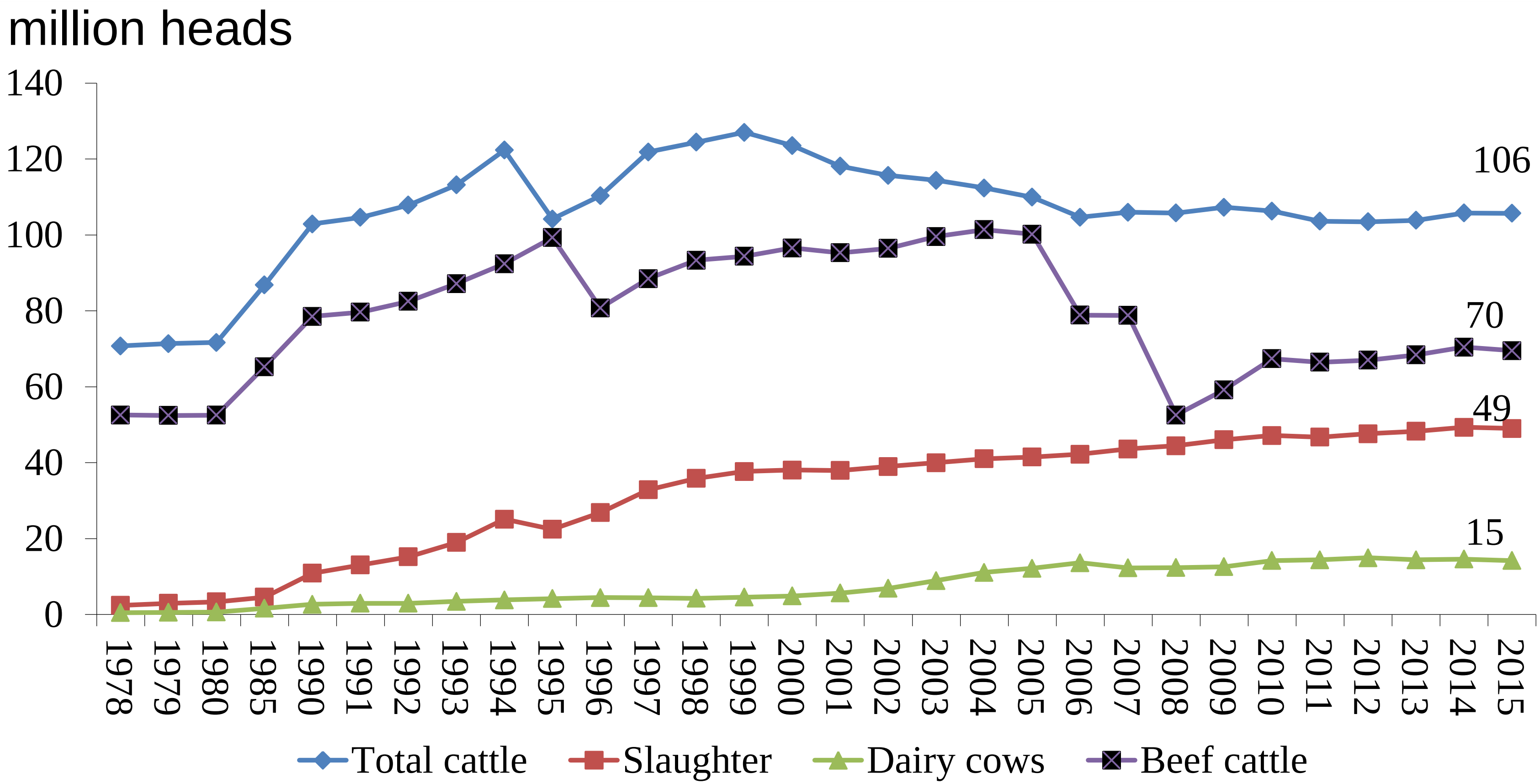
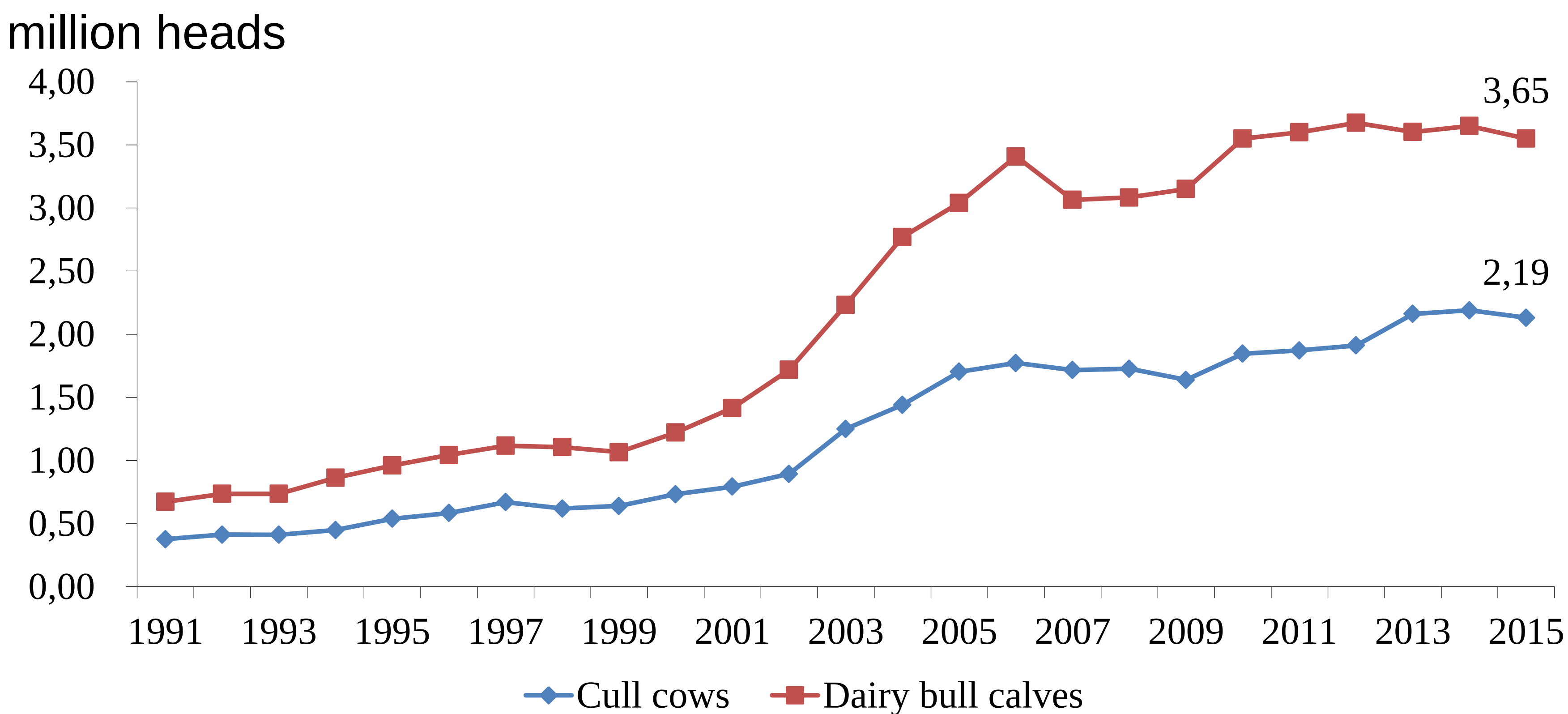
Cattle inventories stable, slaughter upwards



Source: National Statistics, the data of 2015 is estimated.

In 1996 and 2006, Bureau of Statistics took out draft cattle from the statistics. The remaining cattle is mainly for beef production, so the beef production shows a higher efficiency than before.

Cull cows and bull calves compensate for the decline in beef cattle herd

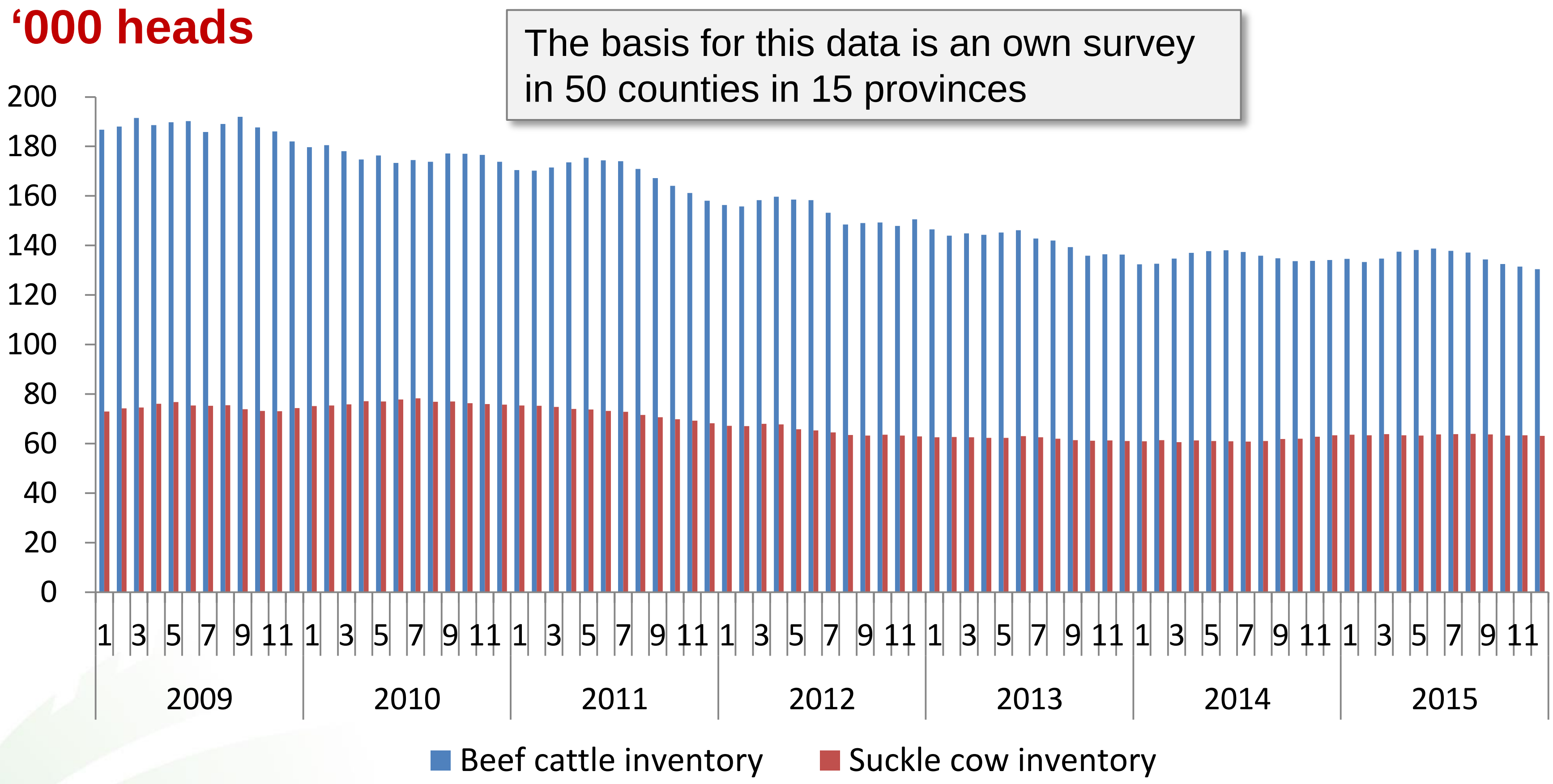


Source: National Statistics & own caculation

Two sources of cattle increased significantly: cull cows and dairy bull calves

In the past, we didn’t fatten the dairy bull calves, nowadays, it is much more done as a result of the shortage of calves.

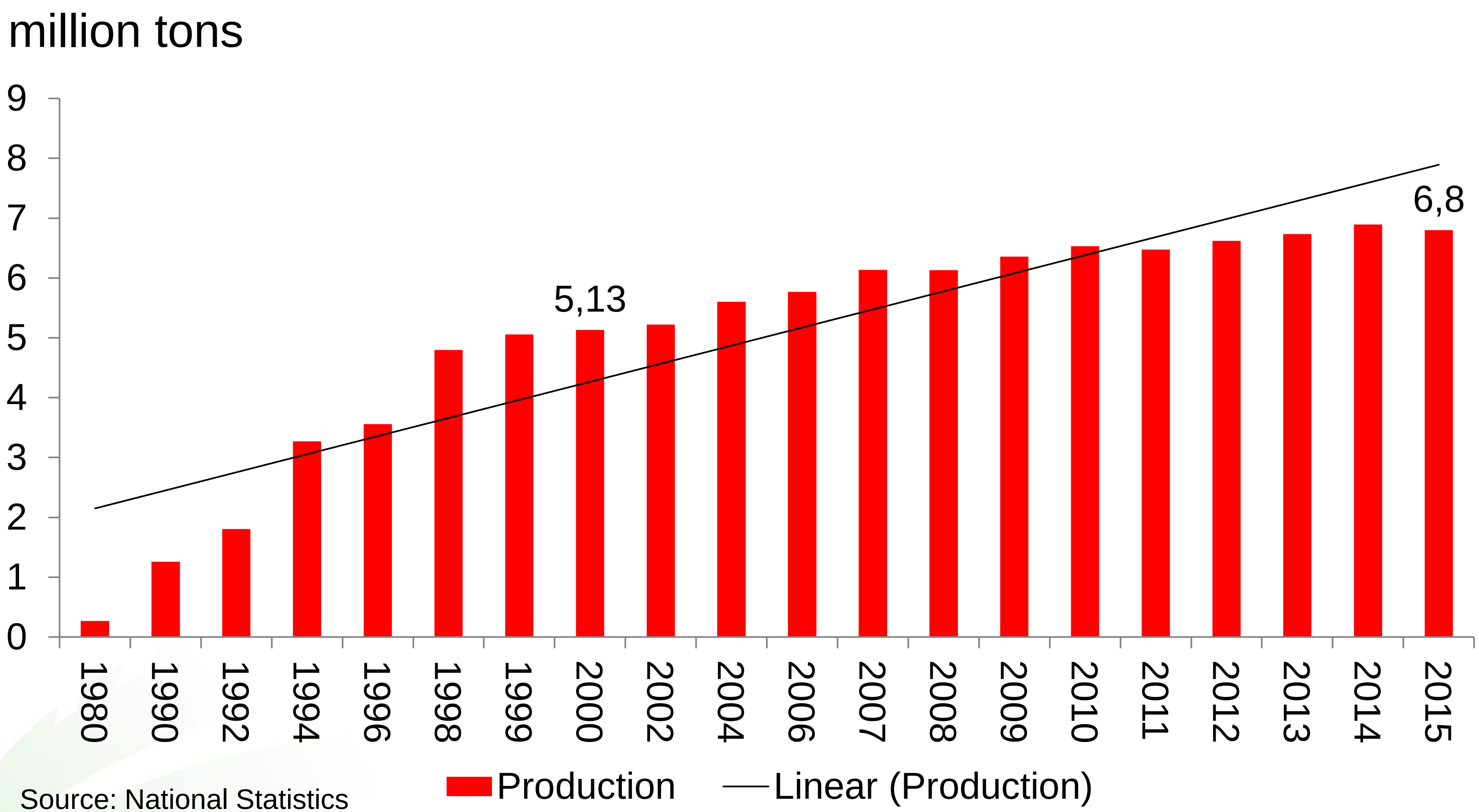
Beef cattle and suckler cows in decline



Source: Own survey

The inventory of beef cattle decreased dramatically since 2009; the reduction in suckler cow numbers was the main reason but showed a recent increase.

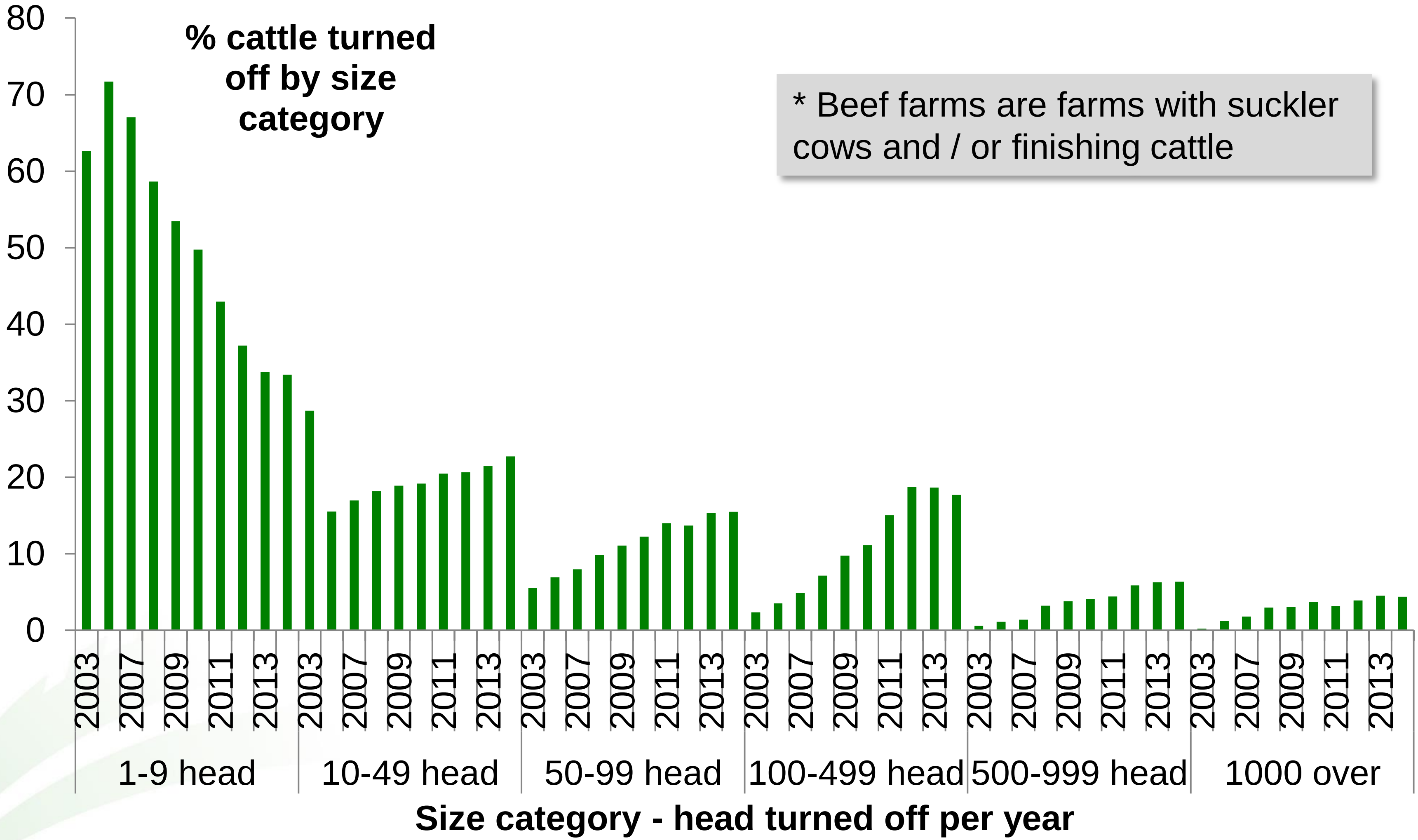
Beef production with impressive growth but now moving sideways



Source: National Statistics

Beef production came from almost zero and grew by 33% since 2000, but in recent years, it was more difficult to compete with other land uses.

Continued structural change in beef farms*

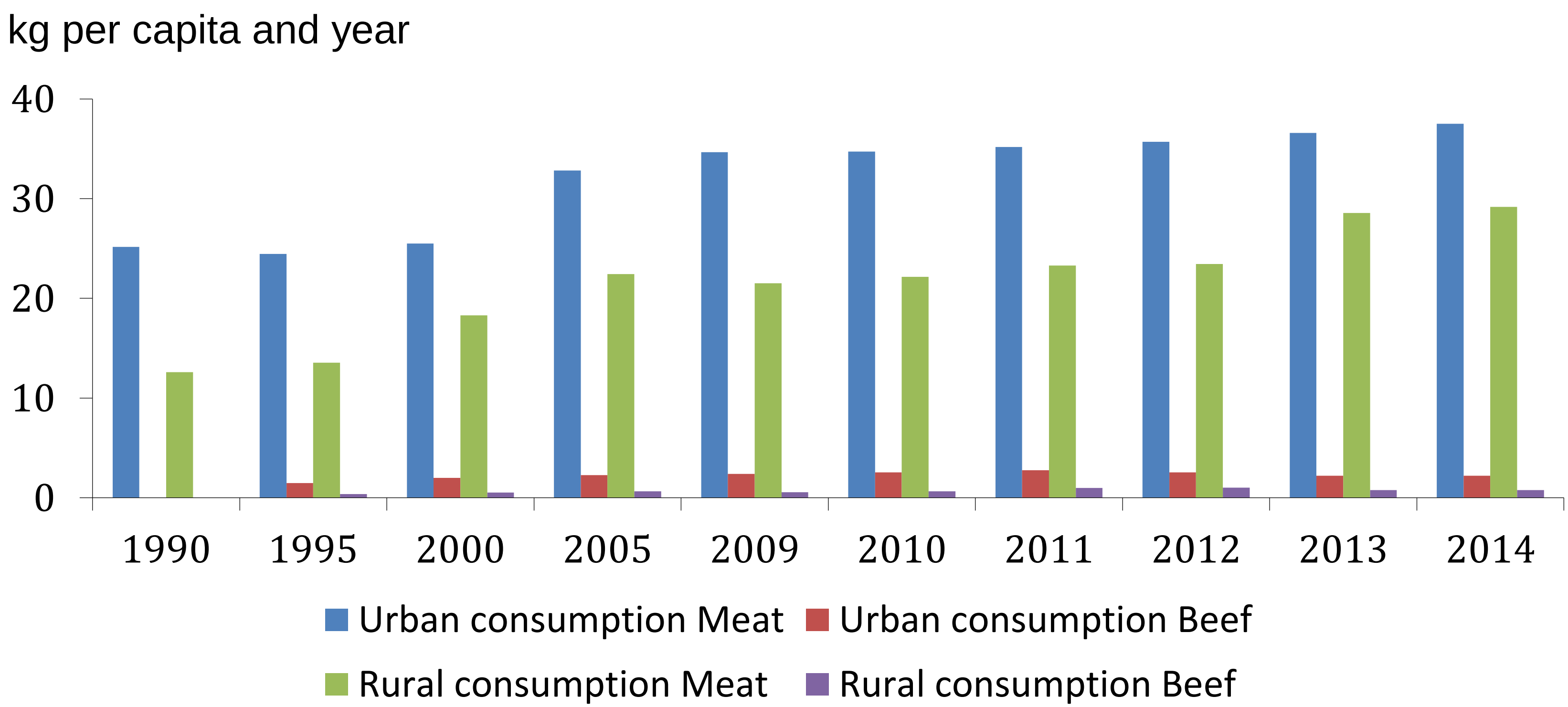


* Beef farms are farms with suckler cows and / or finishing cattle

Source: National Statistics

Farms below 10 cattle are in sharp decline, all other size classes growing.

Growth in per capita beef consumption stays behind total meat consumption



Source: National Statistics; The data in 2013 and 2014 are compiled on the basis of the integrated household income and expenditure survey of the NBS, including both urban and rural households. While the data prior to 2012 are compiled on the basis of the urban household surveys of the NBS.

This data is only the consumption at home. If we include the out-of home consumption, beef consumption should be more than 5 kg/person (based on an own survey in 2012).

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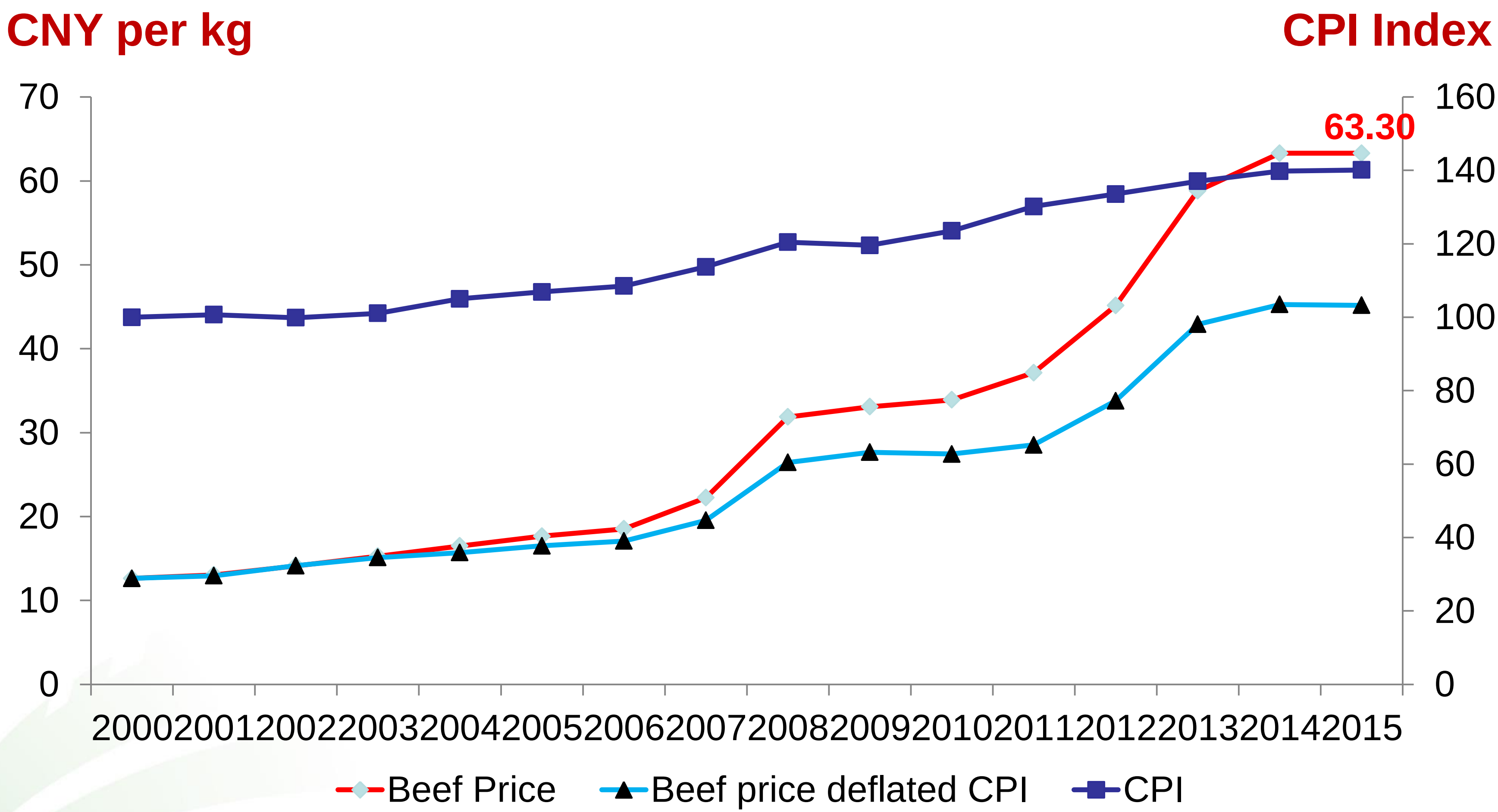
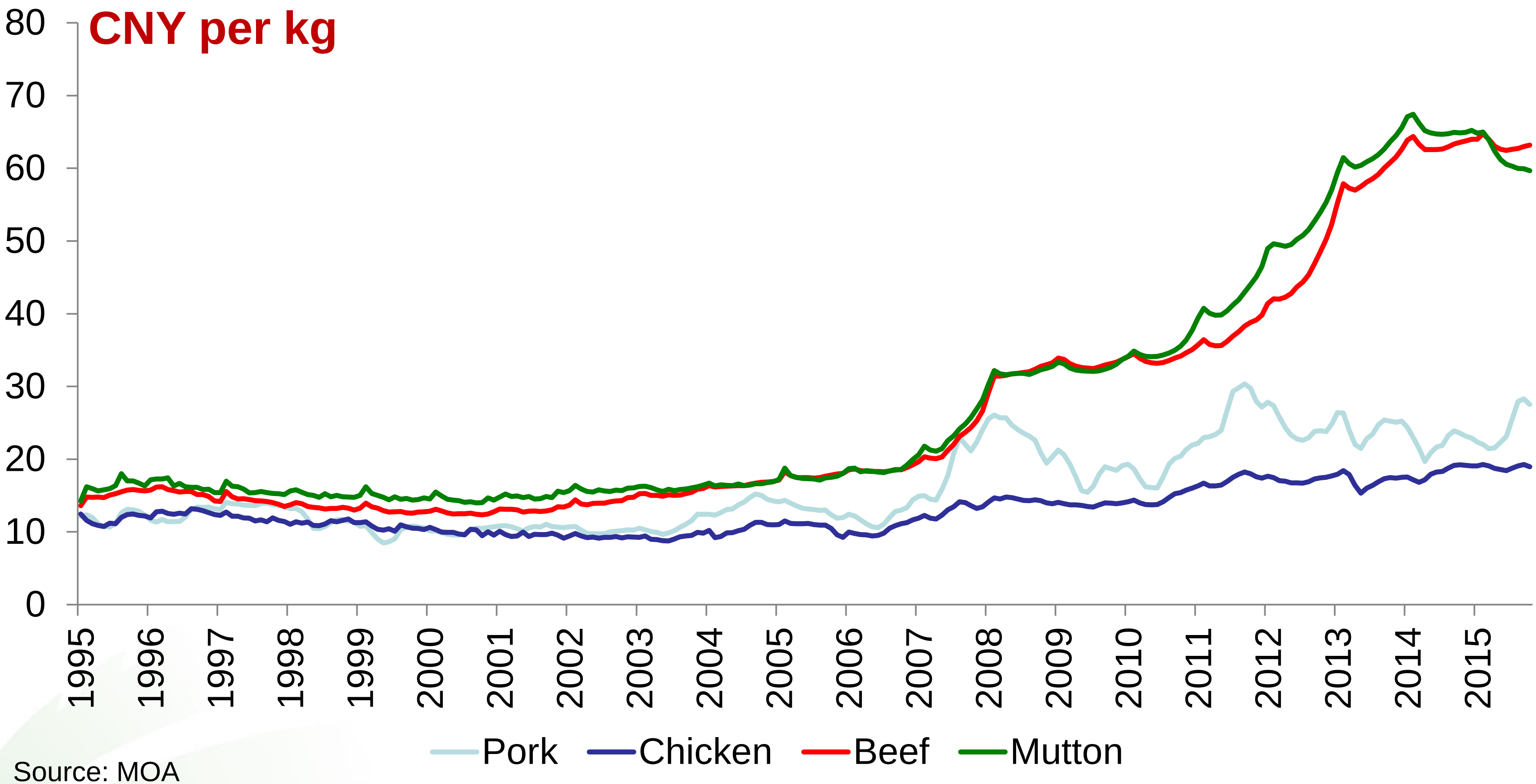
Consumer beef price with significant increase



Source: MOA

Beef price more than tripled since 2000, well above inflation.

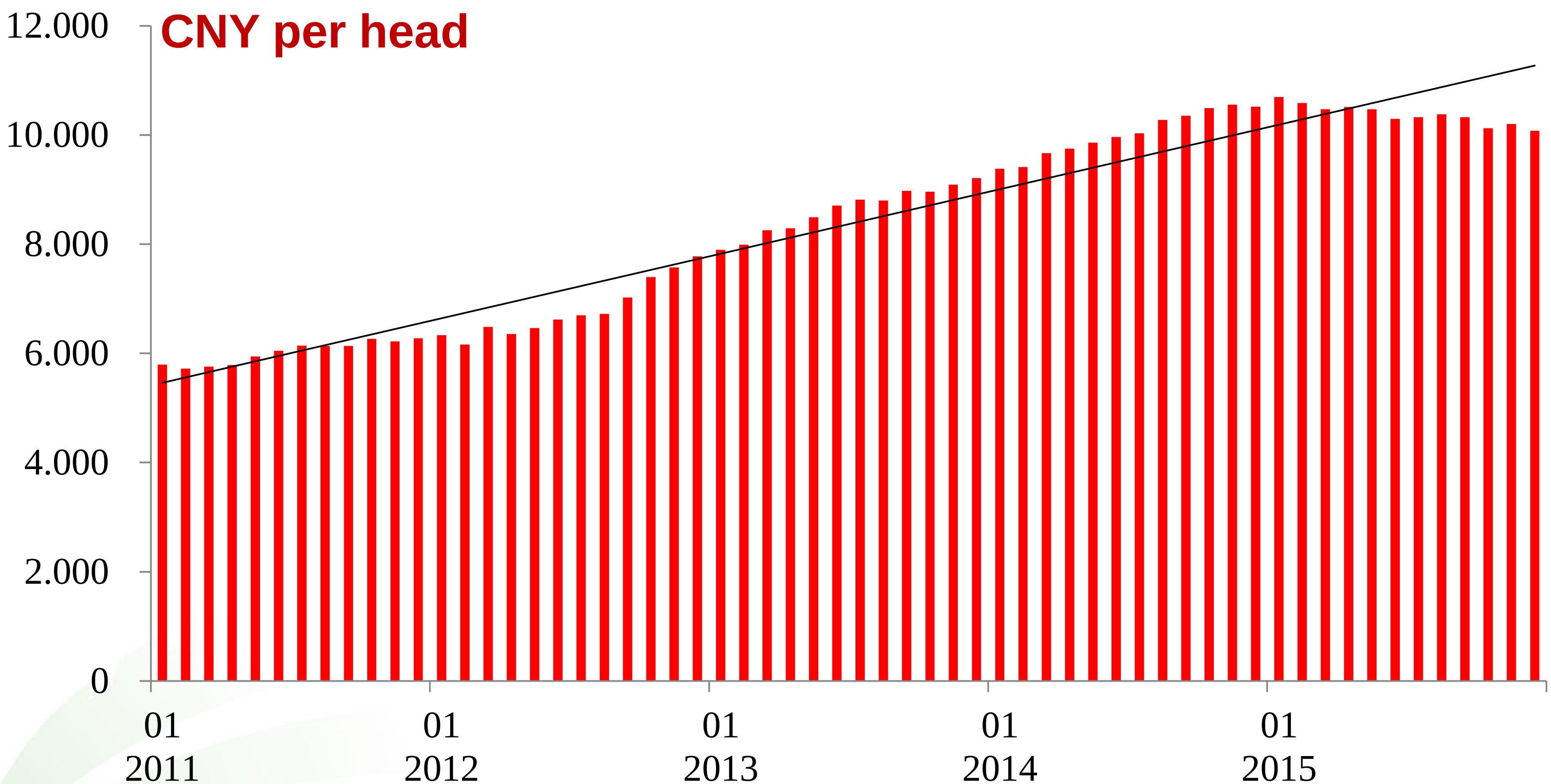
Beef and mutton prices increase more than other meats



Source: MOA

In most of years, mutton price is higher than beef price, but beef price is higher since 2015. Now beef price is 62 CNY/kg, mutton price is 56 CNY/kg.

Breeding suckler-cow prices basically follow beef prices

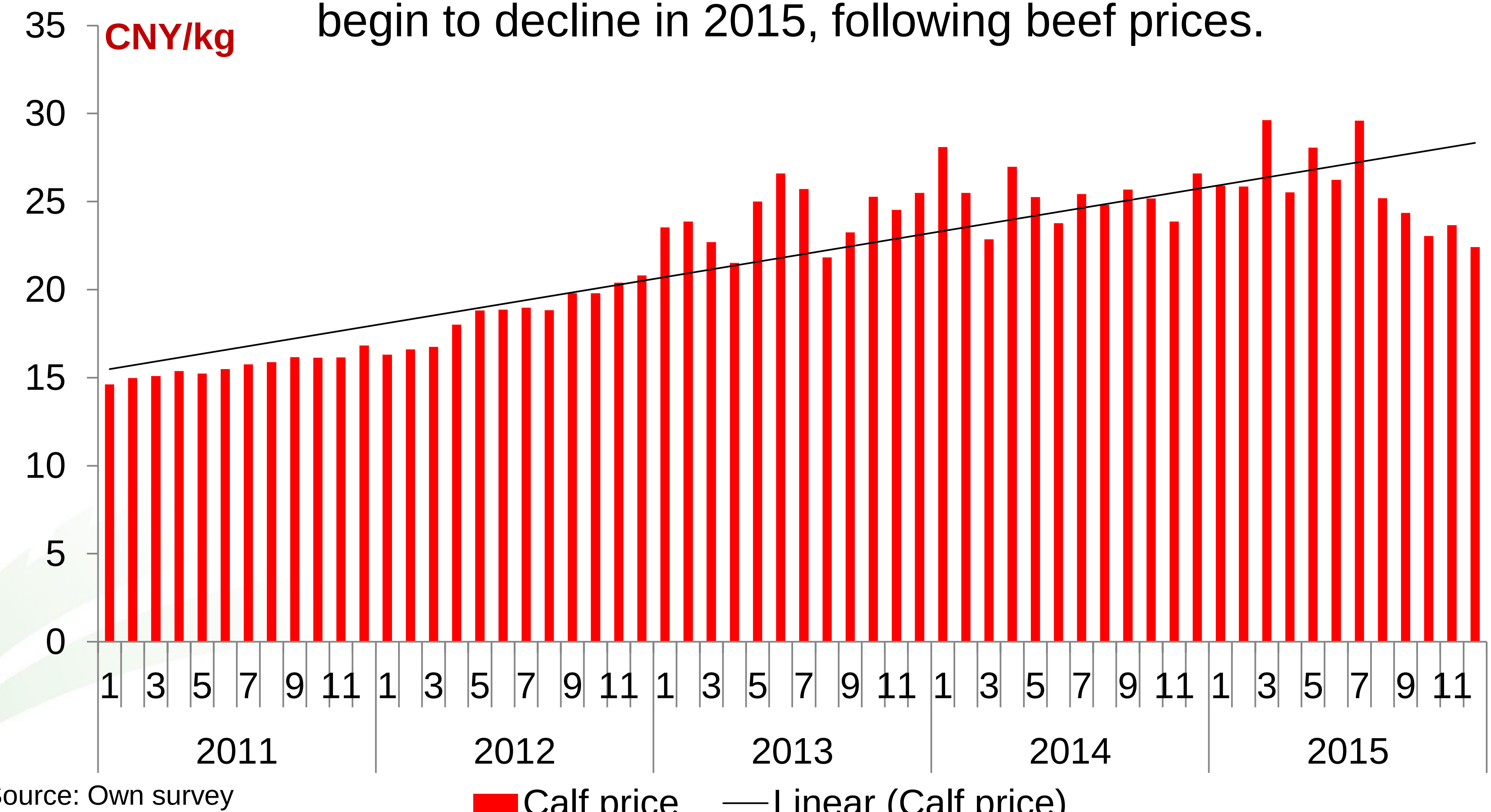


Source: Own survey

The price of cull cows kept strong increase, but it went down slightly in 2015.

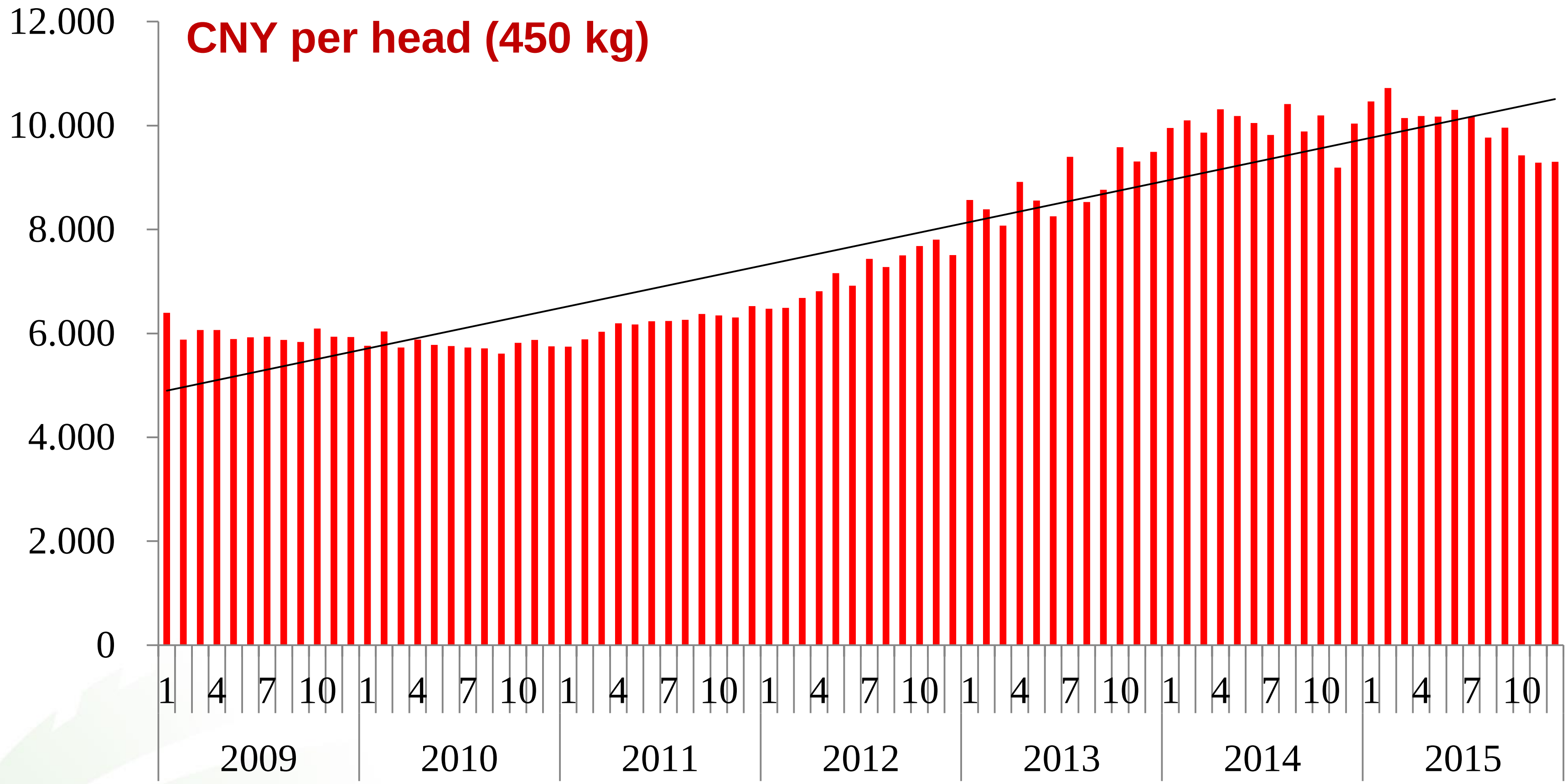
Calf prices with less increase

Calf price was relatively stable in 2011, and it rised rapidly from 2012. The price was 25 CNY/kg in 2014, while it begin to decline in 2015, following beef prices.



Source: Own survey

The total cost for beef cattle

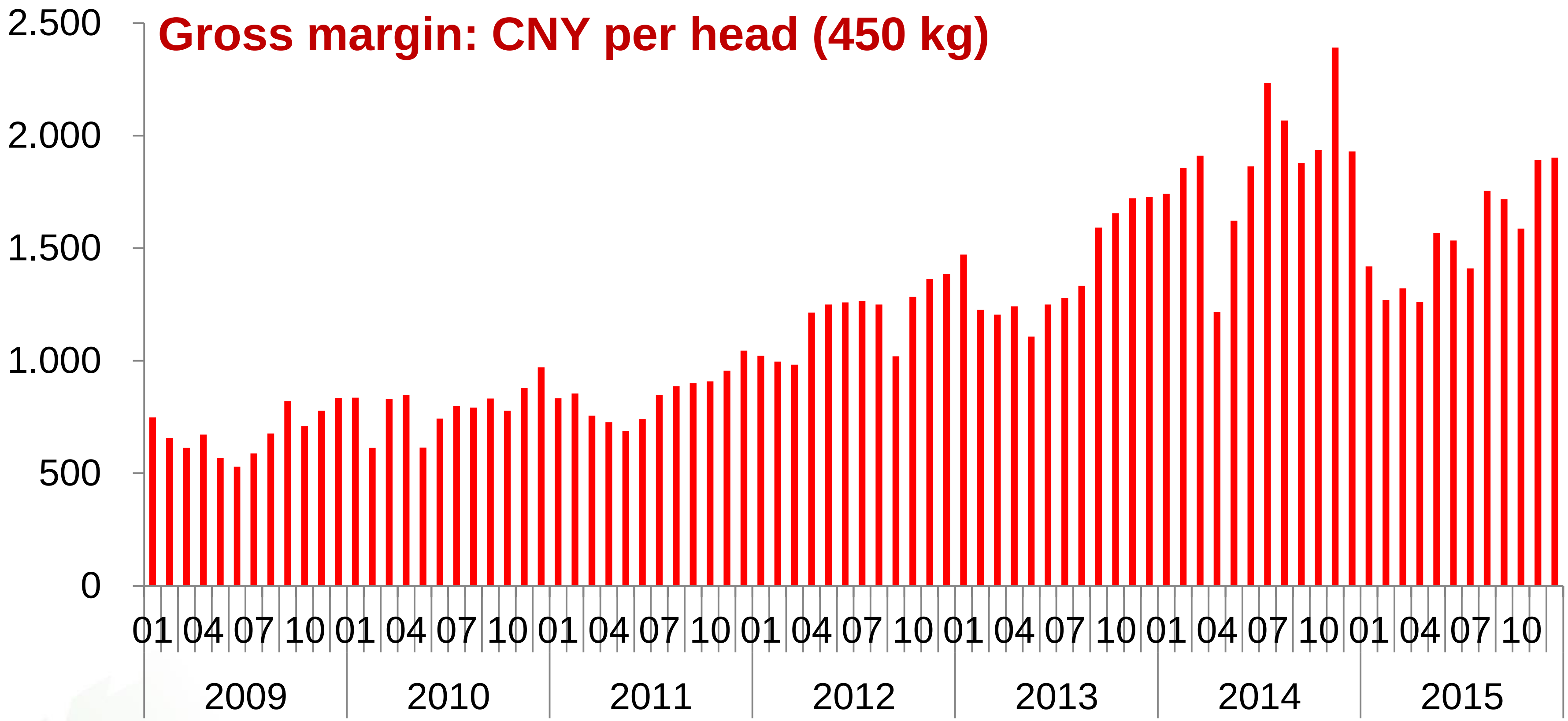


Source: Own survey

Beef cattle production cost increased quickly, while it declined in 2015

In 2013 and 2014, the cost of beef cattle increased 23 % and 13 % against the previous year while it did not change in 2015.

Profitability follows beef prices



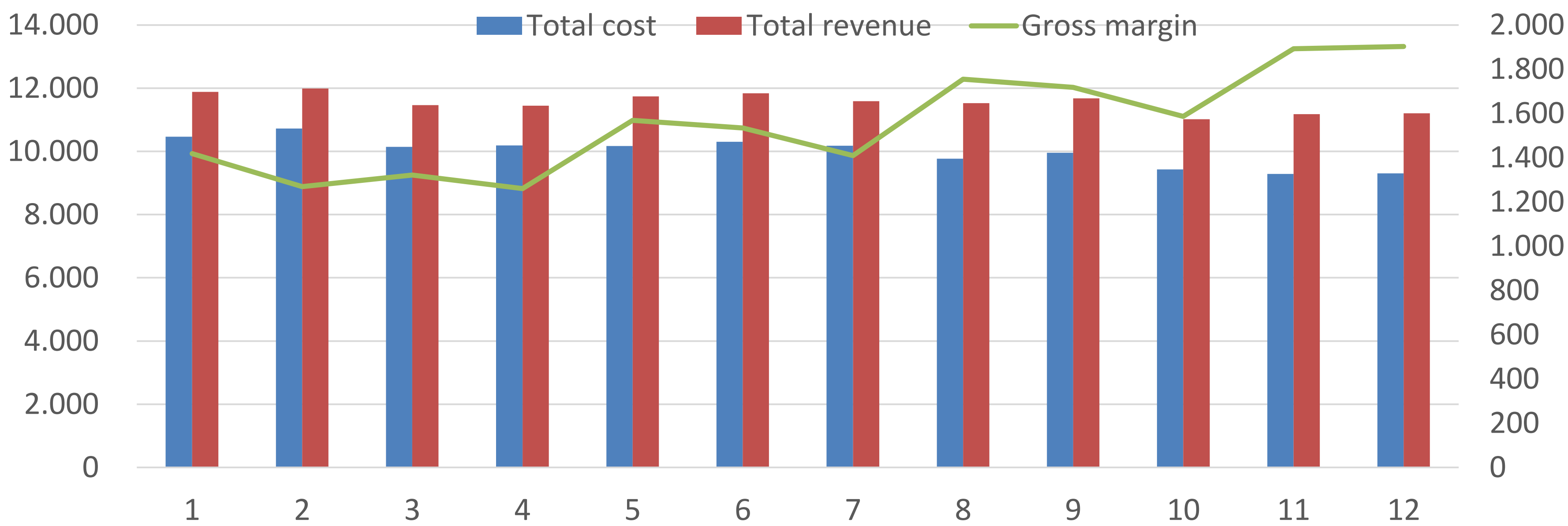
Source: Own survey

The gross margin of slaughter cattle increased rapidly.

Gross margin in 2010 was 790 CNY/head, it raised to 1890 CNY/head by 2014 and declined by around 28 % to 1550s CNY/head in 2015.

Costs, returns and profitability 2015 finished cattle

CNY/head (450 kg live weight)



Source: Own survey

- The live weight price was about 26 CNY/kg in 2015, which were down by 3% agains the previous year.
- The gross margin was about 1 550 CNY/head. down by 18 % against the previous year.
- The average revenue and cost was 11 500 CNY/head and 10 000 CNY/head.

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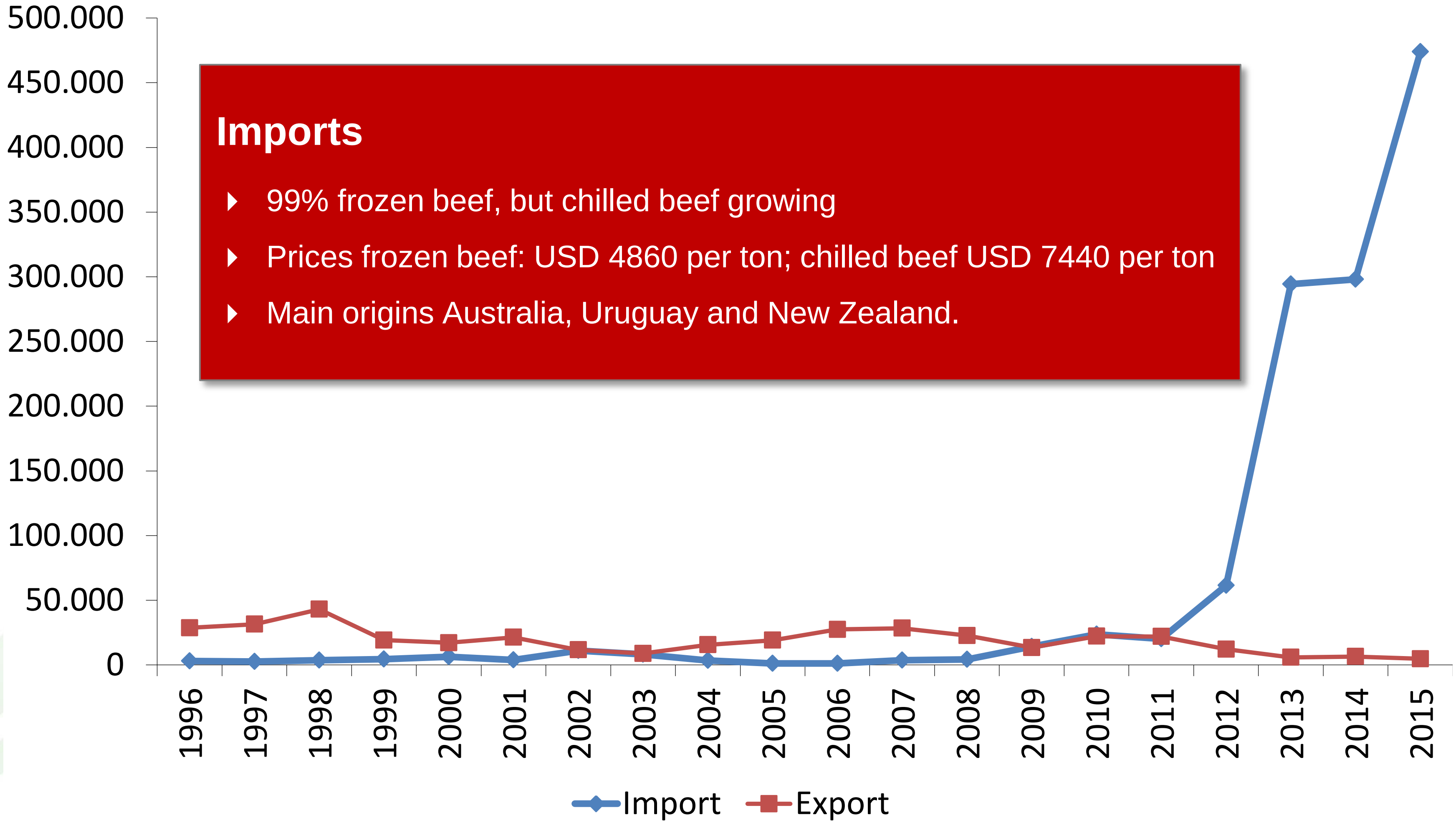
China became an important net importer in the last years

tons

Imports

- 99% frozen beef, but chilled beef growing
- Prices frozen beef: USD 4860 per ton; chilled beef USD 7440 per ton
- Main origins Australia, Uruguay and New Zealand.



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Government subsidies

- Protection of pastures in 5 pasture provinces (14 billion CNY)
- Suckler cows subsidy 300-2000 CNY/head (total 900 million CNY) for cows in main production areas excluding for the pastoral areas
- Supply chain support for the top 100 counties selling beef and sheep in 5 pastoral provinces (500 million CNY via county government)
- Promotion of competitive farm structures of beef cattle farms in 5 pastoral provinces (300 million CNY).
- Forage improvement plan to increase grass and corn silage production in 100 counties (2016)
- Some local governments provide cattle insurance schemes for cattle losses

China – Australia free trade agreement

- This agreement was signed in June 2015
- Tariff rate for beef was 15.5 %.
- The agreement states a transition period of 10 years
- By January 2024, the tariff will be zero

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Inventories and production

- Small beef cattle farms continue to exit, and the specialised and large scale farms will gradually increase
- In 2016 the beef cattle inventory will be constant, but slaughter quantity will be less because
  - The amount of low-yield dairy cows and dairy calves is declining because of the low milk price
  - The gross margin decrease in 2015, which affected the beef cattle slaughter in 2016
  - China – Australia Free Trade Agreement, there are more live cattle imports from Australia

Beef prices and imports

- Beef price in 2016 lower than 2015, but still above 60 CNY/kg
- The cost expected to be stable, especially for the feed cost.
- By 2020, imports are expected to increase by 70 %, and the total demand will increase 20 % compared to the year 2015 (own estimation).

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Thanks for your attention!