

China - the gift that keeps on giving?

In the past 18 months, China has become an increasingly important destination for global pig meat exports. With Chinese imports more than doubling so far this year, USDA anticipates that volumes will reach a record 2.4 million tonnes (carcase weight equivalent) this year. Though imports were expected to be elevated, following the pig herd declining, growth has far exceeded earlier expectations. But, as the Chinese pig sector continues to restructure, will increased efficiencies ultimately reduce the need for foreign imports? And if so, when?

The Chinese government has set targets to modernise the pig sector between 2016 and 2020. To realise this aim, it is incentivising a move away from small/medium-sized, family-run production units and promoting the establishment of much larger operations. It is thought that these larger plants will be more efficient and better placed to invest in technical and genetic advances. It is also hoped that this restructuring will improve the health of the Chinese herd by enabling better control of the various swine diseases endemic in China.

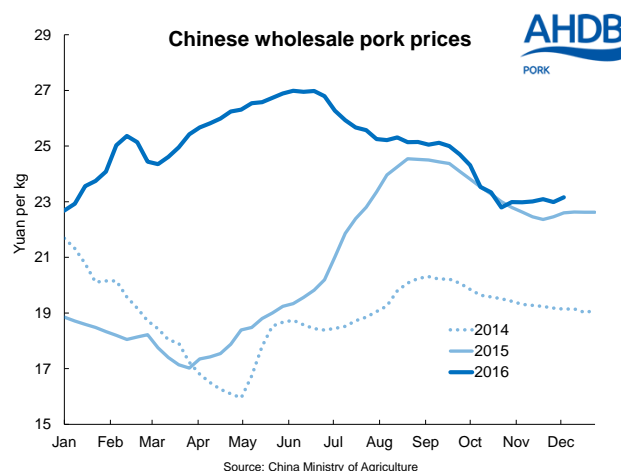
Decreasing the environmental impact of production is another Chinese government goal. Regulations controlling where farms can be located and the disposal of waste have been introduced. Thousands of farms have been forced to close, particularly in areas close to large human populations, such as Beijing. With better access to capital, the government wants larger farms to relocate into less populated areas. However, so far the decline in pig operations has exceeded the rate of re-investment. This has led to an estimated 9% decline in pork production this year, relative to 2014's peak, to 51.9 million tonnes cwe.

This is contrary to many forecasts from early 2016, when it was thought Chinese pork production might increase slightly from a 2015 low. While tightening supplies have elevated pig prices, other factors have restrained expansion of production. Limited land availability in locations preferred by the government, is thought to be slowing development. Flooding in Southern China and outbreaks of PEDv are also cited as hampering progress.

These limitations on domestic production have enabled the dramatic growth in pork imported this year. However, in recent months the rate of import expansion has slowed somewhat. At 115,000 tonnes, Chinese pork imports during October were "only" 43% higher than a year earlier but almost triple the 2014 figure. Comparatively, in August volumes were double the 2015 level and more than quadrupled on 2014.

Looking forward, the USDA are forecasting some growth in Chinese pork production next year, up by 4%. If correct, this would be expected to depress demand for imports, particularly if the increased supplies hit pig prices significantly. A rush to slaughter could result, leading to an influx of supplies in the latter half of the year. As such, some forecasts suggest imports could fall by as much as 8% next year, though the USDA forecast a more modest 4% decline.

There is clearly some uncertainty regarding whether Chinese pork production might increase next year and, if so, by how much. It is worth noting that expansion was likewise predicted for 2016 but ultimately failed to materialise. Might growth similarly stall in 2017?



Chinese pork prices need to be elevated in order to encourage investment but, although wholesale pork prices have been high all year, they have fallen back in line with 2015 levels over the past few months. With imports still trending upwards, it is likely competitively-priced foreign pork, now from the US and Brazil as well as the EU, is limiting the domestic price.

While imported product currently makes up a very small proportion of pig meat consumed in China, the lower price and favourable image with consumers means its market share could increase. This may further deter the Chinese from investing in pork production, hampering the expansion needed to meet the government's targets.

Another factor which could support the trade of pork into China is growth in domestic demand. As the wealth of the population increases, demand for meat will outstrip Chinese supplies. The Chinese Meat Association estimates total meat consumption will be 100 million tonnes by 2020. With pork making up 2/3 of meat consumed in China, this could push domestic consumption to 67 million tonnes. With target production only 55 million tonnes, a seemingly impossible 12 million tonnes would need to be imported to meet demand. While these figures are unlikely to reflect reality, they do highlight that opportunities for exporters may continue to be plentiful.

On balance, it seems that imports are likely to continue playing an important role in Chinese pork supplies in the coming year and beyond. The extent of this role, however, depends on how successful the Chinese government are in implementing the desired industry restructure and pork production increases. Overall, China will continue to be a key market to watch next year, as its new position as the dominant global importer means any fluctuations in demand are likely to have significant impacts on world prices.