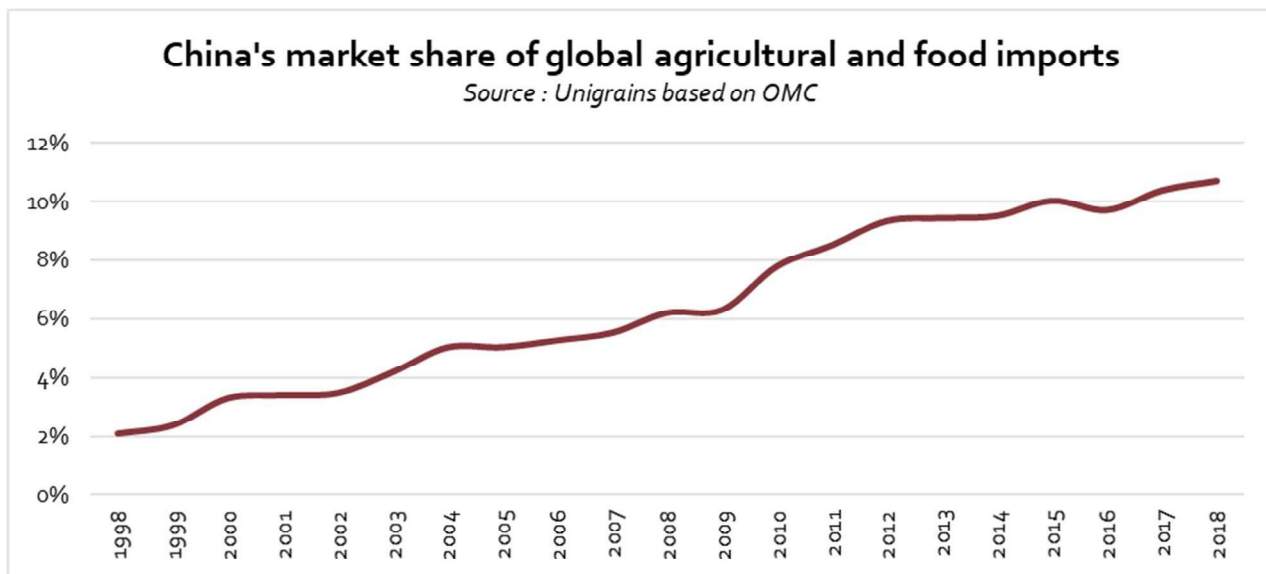




Unigrains – In Brief

Food and agricultural commodities: China, an essential and unpredictable business partner

China has been the world's leading buyer of agricultural and food products since 2017. While the majority of the world's countries are struggling with an unprecedented recession in the wake of the Covid-19 pandemic, China is showing impressive resilience and its insatiable appetite for commodities has not waned. A focus on a few agricultural commodities...



→ China, the world's leading buyer of agricultural and food products

According to WTO figures, in 2018 China consolidated its position as the leading importer of agricultural and food products, which the country achieved in 2017 at the expense of the United States. In twenty years, its market share has increased fivefold to almost 11% of international purchases.

China is now firmly established in first place, followed by the United States and Germany. Ten years ago, the country had climbed to the 3rd rank, up from only 12th in 1998.

That said, the profile of its purchases differs from that of Americans: despite a faster progression of food products, agricultural products still account for 37% of the import value against only 14% for its challenger.

→ An essential partner for a number of food and agricultural commodities

China's weight in the purchase of some commodities is such that international prices are influenced by its presence or absence on the market.



- In cereal grains, China usually drives the barley and sorghum markets, but this season, it stands out in wheat and corn

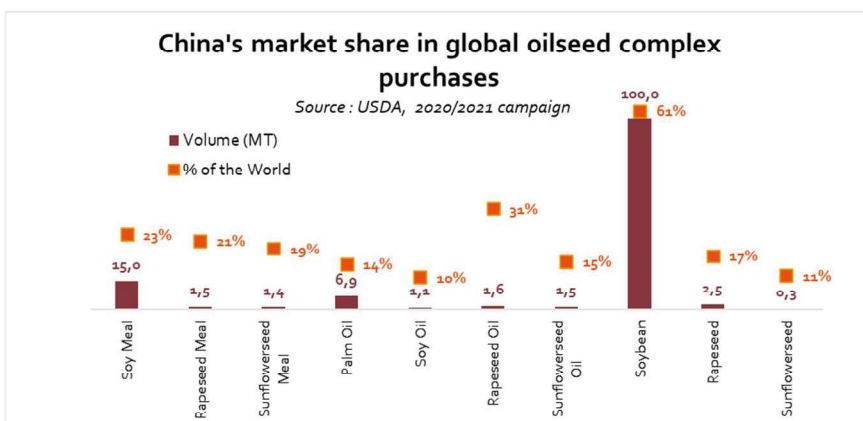


China is the only major international customer for sorghum, mainly American, and drives this market. It is also a major importer of barley, both for feed and malting, whose natural supplier is Australia. The trade relationship between the two countries has deteriorated since Huawei was banned from Australia's 5G network; Beijing started by hiking import duties on Australian barley and ended up suspending its purchases back in September. Through a domino effect, the price for French barley, which as a result became very attractive, soared.

History tends to repeat itself in soft wheat. The volumes involved are nevertheless more modest, as China is only a small player on the international scene. However, China also opted to turn towards the French origin. Potential exports of 2 MT to China have been announced, far enough to support prices in a context of a small domestic harvest.

As for corn, the impact is even more dramatic. Hitherto a small player in this market, the turnaround in China's attitude was as sudden as it was unexpected. The USDA is still maintaining a forecast of 7 MT (the maximum allowed under the current reduced tariff import quota). However, a further quota of 5 MT has reportedly been issued until December, and some experts expect 20 to 25 MT of imports in the 2020/2021 marketing year. It is difficult to pinpoint the reasons for this buying frenzy as the country is so secretive about its food strategy. Could it be a contribution to compliance with phase 1 of the trade agreement with the United States? Or a weaker harvest than officially announced? Stock rebuilding – showing stocks were not all that abundant, after all – in a context where food security is more than ever at the heart of concerns? Soaring domestic prices in the face of a faster-than-expected reconstruction of pig stocks decimated by the African swine fever? Or opportunities generated by the stronger yuan against the dollar? One thing is certain, the resulting pressure on prices.

- In oilseeds, Beijing is the undivided ruler of soybeans but can also disrupt the oil markets



Soybeans are at the heart of US-China diplomatic relations, with Beijing repeatedly expressing its determination to suspend its grain purchases despite the trade agreements signed back in January after a long stand-off between the two great nations. Because of its weight in the market, any announcements and rumours sent out by China have an

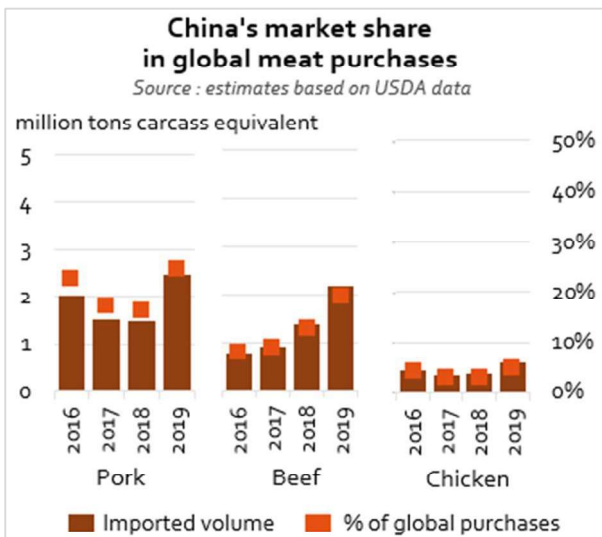
immediate impact on prices. But China is definitely in the market for soybeans, both to build up stocks in the medium term and to meet shorter-term needs in pork and poultry production. The livestock sector



cannot sustain a break in supplies of soybeans, an oilseed for which the government has decided to no longer subsidise its farmers, even though this strategy has been relaxed somewhat over the recent period.

Finally, although it is less hegemonic, China's share of international purchases of oil cake (soybean, rapeseed, sunflower) and rapeseed oil is substantial enough for a change in demand to drive the markets.

- **In meat, China is a key player in the pork market and has become very active in beef, a trend accentuated by the African swine fever epidemic**



From the mid-2000s, the growth in Chinese demand for animal protein led to a surge in imports of pork, a staple meat in the country. China has become the world's leading importer and accounted for more than a quarter of purchases in 2019. While these flows cover only 5% of the vast Chinese market, their impact in exporting countries is far more significant in terms of both volume and value. Offal and co-products are particularly popular in China.

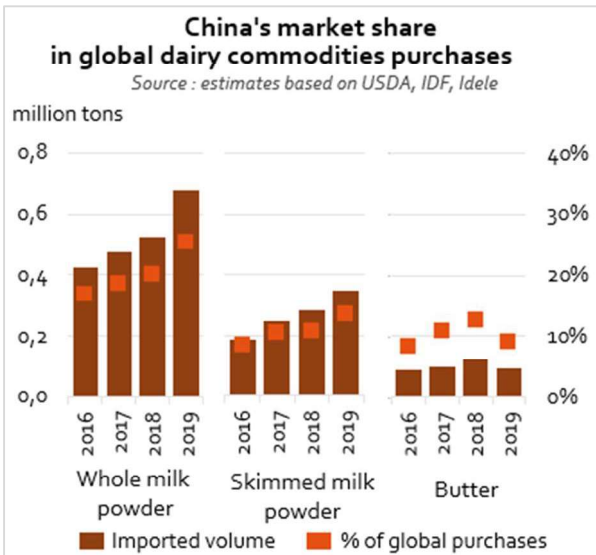
China's weight in global pork purchases increased with the emergence of the African swine fever (ASF) in the country in 2018 and the subsequent collapse of pig stocks. As a result, China widely opened its doors to imports, within the limits of political trade-offs and the disruptions linked to the Covid-19 epidemic.

Purchases, historically very focused on offal and co-products, developed mainly in meat, the volumes of which have been multiplied by 3.5 in 2020 compared with the pre-crisis situation. In 2020, according to USDA forecasts, China could account for around 40% of global pork purchases. EU countries free of ASF (which is no longer the case in Germany since September) stand to benefit, as do the United States (whose deliveries have reached record levels since the removal of additional duties in September 2019), Brazil and Canada. However, these flows are set to decrease as China has entered a process of rebuilding its pig herd.

The impact of the ASF outbreak is felt on other meat. The scale of the production deficit has led China to turn more towards poultry and beef. Beef is not a traditional meat in China, but its consumption has been growing for 20 years and the country has become the world's leading importer with 20% of purchases in 2019, mainly from South America and Oceania. According to the USDA, this proportion could stand at around 25% in 2020. China's weight is lower in poultry. It could reach 8% of global trade in 2020, mainly to the benefit of Brazil, and increasingly the United States, which has been authorised since November 2019 to resume exports after a five-year block.

- **China is an influential player in the dairy ingredients market**

Milk is not a staple in the Chinese diet, but consumption increased in the 2000s and then diversified, driven by the healthy image of these products (reinforced by the coronavirus crisis) and the rise of the middle class. The image of local production was tarnished by the melamine scandal in 2008, leading to a surge in imports of dairy products and ingredients.



China is the world's leading importer of whole milk powder with 25% of flows in 2019 (mainly from New Zealand) and the second largest in skimmed milk powder (13% of purchases in 2019, the EU being one of the main suppliers). In butter, it ranks first or second globally, depending on the year, with 8 to 12% of world imports. China is also by far the largest importer of whey powders, which are used in infant nutrition, the agri-food industry and animal feed.

The disruptions generated by the coronavirus crisis in China (congestion in ports and fall in consumption) led to a drop in world prices for whole and skimmed milk powders as early as February 2020. The resumption of Chinese purchases in the autumn of 2020 contributed to the stabilisation and then the upturn of prices.

The ASF epizootic led to a fall in imports of "animal" whey powders in the first half of 2019, mainly affecting products of US origin. Imports started to bounce back from October 2019, driven by the recovery of the pig herd. Chinese demand for whey remains dynamic in the infant milk and agri-food markets, in which the EU is well positioned.

➔ **Largely absent from the tropical products market**

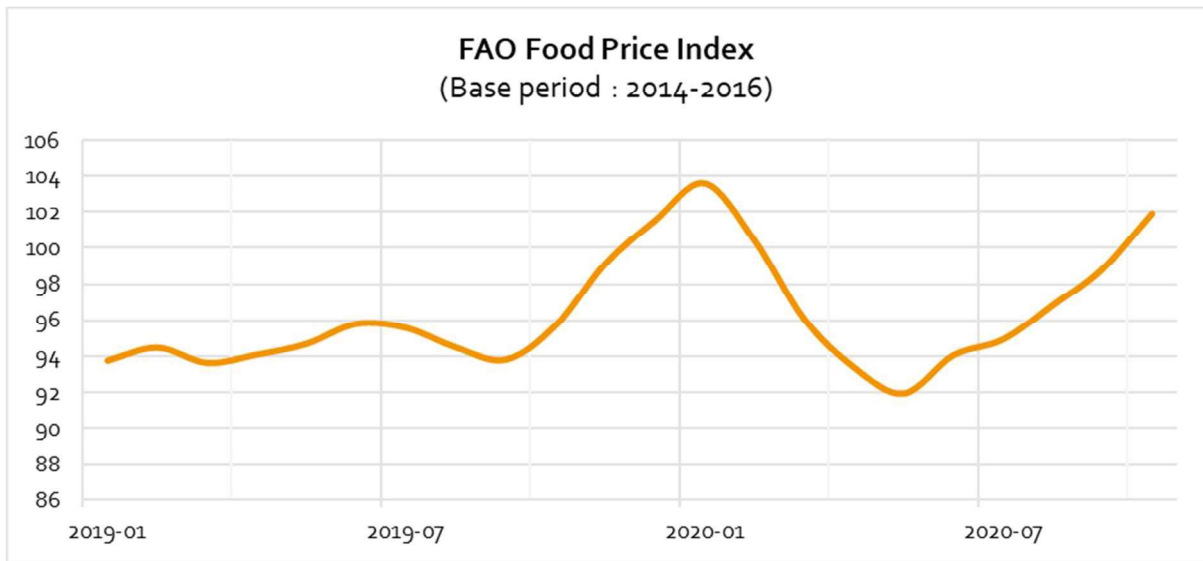
Conversely, Beijing has very little presence in the markets for tropical commodities such as cocoa and coffee.

- **With only 200g per year, the Chinese are small consumers of chocolate.** Cocoa is not cultivated in the country and chocolate has not made its way into the national culture, so it is perceived as a sign of luxury. China currently accounts for only 1% of international cocoa bean purchases. It is slightly more present in processed products, in particular cocoa powder, with 5% of global imports. The expansion of coffee chains and chocolate brands, Starbucks and Godiva among others, is introducing cocoa-based products in consumption, particularly as ingredients in ice cream, bakery and pastry products.
- **Coffee is still a far way off from supplanting tea.** The average Chinese person drinks five cups of coffee a year. Nevertheless, coffee consumption is growing strongly and is increasing by about 20% each year. The beverage is a symbol of the Western lifestyle and expresses belonging to a social class, as evidenced by the success of coffee shops, Starbucks and Costa Coffee in the lead, as well as South Korean chains such as Caffé Bene. Under the impetus of the Nestlé group in the late 1980s, the country began producing Arabica coffee in the Pu'er region, once famous for its tea. It is now ranked 13th worldwide, as high as Kenya and Costa Rica combined. This production is now sufficient for domestic consumption, which is still limited to urban areas. In a country where coffee is consumed mainly in soluble form, a niche occupied by Robusta, Chinese arabica even has to find export outlets. Chinese purchases account for only 2% of the world total in coffee beans (green and roasted), mainly Vietnamese Robusta, and 5% in coffee extracts.





Appendix:
Trend in food and agricultural commodity prices based on FAO index



Caption: Even though China alone does not explain the rise in international prices for agricultural products, its weight in trade makes it a major contributor

Note: The FAO food price index is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices (cereals, vegetable oils, dairy products, meat, sugar) weighted by the average export shares of each of the groups over 2014-2016.