AHDB cereal exports ***target market report***

China

Harvest 2019

Wheat production is mainly concentrated in northern China.

Planting of the 2019 winter wheat crop started on time in mid-September and finalised at the end of October. Overall, weather conditions and precipitation levels have been adequate since early September in most main producing areas, benefitting crop germination and development.

Wheat production for 2019 is at 132Mt and barley production is just under 2Mt.

Import requirements

Import demand for wheat is at 3–4Mt, of which two-thirds are imported by State-owned mills and one-third by private mills.

China's own wheat production has a protein range of 11–13.5% and, therefore, imported protein requirements are either high, at 13.5–14.3% for high-volume bread production, or very low, at 8–10.5% for cakes, biscuits, dim sum, noodles and soft steam buns production. High-protein Canadian wheat is mainly used for high-volume bread production and Australian Standard White Wheat for the very-low-protein products. The vast majority of wheat imports being consumed is in Guangdong province. A maximum moisture content of 13.5% is demanded by all millers.

Wheat import requirements are forecast at 3.2Mt, higher than the previous year, driven by stronger demand for high-quality wheat.

China's imports of wheat from Black Sea origins remain predominantly maritime-based. Rail shipments are subject to a number of logistical challenges, including limited quarantine and inspection capacity for break-bulk shipments and delays due to switching railway gauges in transit

Wheat specifications demanded by millers for pre-mix home bakery premium flours, cakes/muffins
Spec weight – 77 kg/hl min / Hagberg – 250–450 secs / Protein – 13.5% min

Wheat specifications demanded by millers for dim sum/steam bun
Spec weight – 76 kg/hl min / Hagberg – min 250 secs / Protein – 10.5% max

Barley production is mainly concentrated in Jiangsu province, eastern China. It produces approximately 2Mt of barley and is mainly destined for feed. Imports range between 6–7Mt, the majority of which is for feed barley. Australia dominates China's malting barley imports with 60% of the market, followed by Canada with 30% and France and Denmark with 10%.

Protein levels of 10–11.5% are required for the production of lager beer, which is the most widely consumed in China. Maltsters report that the typical quality of UK barley is very satisfactory for their requirements. Specific malts are now being produced for the growing demand for craft beers, but the quantities are currently small, given that this sector accounts for just 2% of the market. Although a maximum moisture content of 14% is acceptable, 13.5% is widely preferred by maltsters.

Chinese buyers are looking elsewhere for their wheat and barley supply. Due to the Sino–US trade war and tense relationship between China and Australia, cereal imports from these traditional suppliers have dropped dramatically in 2019. French wheat has been used as a supplement in the market. Australia is also currently experiencing a drought and farmers are reluctant to sell their grain. In 2020, the Chinese domestic market will be short of soft wheat. Given the current situation, opportunities for UK cereal exports to China are looking promising.

Government policy

There is a complex quota system surrounding supply and purchase of wheat. The total China wheat quota of tax-free imports is 960,000 tonnes, which works back to remarkably little per company – approximately 3–4,000 tonnes. To cover the shortfall, millers use cereal importers.

In October 2018, the National Development and Reform Commission (NDRC) announced the 2019 TRQ for grain imports. The TRQ allocation volumes were unchanged from 2018.

2019 Import TRQs for wheat unchanged

Commodity	TRQ volume (Mt)	Private allocation	State-owned enterprise allocation	In-quota duty	Out-of-quota duty
Wheat	9,636,000	40%	60%	1%	65%

Source: Grain and Feed Update, China, Feb 2019

Countries with Bilateral Phytosanitary Protocols with China are permitted to export Grains to China (new additions in italics)	
Wheat	Australia, Canada, France, Kazakhstan, Hungary, UK, USA, Serbia, Mongolia, Russia
Barley	Australia, Canada, Denmark, France, Argentina, Mongolia, Ukraine, Finland, UK Uruguay, *Kazakhstan*

Source: China customs, via Grain and Feed Update, China, Feb 2019

On November 24, the General Administration of Customs of China (GACC) approved imports of corn and barley from Kazakhstan, aiming to diversify the country's sources of grain shipments. The approval came the same week that China launched an anti-dumping probe into barley imports from Australia – its top supplier of the grain. China continues to diversify the number of origins for import market access through formal phytosanitary protocols and memorandums of understanding (MoU) with regional neighbours.

Milling industry

There are over 3,000 mills, according to China's statistics bureau, although smaller mills are not included and the total figure is not known. The industry is going through consolidation, with more small- and medium-sized mills. Even so, more than half the country's mills are small, with a daily capacity of 200 tonnes or less.

Noodles and steam buns still account for the majority of China's wheat demand. China is the world's leading market for instant noodles which are produced from soft and common wheat varieties.
Wheat-based staple foods such as noodles and steam breads are in decline while there is a gradual rise in consumption of animal protein products such as meat and dairy, Demand for instant noodles has declined significantly as steadily rising incomes in urban areas and the emergence of China's burgeoning food delivery industry present greater options for consumers.

In East China, there is a growing trend towards home baking. As a result, demand has grown for high protein and low protein wheat imports as well as consumer expectations for higher-quality standards.

Chinese demand for higher grades of wheat continues to grow as high- and middle-income consumers in first-tier cities continue to shift to greater consumption of convenient and healthy foods. Recent declines in consumption of common wheat and rice are beginning to show signs of stabilising as overall weakening economic conditions, and continuing inflationary pressures in major cities, pressure lower-income consumers to either "downgrade consumption" by reverting to consumption of "staple foods" including instant noodles, or move to smaller cities where rice consumption is higher.

Consumer trends

Bread

- High-end niche flour bread products such as multigrain bread becoming more popular as a result of an increasing middle-class population
- Pre-mix home baking is an increasing consumer trend given that food safety is a major concern among the population
- Increase in consumption of high-volume bread

Biscuits

- Niche flour products including ready-to-bake cake mixes, pre-mix for scones and muffins on the increase
- Cakes, biscuits and soft steam buns increasing in popularity among middle-class consumers

Beer

- Lager most widely consumed in China
- Increase in consumption of higher-quality beers requiring a higher malt content
- Specific malts are now being produced for the growing demand for craft beers

Competitors in the market

Wheat

Unit (Tonnes)	2017		2018
Australia	1,706,512	**Kazakhstan**	466,200
USA	516,388	**Australia**	362,725

Kazakhstan	223,204	**Russia**	50,558
Russia	17,966	**USA**	35,608
Canada	7,094	**Canada**	18,456

Source: China Customs

Barley

Unit (Tonnes)	2017		2018
Australia	6,480,440	**Australia**	4,178,362
Canada	1,358,571	**Canada**	1,679,930
Ukraine	790,888	**France**	574,316
France	222,776	**Ukraine**	382,224
Denmark	10,837	**Denmark**	525

Source: China Customs

Supply and demand

As at Dec 2019 1000 Mt	2018/19 Wheat	2018/19 Barley	2019/20 Wheat (Forecast)	2019/20 Barley (Forecast)
Beginning stocks	131,196	107	139,765	138
Production	131,430	1,850	132,000	1,950
Imports	3,145	5,181	3,200	6,300
Total supply	265,771	7,138	274,965	8,388
Exports	1,006	0	1,300	0
Feed domestic consumption	20,000	3,200	21,000	4,500
FSI consumption	105,000	3,800	107,000	3,800
Domestic consumption	125,000	7,800	128,000	8,300
Ending stocks	139,765	138	145,665	88

Source: USDA

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