



China Commodities

Working for decision makers interfax-CHINA

China may become net corn importer despite move away from grain ethanol

Findings in the following article are based on extensive research from the Interfax-China **China Commodities Report - Grains & Softs 2008** industry report.

China is the world's second largest corn producer, but a growing appetite for grain combined with ambitious fuel ethanol targets may make the country a net corn importer, possibly as early as this year. At present, grain accounts for about 80 percent of bio-fuel feedstock, and consumers are finding themselves at increased competition with the country's burgeoning energy needs for limited domestic resources.

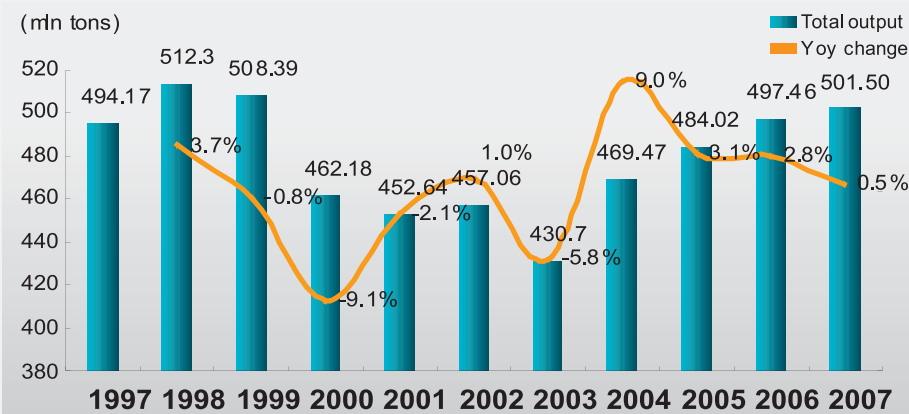
Although China can essentially meet its own grain demand for the moment, it is a tight balance that could easily be thrown off. With 20 percent of the world's population but only 7 percent of global farmland, the country's grain supply is under long-term pressure from a growing population and rising incomes, while urbanization gradually nibbles away at cultivatable land.

By 2010, China plans to consume 6.7 million tons of blended ethanol fuel gasoline and 11 million tons of bio-diesel-blended diesel annually, which would meet 10 percent of forecast demand for transport fuel. Government targets caused demand for corn from the ethanol industry to explode, which has raised concerns about how the policy will impact the country's grain supply safety and price inflation.

Although the government has suspended the approval of new corn-based fuel ethanol projects and encouraged the use of non-grain feedstock for ethanol plants, industry insiders remain doubtful.

"China has just started on its mass plantation plans for cassava and sweet potato for industrial use, and it takes time for such crops to grow and mature," said an official with a foreign equipment manufacturer whose prod-

Fig1 Grain output from 1997 to 2007



Source: National Bureau of Statistics

ucts include those used in biofuel production. "I believe that within three years' time, grains such as corn and wheat will still be the leading feedstock for ethanol fuel."

Henan Tianguan Enterprise Group Co. Ltd., one of the country's four major ethanol producers, currently uses a mix of 60 percent wheat, 20 percent corn, 10 percent cassava and 10 percent sweet potato to produce the fuel.

China has just started large-scale production of crops such as cassava, sweet potato and sweet sorghum. However, the country lacks mature technology to produce cellulosic ethanol, which is seen as the future of the large-scale ethanol fuel industry.

China's concerns about rising food prices and grain supply concerns are not unique. A report published last year by the Sri Lanka-based World

Water Management Institute said biofuel production will increase demand for land at the expense of the environment, and will also require large quantities of water, already a major constraint to agriculture in many parts of the world, including China. Other reports have said that ethanol production may severely impact upon the food industry, since, at excessive levels, it can use the food industry to feed energy needs.

The International Monetary Fund has said higher biofuel demand will push up food prices, especially for the world's poor, and increase food import costs, thus curbing economic growth. In the last 15 years, China went from being the world's largest soybean exporter to the world's largest importer. With similar trends emerging in soy meal, edible oil, and grains,

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Fig2 Grain demand from 1997 to 2006 (mIn tons)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Import	7.06	7.09	7.72	13.57	17.38	14.17	22.83	29.98	32.86	29.64
Export	8.54	9.07	7.59	14.01	9.03	15.14	22.30	5.14	10.59	5.78
Net	-1.48	-1.98	0.13	-0.44	8.35	-0.97	0.53	24.84	22.27	23.86
Prod	494.17	512.30	508.39	462.18	452.64	457.06	430.70	469.47	484.02	497.46
Demand	492.69	510.32	508.52	461.74	460.99	456.09	431.23	494.31	506.29	521.32

Source: China Customs, Chinese Ministry of Agriculture, Interfax research

Note: Interfax uses the sum of dom. grain output and net grain import to estimate total dom. demand for grain.

China remains under the "pork price shadow"

The surge of pork prices in China to record highs last year made the meat one of the country's hottest and most closely watched commodities. The rapid increase has been a major factor in the record breaking rise of domestic consumer prices, and a driver of government efforts to fight inflation.

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Sugar prices may enter long-term uptrend - analysis

Sugar prices in China have swung violently this year, as fears of severe production shortfalls following the snowstorms in January and February, but rising demand may support a long term uptrend.

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- China Commodities Daily - Grains and Softs — News & Analysis
- China Commodities Daily - Metals and Energy — News & Analysis
- China Energy Weekly — News & Analysis





China Commodities – News & Analysis

Keeping executives informed

China may become net corn importer despite move away from grain ethanol (continued from page 1)

rising import costs will affect the lives of hundreds of millions of people.

China began promoting the production of corn-based ethanol in 2001, when the country's corn production was booming, and net corn exports increased from 10.47 million tons in 2000 to a high of 16.4 million tons in 2003. After peaking in 2003, imports began to fall rapidly. Last year, China's corn exports reached 4.8 million tons, but this was mainly due to the fulfilling of contracts signed in 2006.

The dramatic reduction in China's export quotas for this year from 3 million to 1 million tons, the ongoing introduction of stricter usage policies, and the cancellation of all tax rebates on grain exports belie the official stance of grain security, especially insofar as corn.

Consumption in 2008 is estimated at 141.5 million tons, of which nearly two-thirds is for animal feed. In January, pork prices surged 58.8 percent year-on-year. Further rapid price growth, coupled with government support to the industry, may see pig production increase at a faster-than-anticipated rate, which means live-stock feed estimates are likely too conservative. An increase of 5 percent in this area could put severe strains on domestic supply. Corn and soy meal are used to produce approximately 70 percent of animal feedstuffs. Note that these figures have not yet been adjusted for damage and losses caused by the snowstorm crisis that battered China in mid-January and February, or the Sichuan earthquake in May.

The USDA estimates China's state corn stockpiles are in the region of 35 million tons, but it is difficult to verify this figure. Given China's aggressive state auction policy that is designed to stabilize market prices, this figure may be optimistic, although it could serve as a cushion in the event of a production shortfall.

Planting intentions, while difficult to predict as farmers tend to delay decisions, may be affected by corn ethanol restrictions. The tendency may be to shift to wheat and, where possible, soybeans, which are more profitable. China may have to resort to significant corn importation, possibly this season. This may be a continuing trend, given the scarcity of arable land and water resources.

If China does become a net corn importer this year, the impact on the price, both domestically and globally, will be dramatic. Prices have already hit \$6.74 per bushel, and additional demand from China could make \$7.50 or even \$8 a possibility. The question now is how China will impact other agricultural commodities, like wheat, soybean and edible oils, in the year ahead.

Edited by Erik Dahl - Special thanks to the commodity, energy and research teams: Victor Wang, Tinko Hua, Jing Yang and David Harman.

China Grains & Softs 2008

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China Commodities Report

- Grains and Softs
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