



Bi-weekly Bulletin

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CHINA

China has slightly over one-fifth of the world population and, with a rapidly growing middle class, it is a major economic driver in the global market. China is now the world's largest producer and consumer of agri-food products. Its emergence as a key competitor in some markets, and as a market destination in others, is of considerable interest to the Canadian agri-food sector. This issue of the *Bi-weekly Bulletin* examines some key elements of China's agricultural sector and looks at the prospects of increased trade between Canada and China.

BACKGROUND

Economy

China's population is currently estimated at 1.3 billion (G) which is increasing at an annual rate of 0.6%. Its Gross Domestic Product (GDP), is estimated at US\$2.8 trillion in 2006 or about US\$2,150 per capita.

China is one of the world's largest producers of agricultural commodities. In addition to a large pool of low-wage labour, it is also rich in natural resources, such as iron ore, crude oil, mercury, aluminum, lead, zinc, tin and tungsten, which are a major source of potential for economic growth.

Using its generous endowment of natural resources, China has developed an industrial base that includes a large mining and ore processing sector, other secondary processing activities, and the manufacture of final goods such as footwear, electronics, automobiles and other transportation equipment. China's burgeoning economy has benefitted from a healthy trade surplus, counting the United States (U.S.), Hong Kong, Japan, the European Union and South Korea as its major trading partners.

China's GDP grew by more than 10% in 2006, making it the fourth year in a row that it has experienced double digit growth. This growth was attributable to several factors, in particular increased

investment and exports. However, a combination of excess production capacity and the high cost of crude oil, for which China relies heavily on imports, are expected to dampen economic activity.

Agriculture

China has about 9% of the world's arable land and imports about 7% of its grains and oilseeds requirements. Its agricultural sector contributes about 13% to the GDP and provides a livelihood for about 200 million households.

Although there is a steady population shift toward urban centers, the majority of China's population still lives in rural areas and depends heavily on the many labour-intensive, small-scale farms, which average 0.65 hectares in size. Due to the surplus of labour, China has a comparative advantage in the production of fruit and vegetables, a sector which continues to grow, but they are less competitive in the production of land-intensive crops such as grains and oilseeds. Nevertheless, the Chinese government pursues policies that encourage increased grain production at the expense of more profitable crops such as fruit and vegetables.

China is aiming for self-sufficiency in staple food production. In the face of rising food prices, China has established policies to discourage food exports and to facilitate imports. China

has eliminated export tax rebates on grains, soybeans and flour products, some as high as 13%, and imposed export taxes ranging from 5 to 25% on wheat, corn, rice and soybeans. This has resulted in a significant reduction in exports of most grains and oilseeds, but overall dependency on imports continues as shown by rapid growth in imports of soybeans from the U.S. and Brazil.

Transportation and Distribution

In recent years, there have been reductions in tariff and non-tariff barriers to improve access to China's growing market, but some of the problems associated with China's transportation and distribution infrastructure remain. For example, the Chinese Academy of Social Sciences estimates that the cost of transportation and distribution represents about 18% of the retail price of goods in China. This being the case, transport costs can be prohibitive for some lower-valued commodities and these costs impede the ability of Chinese farmers in the interior to compete for the food dollars being spent in coastal cities and other Asian markets.

Although China's transportation and distribution system at coastal locations is reasonably well developed, improvements in China's transportation and distribution infrastructure elsewhere have not kept pace with the increase in demand for specialized

services that are required to get some food products to market.

Specifically, the growth in domestic consumption of higher-value frozen and perishable products continues to strain China's transport and distribution system. As a result, up to one-third of perishable products spoil due to inadequate temperature-controlled storage and transport services. Until a logistics infrastructure is developed to accommodate these food products which are shipped from the interior to coastal regions, some of the demand for higher-value frozen and perishable products will likely continue to be met with imports from neighbouring countries.

Oilseed Crushing in China

China has been increasing its oilseed crushing capacity for the past few years to keep up with rapidly increasing demand for vegetable oils. In fact, the National Development and Reform Commission, China's top economic planning agency, has pegged vegetable oil consumption for 2007 at 23 million tonnes (Mt), up 2 Mt from the previous year. Increased crush capacity has been accomplished in part through joint ventures with global companies such as Archer Daniels Midland (ADM), which has established a solid presence in China's food processing industry. In fact, about 30% of ADM's soybean crushing capacity is now located in China. Cargill expanded its presence with the opening of a 5,000 tonne per day crushing plant in Nantong, Jiangsu province in 2006 at a cost of about US\$60 million. This is in addition to Cargill's plant in Dongguan, Guangdong province which processes about 3,000 tonnes (t) of soybeans per day.

The increase in oilseed crushing capacity is closely linked to the growing livestock industry which relies heavily on protein meal. This particularly applies to the cattle and swine sectors whose numbers have increased steadily; poultry numbers on the other hand have remained relatively stagnant. The other side of the equation is China's vegetable oil market, which has grown such that China now depends heavily on imports of palm oil from Malaysia and

Indonesia, soybean oil from Brazil and, to a lesser extent, canola oil from Canada. During the 2007 calendar year, Canada exported 319,400 t of canola oil to China, up from 69,500 t in 2006, but less than the 334.7 t exported in 2004.

Animal Feed Use

China's urban population, in particular, is experiencing a general improvement in its standard of living. One of the indicators of that improvement is the growing consumption of beef and pork, which have increased by 34 and 31%, respectively, during the past five years indicating a shift to a more diverse, protein-rich diet. The end result is that feed use in China has increased from about 107 Mt in 2002-2003 to 113 Mt expected for 2007-2008. Most of that increase in feed use is attributed to higher use of corn feed, while the use of wheat, sorghum and barley for animal feed decreased.

Biofuels in China

The Chinese government views biofuels as a key component of an overall strategy for a stable and secure economy. Increased biofuel production is also seen as a means of mitigating poverty conditions in rural areas, where per capita income is about one-third of that in urban centers. For all those reasons, the Chinese government continues to take an active role in regulating both supply and demand in the biofuels market.

Since 2004, fuel ethanol production has increased from 0.3 Mt to 1.5 Mt in 2007. The Chinese fuel ethanol market is expected to double in the next few years, but the industry faces some major obstacles, one of which is the availability of adequate feedstocks for ethanol production. Corn producers have been earning more money from selling their product to ethanol plants, but this created shortfalls in the animal feed sector and ultimately resulted in high food prices.

In response to high food prices and general inflationary pressures, partially attributed to the ethanol boom, the government has suspended new corn-based ethanol projects, including any plans to expand existing plants. Under the government's Agricultural Biofuel

Plan, which was released in July 2007, the goal is to shift production of fuel ethanol from grains to other feedstocks such as sweet potato, cassava, and sweet sorghum.

However, grain will likely remain the main feedstock for China's ethanol production for the next few years as alternate sources of feedstocks are developed. One of the country's major ethanol producers, Henan Tianguan Enterprise Group Co. Ltd., reportedly uses a mix of 60% wheat, 20% corn, 10% cassava, and 10% sweet potato to produce ethanol.

China's biodiesel industry is still in its infancy, with only minute amounts of biodiesel currently being produced, primarily from spent cooking oil. The use of vegetable oil as a feed stock for biodiesel is not feasible at this time because the country already relies heavily on imports to satisfy domestic demand for vegetable oil for human consumption. Furthermore, unlike the ethanol industry which is subsidized, the biodiesel industry does not receive government support and has experienced limited growth. As a result, China produced only about 0.3 Mt of biodiesel in 2006.

Nevertheless, China Clean Energy Inc announced plans in November 2007 to build a biodiesel plant in Fuzhou City with an annual capacity of 0.1 Mt, or the equivalent of 50 million gallons. The company, which began producing biodiesel in 2005 using a proprietary process for refining biodiesel from waste grease and certain vegetable oils, expects to start building the US\$15M facility in the fourth quarter of 2007, with plans to be fully operational by the fourth quarter of 2008. The plant would use palm oil leavings (waste material) from Indonesian and Malaysia crops as feedstock for biodiesel production.

Trade

China's accession to the World Trade Organization (WTO) in 2001 has helped to liberalize trade to the extent that it is the world's third largest trader, with a trade surplus exceeding US\$100G, and accounting for over US\$1.4 trillion of global trade annually. However, China's trade in agricultural

goods has not been liberalized to the same extent as that for manufactured goods. China also continues to enforce policies that encourage domestic grain production, often at the expense of more profitable, labour-intensive crops.

Trade with Canada

China continues to have good trade relations with Canada. For the past 10 years, China has imported, on average, CAN\$1.0G in Canadian agri-food products, a figure that peaked at CAN\$1.6G in 2004. In return, Canada has imported, on average, CAN\$0.5G in Chinese agri-food products. These imports have increased steadily over the past 10 years and hit a record CAN\$0.8G in 2007.

SITUATION

China's **area seeded** to the major field crops, which includes rapeseed, soybeans, sunflowerseed, rice, wheat, corn sorghum, barley, oats and millet, has steadily increased during the past five years. With a focus on better agronomic practices, average yields during this period have also increased, except for the 2007-2008 crop year

CHINA: MAJOR FIELD CROPS* SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....million tonnes.....							
Carry-in Stocks	243.4	194.5	134.8	119.5	112.0	107.9	107.1
Production	372.2	351.5	387.7	402.9	416.9	415.7	423.6
Imports	<u>24.0</u>	<u>23.8</u>	<u>35.5</u>	<u>33.0</u>	<u>31.7</u>	<u>36.8</u>	<u>38.5</u>
Total Supply	639.6	569.7	558.0	555.3	560.6	560.4	569.1
Exports	20.0	11.8	9.9	6.8	10.1	4.8	4.2
Feed Use	107.4	107.5	106.8	109.1	111.1	113.0	115.0
Crush/Food	<u>317.7</u>	<u>315.7</u>	<u>321.8</u>	<u>327.4</u>	<u>331.5</u>	<u>335.5</u>	<u>341.8</u>
Total Use	445.0	435.0	438.6	443.4	452.6	453.4	461.1
Carry-out Stocks	194.5	134.8	119.5	112.0	107.9	107.1	108.1

* Rapeseed, soybeans, sunflowerseed, rice, wheat, corn, sorghum, barley, oats, and millet
 Numbers may not add due to rounding.
 f: forecast, AAFC
 Source: USDA (FAS)

when some crops were subjected to poor growing conditions. Nevertheless, China has increased **total production** of its major field crops by 18.5% during the past five years. The increase is primarily due to higher corn, wheat and barley production, which have increased 25.2%, 22.6% and 25.1%, respectively. In terms of magnitude, it is China's corn production that has increased most, from 116 Mt in 2003-2004 to a record 145 Mt in 2007-2008.

On the demand side, **domestic consumption** of China's major field crops has increased about 6.3% over the past five years. That increase is

due primarily to higher corn, soybean and rapeseed consumption, which have increased by about 15%, 40% and 9%, respectively. In terms of magnitude, China's domestic corn consumption increased most dramatically, from 128 Mt in 2003-2004, to an expected record of 148 Mt in 2007-2008. On the other hand, domestic consumption of wheat, forecast at 101 Mt in 2007-2008, decreased by about 4% during this same period.

Increased **food use** has been the primary driver in China's increased domestic consumption of its major field crops. Most of that increase can be attributed to higher food use for soybeans, corn and rapeseed, which increased by 42.9%, 36.9% and 8.5%, respectively. Soybean food use increased from 33 Mt in 2003-2004, to a record 47 Mt forecast for 2007-2008.

Wheat

China's efforts to achieve self-sufficiency in wheat supplies have been, for the most part, successful. The bulk of China's wheat production is comprised of winter varieties, which tend to be of higher quality than their spring varieties.

CHINA: WHEAT SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....million tonnes.....							
Carry-in Stocks	76.6	60.4	43.3	38.8	34.9	36.0	39.1
Production	90.3	86.5	92.0	97.5	104.5	106.0	107.0
Imports	<u>0.4</u>	<u>3.7</u>	<u>6.7</u>	<u>1.0</u>	<u>0.4</u>	<u>0.2</u>	<u>0.6</u>
Total Supply	167.3	150.6	142.0	137.3	139.7	142.1	146.7
Exports	1.7	2.8	1.2	1.4	2.8	2.5	2.3
Feed Use	6.5	6.0	4.0	3.5	4.0	4.0	4.0
Food Use	<u>98.7</u>	<u>98.5</u>	<u>98.0</u>	<u>97.5</u>	<u>97.0</u>	<u>96.5</u>	<u>98.0</u>
Total Use	106.9	107.3	103.2	102.4	103.8	103.0	104.3
Carry-out Stocks	60.4	43.3	38.8	34.9	36.0	39.1	42.4

Numbers may not add due to rounding.
 f: forecast, AAFC
 Source: USDA (FAS)

Wheat **production** hit a record 106 Mt in 2007-2008, due to a combination of near record seeded area and record high wheat yields. Wheat **supplies** increased slightly.

On occasion, China **imports** high quality wheat, generally from Canada and Australia, which is typically used for blending with domestically produced wheat. Wheat imports have fluctuated considerably and are forecast at 0.2 Mt for 2007-2008, compared to 6.8 Mt in 2004-2005, and the record 15.4 Mt of wheat imported in 1988-89.

Due to increased supply and stable domestic use, **carry-out stocks** are forecast to increase slightly.

Corn

For 2007-2008, corn **production** decreased marginally and supply has decreased slightly due to low carry-in stocks. **Exports** are forecast at 0.5 Mt, which is the lowest level in recent history, due largely to restrictive export policies and increased feed and food use. **Domestic consumption** is forecast at a record 148.0 Mt, of which a record 105.0 Mt would be **feed use**. **Carry-out stocks** are forecast to decrease slightly.

Over the medium term, China is expected to become a net importer of corn as domestic consumption continues to grow and exports decline due to policies that have recently been implemented to restrict exports. Increasing demand for corn is driven by a growing livestock sector which is responding to generally higher incomes and the increase in meat consumption often associated with higher income. Industrial use of corn, specifically starch production, is also increasing.

CHINA: CORN SUPPLY AND DISPOSITION							
	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
million tonnes.....						
Carry-in Stocks	84.8	65.0	44.9	36.6	35.3	32.5	29.1
Production	121.3	115.8	130.3	139.4	145.5	145.0	150.0
Imports	0.0	0.0	0.0	0.1	0.0	0.1	0.3
Total Supply	206.1	180.8	175.1	176.0	180.8	177.6	179.4
Exports	15.2	7.6	7.6	3.7	5.3	0.5	0.3
Feed Use	96.0	97.0	98.0	101.0	103.0	105.0	107.0
Food/Industrial Use	29.9	31.4	33.0	36.0	40.0	43.0	45.0
Total Use	141.1	136.0	138.6	140.7	148.3	148.5	152.3
Carry-out Stocks	65.0	44.9	36.6	35.3	32.5	29.1	27.1

Numbers may not add due to rounding.
f: forecast, AAFC
Source: USDA (FAS)

Barley

Barley **production** has been relatively stable for the past few years. **Feed use** has decreased significantly from previous years as livestock farmers shifted to corn for livestock feed.

Food use has declined from the record 4.2 Mt consumed in 2005-2006, due to high malting barley prices. Brewers have developed more cost effective ways of producing beer using lower cost inputs such as corn and rice. Barley **imports**, consisting mostly of two-row malting varieties from Canada and Australia, are forecast at 1.2 Mt in 2007-2008, up slightly from 2006-2007, but down significantly from the record 2.2 Mt in 2005-2006. **Carry-out stocks**

are virtually unchanged at 0.2 Mt.

Rapeseed

For 2007-2008, rapeseed **production** decreased due primarily to poor growing conditions. **Imports** are forecast to decrease due to a tariff structure that favours soybeans over canola/rapeseed products.

Rapeseed oil production is forecast at 3.8 Mt, down from 4.6 Mt in 2006-2007, and the lowest level since 2002-2003. **Imports** are forecast at a record 0.5 Mt, the bulk of which are expected to be of Canadian origin.

CHINA: BARLEY SUPPLY AND DISPOSITION							
	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
million tonnes.....						
Carry-in Stocks	0.5	0.7	0.3	0.2	0.3	0.2	0.2
Production	3.3	2.7	3.2	3.4	3.6	3.6	3.8
Imports	1.8	1.5	2.0	2.2	1.1	1.2	1.3
Total Supply	5.6	5.0	5.5	5.8	5.0	5.0	5.2
Exports	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Feed Use	1.4	1.0	1.5	1.4	1.0	0.9	1.0
Food Use	3.5	3.7	3.9	4.2	3.8	3.8	3.9
Total Use	4.9	4.7	5.4	5.6	4.8	4.8	5.0
Carry-out Stocks	0.7	0.3	0.2	0.3	0.2	0.2	0.2

Numbers may not add due to rounding.
f: forecast, AAFC
Source: USDA (FAS)

Soybeans

For 2007-2008, soybean **production** is the lowest level since 1999-2000 as farmers shifted production to more profitable grains such as wheat and corn. As well, soybean **yields** were reduced by drought in China's major soybean producing area.

Domestic soybean **consumption** is forecast at a record 48.4 Mt, of which a record 38.1 Mt is expected to be crushed. Soybean crush in China has increased for five consecutive years as demand for vegetable oils continue to increase. **Imports** are forecast to increase and surpassing the previous year's record. About one-third of those imports are from the U.S. with the remainder primarily from Brazil. **Carry-out stocks** are expected to be down for the fourth year in a row.

Soybean oil production is forecast at a record 6.8 Mt, up from 6.3 Mt in 2006-2007. **Imports** expected to reach an unprecedented 3.0 Mt, and **supplies** are forecast at a record 10.1 Mt, virtually all of which would be consumed domestically. Similarly, virtually all of the **soybean meal** produced in China, forecast at 30.2 Mt, is expected to be consumed domestically by a growing livestock sector.

CHINA: RAPESEED SUPPLY AND DISPOSITION

	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007	2007 -2008	2008 -2009f
.....million tonnes.....							
Production	10.6	11.4	13.2	13.1	12.6	10.5	11.0
Imports	<u>0.1</u>	<u>0.4</u>	<u>0.3</u>	<u>0.7</u>	<u>1.0</u>	<u>0.7</u>	<u>0.8</u>
Total Supply	10.6	11.8	13.5	13.7	13.6	11.2	11.8
Feed Use	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Crush	<u>10.0</u>	<u>11.2</u>	<u>12.8</u>	<u>13.1</u>	<u>12.9</u>	<u>10.5</u>	<u>11.2</u>
Total Use	10.6	11.8	13.5	13.8	13.6	11.2	11.9
Numbers may not add due to rounding.							
f: forecast, AAFC							
Source: USDA (FAS)							

Pulse Crops in China

Pulse crops production, comprised primarily of dry beans, dry peas, lentils and chickpeas, accounts for about one percent of China's total production of its major field crops. Unlike the grains and oilseeds sector, which benefits from government support in the form of subsidies, decisions regarding pulse production tend to be more market driven. For 2006, China's pulse crop production is estimated at 3.3 Mt, up from 2.9 Mt in 2005.

Dry peas account for most of China's pulse crops and generally yellow peas are imported for food use. Canada's exports of dry peas to China have trended upward during the past five years. In fact, of the 0.33 Mt of dry peas imported by China in 2006,

0.30 Mt were of Canadian origin. About 80% of the imported peas are used by food processors in Shandong Province to make vermicelli noodles. Most of the remaining peas are processed into snack foods.

OUTLOOK

Demand for grains and oilseeds in China is expected to continue to exceed domestic supplies despite record **production** of major field crops, which is forecast at 424 Mt for 2008-2009, and record high **imports**, forecast at a 39 Mt. At the same time, **exports** are forecast to decrease to 4.2 Mt, the lowest level in recent history. **Carry-out stocks**, which have been in decline in recent years, are forecast at 108 Mt, up from 107 Mt in 2007-2008.

CHINA: SOYBEANS SUPPLY AND DISPOSITION

	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007	2007 -2008	2008 -2009f
.....million tonnes.....							
Carry-in Stocks	2.1	4.5	2.1	4.7	4.5	3.1	2.8
Production	16.5	15.4	17.4	16.4	16.0	14.3	15.0
Imports	<u>21.4</u>	<u>16.9</u>	<u>25.8</u>	<u>28.3</u>	<u>28.7</u>	<u>34.0</u>	<u>35.0</u>
Total Supply	40.0	36.8	45.3	49.4	49.2	51.4	52.8
Exports	0.3	0.3	0.4	0.4	0.4	0.3	0.3
Feed Use	1.8	1.7	1.9	1.7	1.7	1.7	1.7
Food Use	7.0	7.2	8.0	8.3	8.4	8.5	8.6
Crush	<u>26.5</u>	<u>25.4</u>	<u>30.4</u>	<u>34.5</u>	<u>35.5</u>	<u>38.1</u>	<u>40.0</u>
Total Use	35.6	34.7	40.6	44.9	46.0	48.6	50.6
Carry-out Stocks	4.5	2.1	4.7	4.5	3.1	2.8	2.3
Numbers may not add due to rounding.							
f: forecast, AAFC							
Source: USDA (FAS)							

Wheat

For 2008-2009, wheat **production** is forecast at a record 107 Mt, up from the previous year's record of 106 Mt. The combination of increased production, carry-in stocks and imports accounts for the highest level of **supplies** since 2003-2004. A small increase in **domestic use** is expected to partially offset lower exports due to China's restrictive policy on wheat exports. **Carry-out stocks** are forecast to rise to 42.4 Mt from 39.1 Mt in 2007-2008, the highest level in six years.

Corn

For 2008-2009, **production** is forecast at a record 150 Mt, due to higher seeded area and yields. Total **supplies** are forecast at 179 Mt, up from 178 Mt in 2007-2008. **Exports** are forecast at 0.3 Mt, down from the estimated 0.5 Mt in 2007-2008, due mostly to China's restrictive export policies. **Domestic consumption** is forecast at a record 152.0 Mt, and this is attributed largely to record high **feed use**, forecast at 107.0 Mt. **Carry-out stocks** are forecast at 27.1 Mt, down from 29.1 Mt in 2007-2008.

Barley

For 2008-2009, **production** is forecast at 3.8 Mt, up from 3.6 Mt in 2007-2008, due to higher seeded area and yields. **Domestic use** is forecast at 4.9 Mt, up from 4.7 Mt in 2007-2008, as both feed and food use are expected to increase. **Imports**, comprised primarily of malting quality barley, are forecast at 1.3 Mt, up slightly from 2007-2008. **Carry-out stocks** are expected to increase slightly to 0.2 Mt.

Rapeseed

For 2008-2009, **production** is forecast at 11.0 Mt, up from 10.5 Mt in 2007-2008, as yields are expected to improve following a year of drought. **Imports** are forecast to increase to 0.8 Mt, up from 0.7 Mt in 2007-2008, and **supply** is expected to increase slightly, to 11.8 Mt. **Domestic crush** is forecast at 11.2 Mt, up from 10.5 Mt in 2007-2008.

Rapeseed oil production is forecast at 4.0 Mt, up from 3.8 Mt in 2007-2008. **Imports** of rapeseed oil are forecast at 0.4 Mt, down slightly from 2007-2008.

Soybeans

For 2008-2009, **production** is forecast at 15.0 Mt, up from 14.3 Mt in 2007-2008 due to higher seeded area and yields. **Imports** forecast at a record 35.0 Mt in 2008-2009, and **crush** is forecast at a record 40.0 Mt. **Carry-out stocks** are forecast at 2.3 Mt, down

from 2.8 Mt in 2007-2008.

Soybean oil production is forecast at a record 7.1 Mt, up from 6.8 Mt in 2007-2008. **Imports** are forecast at a record 3.5 Mt, and **supplies** are projected at an unprecedented 10.8 Mt. As with soybean oil, virtually all of the **soybean meal**, forecast at 32.3 Mt, is expected to be consumed domestically.

PROSPECTS FOR CANADA'S GRAINS AND OILSEEDS SECTOR

Grains, oilseeds, pulse crops, and canola oil have been key Canadian agri-food exports to China during the past ten years, but some of these exports are in decline. Canadian wheat exports to China, for example, have decreased significantly and this is largely due to increased domestic production. As well, higher prices for malting barley and the use of substitutes, such as corn and rice, in beer production have contributed to a decline in exports of Canadian malting barley to China.

In the case of oilseeds, China's tariff structure puts Canadian canola at a distinct disadvantage over imports of soybeans from the U.S. and Brazil. China's bound and applied tariff rate for canola seed, canola oil, and soybean oil is 9%, whereas the bound tariff rate for soybeans is 3%. Furthermore, China has temporarily reduced the applied tariff on soybeans to 1%.

The exception to a general decline of Canadian agri-food exports to China is peas, which continue to demonstrate good growth potential in the food market and as feed for China's growing aquaculture sector. Canada is also considering the potential of other agri-food products as China continues to experience unprecedented economic growth and, with that, a higher standard of living. With this higher standard of living,

China's burgeoning middle class is developing a taste for livestock products and higher value food that were once considered scarce and unaffordable. However, the value of the Canadian dollar will continue to play an important role in influencing trade with China.

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