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CHINA: Wheat Situation and Trade

CHINE: récolte et commerce du blé

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CHINA: Wheat Situation and Trade

Summary

1. Chinese expectations of record wheat output and domestic state procurements this year point to a substantially lower level of wheat imports from grain exporting countries, including Canada. Imports of wheat by China rose by two-thirds in the period 1978-1982, as the government sought to compensate for an anticipated reduction in output and in state acquisition of domestic grain. New farm policies introduced in 1979, however, have led to an unexpectedly quick rise in wheat output, a development which is prompting China to reconsider its grain import policy. Multi-year grain agreements signed in 1981/82 with Canada, Australia and the USA, China's major suppliers, are about to expire and there is doubt that China will conclude new agreements of this type in 1985. Freer movement of wheat from the interior to the eastern seaboard could produce periodic buildups in some coastal cities causing China to export small quantities of wheat. (CONFIDENTIAL)

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CHINE: récolte et commerce du blé

Résumé

1. Les prévisions de la Chine quant à la production record de blé et aux acquisitions que l'État pourra faire sur le marché intérieur cette année laissent présager une baisse considérable du niveau des importations en provenance des pays exportateurs de céréales, dont le Canada. Les importations de blé de la Chine ont augmenté des deux tiers au cours de la période 1978-1982, le gouvernement ayant cherché à compenser une réduction prévue de la production et de l'acquisition par l'État des céréales du pays. Les nouvelles politiques agricoles adoptées en 1979, cependant, ont donné lieu inopinément à une augmentation rapide de la production du blé, fait qui incite la Chine à reconsidérer sa politique d'importation des céréales. Les accords céréaliers pluriannuels signés en 1981-1982 avec le Canada, l'Australie et les États-Unis, principaux fournisseurs de la Chine, sont sur le point d'expirer et il n'est pas sûr que la Chine conclue de nouveaux accords de ce type en 1985. Un mouvement plus libre du blé, de l'intérieur vers le littoral oriental, pourrait provoquer dans certaines villes côtières des accumulations périodiques qui pousseraient la Chine à exporter de petites quantités de blé.

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Background

2. Chinese expectations of record wheat output and domestic state procurements this year point to a substantially lower level of wheat imports from grain exporting countries, including Canada. Official Chinese sources have indicated that China's 1984 wheat crop will hit a new peak of about 85 million metric tons (mt). This is more than three times the quantity of wheat produced by Canada last year (25.8 million mt) and makes China the largest producer of wheat in the world, ahead of both the USA and the USSR. The record crop will enable the state to purchase about 22 million mt of wheat from domestic producers. Internal procurements this year are up about five million mt compared with 1983, or by nearly 45 per cent of China's total wheat imports in calendar year 1983.

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3. Imports of wheat by China rose by two-thirds in the period 1978-1982 as the government sought to compensate for an anticipated reduction in state acquisition of domestic grain. Lower state acquisitions were envisaged in keeping with the dramatic changes in China's economic and farm policies introduced in 1979, which involved the return

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of a quasi-private farm system. These policies were expected to produce changes in crop structure and uncertainties in grain output. Although significant changes in crop structure occurred, yields rose substantially with the result that output and domestic purchases increased, rather than languishing or declining. Thus, state purchases of domestically produced wheat rose sharply in 1983 to nearly 17 million mt, and wheat imports declined from their 1982 peak of 13.3 million mt to 11.4 million mt. As a result, internal state purchases for the first time since 1979 amounted to well over one-half of total wheat procurements.

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4. A fall in Chinese demand for overseas grain was indicated as early as the end of last year when orders for delivery of Canadian wheat in the first six months of 1984 declined. It is likely that a number of factors contributed to the fall in import demand. China's Commerce Department probably had a highly favourable wheat inventory as of 31 March, 1984 (the end of China's 1983/84 grain procurement year), as a result of the 1983 harvest. The 1984 winter wheat harvest (which accounts for 90 per cent of China's total annual wheat output), was expected to be good, based on increased 1983 sown acreages and larger capital inputs

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(primarily machinery and fertilizer). Finally, by the end of May, authorities would have had good indications of favourable wheat yield prospects. (CONFIDENTIAL).

5. At the end of July, China's total purchases of offshore wheat for shipment during the current calendar year amounted to about 8.0 million mt. While additional purchases for shipment prior to 31 December may still be made, it appears unlikely that shipments will reach the annual 11-13 million mt range for the period 1980-1983. It is possible that the final figure may not exceed the 8-9 million mt imported in 1978-1979 when current farm policies were in process of development and introduction.

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6. China signed three to four-year grain agreements with Argentina, Australia, Canada, the EEC (France) and the USA covering calendar and crop years for the period 1981/82 - 1984/85. The agreement with the EEC expired in 1983 and was renewed for a three year period ending 30 June, 1986; those with Argentina, Australia and the USA will expire at the end of 1984, and that with Canada on 31 July, 1985. The arrangement with Canada covering its three crop years 1982/83 - 1984/85 calls for total deliveries in the range

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of 10.5-12.6 million mt. To date, Canada has sold 9.1 million mt under its agreement, including 1.4 million mt for each of January-June and July-December 1984, and 0.5 million mt of frost-damaged wheat outside the agreement. If China is to meet its minimum commitment to Canada, it would have to order a final 1.4 million mt for delivery before 31 July, 1985. The total value of minimal deliveries for the life of the agreement amounts to about Cdn \$2.5 billion.

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Prospects

7. China's aim in signing the 1981/82 agreements was to provide a stable basis for larger wheat imports at a time when increases in domestic wheat production were uncertain. The unexpectedly quick rise in wheat output and subsequent decline in grain import requirements is prompting China to reconsider its grain import policy. Some Western observers now doubt that China will want to conclude in 1985 new 3-4 year grain agreements of the type signed in 1981/82 with Canada, Australia and the USA, its major suppliers. If new multi-year agreements are requested by the PRC, those proposed may involve lower minimum quantities than the levels stipulated in earlier agreements, at least for the

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next few years.

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8. China's wheat imports in 1985 and the succeeding medium term will depend on domestic harvests and procurements, and on a possible increase in the internal demand for wheat as a result of improved internal distribution. China's wheat harvests may continue to increase in the next few years, but probably not by as much as the average of about 8 million mt in the three year period 1981-1984. Rising output would increase domestic state-controlled procurements and these could move into the 25-30 million mt range, equal to total annual domestic and foreign wheat purchases during 1982-1984 (see the attached table). Improving farm skills, as well as more and better machinery and equipment, fertilizers and seeds will tend to encourage rising output, but a fixed acreage, weather and a seriously falling water table in key, irrigated, winter wheat areas may restrain yield. (CONFIDENTIAL)

9. Under these conditions, we believe that imports are not likely to exceed 8-9 million mt unless an increase in internal demand occurs. Although the government has been energetically promoting rural, inter-urban and inter-provincial grain trade in recent years, the underdeveloped

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condition of China's road and rail system impedes a quick and substantial buildup of activity. Gradual improvements are likely, nevertheless, and it is possible that an increased internal market can be developed which will absorb greater quantities of grain. - If so, the quantities available to the Commerce Department for distribution in grain deficit areas could ultimately be restricted and imports encouraged as an alternative source of supply.

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10. Imports of 8-9 million mt of wheat can probably easily be utilized in heavily populated urban and suburban areas in the eastern seaboard. Wheat procured by the state both internally and externally is pooled by the Department of Commerce and used to supply grain deficit urban and rural areas. We believe that imported wheat is used largely to supply the northeastern and possibly southern seaboard, while internally purchased wheat is redistributed within interior areas and to some central seaboard cities, including Shanghai. Supply of these areas from abroad has the advantage of reducing pressure on the overburdened rail system connecting seaboard and interior production areas. Nonetheless, wheat shipments from the interior to the seaboard could increase this year because, for the first

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time, farmers are permitted to purchase, transport and market wheat in adjacent cities, counties and provinces during the officially designated state procurement season. Freer movement of wheat could produce periodic small buildups in some coastal cities for which no storage could be found and which the authorities might, therefore, decide to export.

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TABLE

CHINA: Grain Harvests, State Purchases and Imports, 1978-1984
 (million metric tons)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
1. Total Grain Harvest	304.8	332.1	320.6	325.0	354.6	387.3	400 p
2. Internal State Purchases of All Grain, including Rice and Wheat	51.3	52.88p	49 p	62.55	73	80 p	85 e
3. Summer Grain Harvest, including Wheat, Barley and Rye	59.4	64.9	57	60 p	74.5	84	88.5
4. Wheat Harvest, including Spring and Winter Wheat	53.8	62.7	55.2	59.6	68.4	81.4	85 e
5. Internal State Purchases of wheat ⁽ⁿ⁾	NA	12.7-13.7	8.2-8.7p	9.6p	12.03p	17e	22 e
6. Total Grain Imports; of which, Wheat	9.4 8.0	10.9 8.3	13.6 11.8	13.5 12.7	15.6 13.3	13.1p 11.4e	8 e
7. Wheat Imports from Canada	3.3	2.7	2.6	3.1	3.5	4.6p	2.8e
8. Wheat Imports plus Internal State Wheat Purchases (Row 5 + Row 6)		21.5	20.2	22.3	25.3	28.4	30 e
9. Total State Grain Aquisitions (Row 2 + Row 6)	60.7	63.78	62.6	76.05	88.5	93.5	NA

* p-preliminary
 e-estimate

n-1979-1982 figures relate to summer grains which were largely wheat but included some barley and rye

NA-not available

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