

Research Report on China Soybean Industry, 2018-2022

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Abstracts

DESCRIPTION

The soybean industry includes the departments and segments of national economy related to soybean production, trade, processing, logistics, R&D and relevant services. The soybean industry chain is the longest one of major agricultural commodities in China, involving planting, processing, supply of edible oil, forage, breeding, etc. With the development of China's economy and the improving living standards, the consumption volume of edible oil per capita is also rising, which was less than 3kg in 1980 but already more than 20kg in 2017. A large part of the edible oil in China is transgenic soybean oil because of its low price and high production volume.

China was a leading producer of soybeans. In the early 1990s, the highest export volume exceeded 1 million tons in China as a net exporter of soybeans. However, soybean has become a kind of agricultural products with the largest import volume in China. Since 1996, the domestic production volume of soybeans has been on the decline. From 1995 to 2002, the import volume of soybeans constantly increased while the export volume declined year by year. The import volume of soybeans in China reached 13.94 million tons in 2002, which was close to the domestic production volume of soybeans. In 2003, the imported soybeans amounted to 20.74 million tons, first exceeding the domestic production volume. The import volume was already over 90 million tons in 2017.

As the soybean supply in China depends on imports, the spot price of domestic soybeans is closely related to the cost of imports. The import cost of soybeans from the U.S. and South America is directly linked to the spot price of domestic soybeans in the same year. In addition, the import cost is of little difference between South American

soybeans and American ones, while the costs are even highly related to each other.

From 2004, the domestic soybean processing enterprises experienced the overall losses while international grain businesses entered China and took the chance to occupy over half of the market shares, which was followed by the transfer from trade businesses to processing enterprises. The domestic enterprises purchase soybeans at high cost in 2004 while the soybean price declined sharply from then on, leading to the closing down of numerous import enterprises in China.

In the processing of soybeans, major evaluation indexes include the degree of self-support and prices of soybeans in China. The self-support degree of the domestic soybeans is lower than 20% and is likely to continue to decline. The price of soybeans fluctuated sharply, particularly influenced by imported soybeans.

Currently, in terms of soybean processing, foreign capital dominates in the Chinese capital structure of the oil crusher industry. There are two targets for foreign capital in the domestic soybean processing industry. One is to sell larger number of soybeans to China, and another is to occupy more market shares by beating the competition in China.

In order to earn more profits, many foreign-funded grain and oil enterprises are aimed to establish a complete industrial chain from agricultural means of production, production of agricultural products to agricultural processing and goods circulation.

It is estimated that as the demand for soybeans in the Chinese market continues to increase, and there is no growth potential for the production volume of the domestic soybeans, the import volume will keep growing in the next few years.

Importance of Importing American Soybeans from the View of CRI

Over the past ten years, the rising level of urbanization has been triggered by the economic development in China. (By the end of 2017, the domestic urbanization rate reached 58.5%.) In China, agriculture is dominated by small-scale production with extremely low profits. Therefore, many rural population floods into cities and towns for a job rather than working in the farms resulting in a declining labor population of rural areas. China also becomes more and more dependent on imported food. In order to meet the demands for grain and feed processing and the food industry, it needs to import a considerable number of soybeans, rice, wheats, corns, etc. As an important

grain crop and oil-bearing crop, soybean is irreplaceable with various uses. Due to the high cost and low oil yield, the cost performance of home-grown soybeans is far below that of imported ones. For one thing, the higher planting cost of the domestic soybean leads to its price exceeding that of the imported ones. For another, the oil yield of the domestic soybeans usually ranges from 16% to 17%, while that of the imported transgenic ones generally ranges from 19% to 20%, 3-4% higher than the former. The difference in oil yield directly affects the profit of soybean crushing. The profit margin of using imported soybeans as raw materials for oil extraction is higher than that of using domestic ones. Bean pulp, a by-product after oil extraction of soybean, is an important vegetable protein feed.

According to CRI, the annual production volume of soybeans is estimated to be lower than 13 million tons in China in recent years. However, as the economy develops and the living standards increase in China, the annual demand for soybeans keeps rising, exceeding 100 million tons in 2017. Obviously, the homegrown soybeans cannot satisfy the domestic market demand, so China has to import numerous soybeans every year. In 2017, the import volume of soybeans in China totaled 95.535 million tons, increasing by 13.85% YOY. The import value reached USD 39.62 billion, increasing by 16.63% YOY. At present, China has a single source of imported soybeans, mainly comprising Brazil and the U.S. In 2017, Brazil was the largest source of imported soybeans to China, the import volume from which reached 50.928 million tons. The U.S. ranked second, and China imported 32.854 million tons of soybeans from the country in 2017, with the import value amounting to USD 13.933 billion. Both the import volume and import value accounted for more than 1/3 of those of the domestic soybeans.

Based on the analysis of CRI, if China reduces the imported soybeans from the U.S. and increases imports from other countries, there will be two problems: (1) increasing prices of the suppliers from other countries; (2) lack of reliable alternative sources in China. As the largest source of imported soybeans to China, Brazil has produced approximately 100 to 110 million tons of soybeans a year in recent years. Because of more than 200 million population and the advanced animal husbandry, the country itself also needs to consume a number of soybeans. In 2017, the export volume of soybeans in Brazil reached about 57 million tons, almost 90% of which was exported to China. Supposing that the import volume of soybeans from the U.S. to China decreases by a half YOY in 2018, totaling about 16.4 million tons, the imports from Brazil can only fill up the gap of 6 million tons, while the rest 10.4 million tons will be a big loss that is difficult to compensate for. There is an opinion that Russia can be an alternative importer, but China only imported 0.51 million tons of soybeans from the country in 2017, accounting for about 0.5% of the total import volume. The production volume of soybeans in Russia

even totaled no more than 4 million tons in 2017. Unlike the industrial goods, agricultural products are hard to rapidly increase the production capacity, because the production volume is greatly influenced by natural conditions. Besides, it is also impossible for the suggestion that the domestic migrant workers return to the rural areas for soybean planting or go to the Russian Far East to open up wasteland for soybeans.

CRI report also suggests that tax on the imported soybeans from the U.S. will lead to the increase in prices of both imported soybeans and domestic ones. Admittedly, the rising prices will influence the downstream of the industry, such as processing industries of soybean oils, bean products and feeds. As a consequence, ordinary consumers will have to face the higher prices of edible oil and food. In addition, the CPI and even the inflation level will also rise to a certain extent. However, as for the low-income people, their living standards will decline. Soybean belongs to a basic agricultural product instead of luxury goods. For the Chinese enterprises and consumers, soybean oil is an important source of edible oil and bean products are also the significant food. On top of this, the pig raising, poultry raising and aquaculture industries are inseparable from the high-quality feed of bean pulp. With the support of imported soybeans, the production volumes of pork, poultry meat and eggs and aquatic products in China can all rank top in the world. If there is a shortage of soybeans in the Chinese market and the rapid increase in soybean prices, only a few of soybean importers and distributors can earn huge profits. In fact, it will be harmful to the interests of most people.

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About

China is a major soybean consumer in the world, with the consumption increasing steadily. In 2017, the soybean consumption in the country exceeded 0.11 billion tons, ranking first in the world. Meanwhile, 83% of the domestic soybeans consumed were used for crushing, 14% for food, and only 2% for feed.

The consumption structure of soybeans has shown a concentrated trend in the past five years. Crushing is more dominant with a slight increase in the share of consumption, which is currently about 83%. The share of consumption for food remains stable, fluctuating around 14%. The consumer demand for feed and seed still occupies a marginal status and the share of consumption for seed has declined slightly.

The demand for the domestic soybean market mainly depends on imports. For example, in 2017, the production volume of soybeans in China was only 15.3 million tons, while the import volume reached 96 million tons, accounting for 86% of the total. At present, the imported soybeans in China are single-sourced, mainly from Brazil and the U.S. In 2017, Brazilian soybeans accounted for 53% of the total soybean imports, and the U.S. soybeans took up 34%.

According to China National Grain and Oils Information Center, the consumption of soybean crush is projected to reach 93 million tons during 2017-2018, including 2.5 million tons of homegrown soybeans and 90.5 million tons of imported ones. Domestic soybeans only made up 2.7% of the crushing consumption, well below their proportion of 13.5% of the total consumption. The main reason is that the oil yield of domestic soybeans generally ranges from 16% to 17%, while that of imported transgenic soybeans ranges from 19% to 20%, approximately 3% higher than the former. The difference in oil yield directly affects the profit of soybean crushing. In the same period, profits of imported soybean crushing surpass those of the domestic one. In 2017, the average crushing profits of imports of crushers in Shandong and Dalian were respectively 556.8 CNY/ton and 498.1 CNY/ton higher than those of domestic soybeans. It shows that the crushing process of domestic soybeans has long been in losses.

Supply-demand Balance of Soybean in China (10 thousand tons)

Year	2012	2013	2014	2015	2016	2017
Beginning	849	529	871	1,183	1,192	701

Inventory						
Production	1,181	1,275	1,385	1,051	1,185	1,530
Volume						
Import	5,984	7,035	7,835	8,322	9,350	9,600
Volume						
Aggregate	8,014	8,839	10,091	10,556	11,727	11,831
Supply						
Export	26	15	16	18	10	22
Volume						
Aggregate	7,485	7,968	8,908	9,364	11,026	11,218
Consumption						
Ending	529	871	1,183	1,192	701	613
Inventory						
Inventory	7.07	10.93	13.28	12.73	6.36	5.4
to Sales						
Ratio						

In 2017, the production volume of global soybeans reached 340.86 million tons, decreasing by 2.98% YOY. The main soybean producers were the U.S., Argentina and Brazil, with the aggregate production volume of 82%.

USDA's Forecast on Production Volume of Soybeans in the World

Country	2014/2015	2015/2016	2016/2017	2017/2018(March)
The U.S.	91.39	106.86	116.92	119.52
Brazil	86.7	96.5	114.1	113
Argentina	53.4	56.8	57.8	47
China	11.95	11.79	12.9	14.2
Globe	282.61	313.77	351.32	340.86

The YOY growth rate of soybean consumption in the globe, China and the U.S. in 2017 was 4.25%, 7.78% and 2.88%, respectively. In China, soybean consumption continues to increase more rapidly than that of the global and the U.S. As the production volume is far less than the consumption, China's soybean consumption mainly relies on imports. At the same time, the soybean consumption in the U.S. is rising slowly. In 2017, the production volume reached 119.52 million tons in this country, but its consumption was only 57.11 million tons. As a consequence, more than 50% of the supply needed to be

consumed through export, which has an important impact on the U.S. soybean market.

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