

# The Grain and Oilseed Market in the Yangzi Delta Region

**Canadian Consulate General, Shanghai**

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## TABLE OF CONTENTS

[Introduction](#)

[Grains](#)

[Oilseeds](#)

[Market](#)

[Tariffs](#)

[Barriers to Entry](#)

[Conclusion](#)

[Follow Up](#)

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## Introduction

Canada benefits from a reputation as a supplier of high-quality commodities as malting barley, process alfalfa products and canola oil are currently top commodities. Canada's agri-food trade with China in 1998 was estimated at C\$924 million, with over 98 percent being exports of primary agricultural products such as grain (wheat, malting barley) and oilseeds (canola).

China's grain consumption is steadily increasing each year, at a rate faster than local production. With 22% of the world's population and only 7% of the world's arable land, high labour intensity and relatively low productivity limit China's agricultural sector.

China represents Canada's largest export market for Canadian milling wheat. Canada supplies approximately 40% of China's wheat imports and, due to the high quality of Canadian grain. Demand for wheat is expected to continue to grow significantly over the next decade.

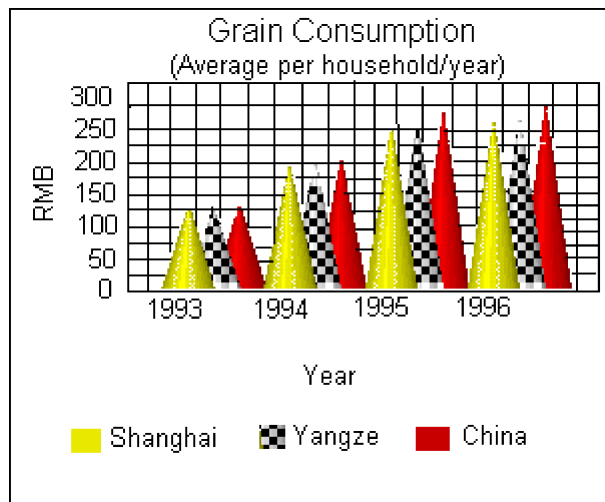
## Grains

The Chinese government controls the four staple grains under a system of quotas. With the exception of crude edible oil for refining, all other grains are exempt from this quota system.

Each year, the Chinese central government allocates grain quotas to the provinces and three provincial level cities (Beijing, Shanghai and Tianjin). The quota is controlled by the State Planning Commission, Ministry of Domestic Trade (MDT), the Ministry of Foreign Trade and Economic Commission (MOFTEC) in Beijing.

Provinces apply and receive a quota that is a proportion of their request every year. The quota allows provinces to import any of the four staple grains (corn, rice, soybeans and wheat) from abroad. Provincial

government grain bureaus cannot directly import foreign grains but, they can recommend which staple grains need to be imported to their regional grain & food stuffs corporations in Beijing. Grains which do not fall under the quota system (i.e., barley, canola and rapeseed) are imported by local grain bureaus.



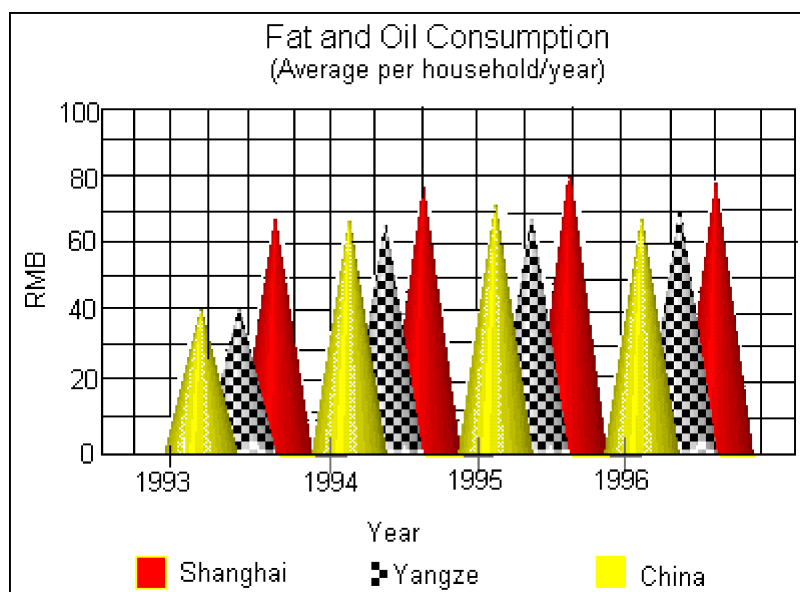
Source: 1997 China National Statistics Yearbook

The most prized foreign wheat comes from Canada, Australia, the United States, and, to a lesser extent, from Argentina and the European Union. Local flour mills blend the foreign wheat with local wheat to produce higher quality and gluten content flour for domestic use and export. Most provinces use their quotas to import wheat and/or other staple grains which are controlled under the quota system (i.e. corn, rice and soybeans).

In 1996, Shanghai's grain consumption per household was RMB 294.14 (USD\$ 35.44) for the year. This figure is higher than the national average, RMB 271.54 (USD\$ 32.72) and the average for households in the Yangzi Delta Region, RMB274.57 (USD\$ 33.08).

Although local grain consumption is rising each year, statistics show grain imports are not increasing. Grain imports to China for 1996 totalled USD\$ 2.95 billion, which was substantially less than the previous year's value of USD\$ 3.73 billion.

In recent years China has been able to produce enough grain to satisfy local consumption. China's latest agriculture strategy is to promote self-sufficiency; utilize domestically produced grains to feed the local population and export any surplus. Therefore, foreign grain imports are declining despite increasing grain consumption in China.



Source: 1997 China National Statistics Yearbook

Although there is demand for superior quality foreign grains, imports to China are restricted by the Chinese government. The country's objective is not only to be self-sufficient, but also to produce sufficient surplus for export. This strategy promotes the development of a modern and efficient agriculture industry which can reliably feed the burgeoning population. The policy is also consistent with the government's paternalistic tradition of protecting local companies and state-owned enterprises from foreign competition.

Nevertheless, there are opportunities for Canadian grain exporters. As a result of economic reforms, despite government quotas on staple grains, local government grain bureaus have both the discretionary power to import foreign grain to meet the demand of increasingly wealthy consumers. This is especially true in Shanghai where the population consists of some of the most affluent people in China.

In general, Shanghainese have access to more foreign imports, food and grain products than anywhere else in China. Local Chinese people are willing to pay extra for high quality Canadian grain.

### **Oilseeds**

Canada has played a substantial role in exporting quality oilseeds to China. Oil is used extensively in all types of Chinese cuisine. Traditionally, animal fats were used for cooking. However, Chinese people are becoming more health conscious and substituting lard for vegetable oils.

Today, deep-fried dishes remain a favourite among Shanghainese, explaining the population's high consumption of oils. The average person in Shanghai uses 1.5 times more cooking oil than the national average of 11 kilograms per person annually. The national average is still only 30% of the consumption in Taiwan and Hong Kong (35 kg per person), indicating this market holds significant opportunities for Canadian oilseed companies. Soybean oil is the preferred edible oil used in Shanghainese cooking. It is not surprising that, in comparison to other staple grains, China's import of soybeans has been increasing in the past several years. In 1996, China imported U\$320.35 million. This is higher than the previous year's imports of U\$75.5 million.

### **Market**

Canada supplies 40% of China's grain imports. Canada's main competitors in the sector are the United States, Australia, the European Union and Argentina.

In 1996, China imported 8.3 million tons of wheat valued at U\$1.9 billion. Canadian exports to China included U\$644 million of wheat and muslin, a 20 percent decrease from the previous year.

As a result of increasing bean consumption in China, the country's barley imports increased from 1.28 million tons to 1.31 million tons. This is a value of U\$305 million, U\$51 million of which was sourced from Canada.

Canola crude oil exports from Canada have been increasing yearly. In 1996, the figures rose to more than U\$12 million of canola crude oil, approximately 6 times greater than in 1994. A boost in domestic meat production in China may provide Canadian companies with opportunities to introduce canola meal as a replacement for soymeal in some regions in China.

Statistics from Shanghai Municipal Grain Bureau indicate that local consumers prefer imported grains. Standards of living are rising and thus people now can afford to buy quality foreign products. Foreign grain demand will further increase in rural and urban households as more local farm lands are being used for urban development.

Importantly, although the Central government in Beijing issues grains quotas to the provinces, Provincial and Municipal Grain Bureaus are able to directly authorize local imports of grains. They are willing to import as long as imported grains are of high quality, and prices are reasonable.

The Yangzi Delta can also benefit from Canadian agricultural technologies that improve quality and

increase productivity. Opportunities have been identified in the areas of agricultural turf and seed. However China's compliance with respect to intellectual property rights is currently limited, impacting on the export of plant genetics. Opportunities also exist for food quality soybeans.

It is important to note that every year a substantial amount of grain intended for Hong Kong ends up in Shanghai and other parts of China, without legal documentation or official records. However the increasing sophistication of mainland buyers and stricter enforcement of rules on foreign exchange controls, China's crackdown on cross-border smuggling activities into the mainland are expected to affect agri-food commodity exports to China via Hong Kong.

### **Tariffs**

Aside from quotas, tariffs are placed on all imported grains and oilseeds. Tariffs range from 40% for soybeans to 114% for wheat. For oilseeds, tariffs for various types of oilseeds are around 40%. However, different ports of entry may charge different entry rates on the same or similar products. Because there is flexibility at the local level in deciding whether to charge the official rates, often the actual duties are a result of negotiations between business people and Chinese custom officials.

### **Barriers to Entry**

- The major challenge to increased exports in this sector is to decentralize the buying authority of MOFTEC and MDT and allow greater private sector input.
- Tariffs and quotas have also been introduced but are not fixed and are applied inconsistently, particularly for oilseeds and related products. The question of who has the authority to import is subject to interpretation, loopholes, sudden changes and reversals of policy.
- Transportation continues to be a major problem. Unloading and handling at ports and inland is severely hampered by poor infrastructure. China also suffers from the lack of proper storage facilities. Very few temperature-controlled storage areas are available in China.

***For more information, please refer to our "Food Distribution Systems in the Yangzi Delta Region" detailed report, available through the Canadian Consulate General, Shanghai.***

### **Conclusion**

There definitely exists a demand for Canadian grains, especially wheat, and oilseeds. Since implementing the Open Door Policy and deregulating the Agriculture Sector in the 1980s, China has imported increasing amounts of grains and oilseeds from abroad. Canada holds a 40% share of China's foreign grain imports. Canadian grains are recognized for their high quality and high gluten content.

Quality grains from abroad are only imported in quantities which adhere to pre-allocated quotas issued by the central government grain bureaus. However, with the current economic reforms and developments, local Chinese people, particularly Shanghainese, prefer and are willing to pay for high quality imported grain products. Also, local and municipal grain bureaus are able to access loopholes in the regulation system and import grain as needed.

Although grain imports have declined in the past several years, bad weather, particularly severe floods, have plagued the grain-growing regions of China and it is expected that the government will require increased quantities of imports to satisfy demands.

As China draws nearer to joining the World Trade Organization, they are liberalizing trade practices. This means there will be fewer restrictions for Canadian exporters to access opportunities in the China market.

### **Follow Up**

The Canadian Consulate General's Agriculture and Agri-Food Office maintains ongoing relationships with local importers, wholesalers, agents and outlets. The office also organizes and participates in numerous promotional activities aimed at generating business for Canadian firms in this sector. Firms interested in

taking advantage of these relationships and activities in their efforts to do business in this market would be well advised to stay in touch with us, as follows:

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