Q3 China agricultural policy update

October 2015
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policy movements

- food safety law in effect since 1 October
- 13 percent VAT on imported fertilizer reinstated from 1 September
- authoritative State Council document on modernization of agriculture
- land mortgaging enters pilot stage
- agricultural credit system being established
- target-price insurance schemes piloted
- commercial banking law revision in effect from 1 October
- national market system for agricultural development plan released
- state procurement of rapeseed ended
- provincial target prices to fully replace central floor prices on wheat, rice and corn
- but floor price will continue at least for 2016
highlights

**food safety:** A revised *Food Safety Law* was enacted on 1 October 2015. A major overhaul of the 2009 law, the revision codifies administrative responsibility and grants authority to newly established expert groups. New rules for labeling and a new inspection system are significant for importers.

**rural finance:** Land to be loan collateral by 2017 with rural contract law expected 2016 and land mortgage pilots underway. Target-price insurance, developed to replace subsidies, to dominate rural credit system. VAT reintroduced on imported fertilizer.

**international finance:** Global capital markets are now feeling the effects of China’s deferred structural adjustment. RMB internationalization remains the policy end-game. Commercial banking reform is key to stability.

**land reform:** Farm upscaling will be mired in policy gridlock as macro plans conflict with individual rights. Pilots will need to test land tenancy issues before mechanization or large scale industrial farming becomes feasible.

**subsidy reform:** Provinces in limbo as state procurement system is dismantled, but provincial plans remain undeveloped. State support mechanism unclear as subsidies extended to processors in 2015 season. Debate continues over movement towards target-prices and social support for peasants.

**food security:** Marking a policy transition to Going Global 2.0, Capacity Cooperation redefines food security from a matter of self-sufficiency to include ‘adequate import’. Domestic SOEs continue central agglomeration plan.
Enactment of the *Food Safety Law* revision is the highlight this quarter. Developments in drafting the *Rural Contract Law* are also important to follow. The 2015 rapeseed policy eliminates state purchasing, further dismantling the state procurement system. Reintroduction of VAT on fertilizer signals a major disincentive on land over-use. Ahead of the upcoming 5-year plan, updated national and local spatial planning models are on the table.
A revised Food Safety Law was passed in April 2015 and came into effect on 1 October 2015. The law stresses strong supervision, aiming to eliminate monitoring gaps along the food chain. But with two discrete food safety laws in force, one supervised by the Ministry of Agriculture, The Agricultural Products Quality Safety Law (2006) and the new revised one by the China Food and Drug Administration, a major gap—a critical concern multilateral food safety authorities—remains. This major gap notwithstanding, until producers, including farmers and the many small scale local facilities, can be better trained and professionalized, monitoring the food chain will remain out of reach.

In the new law responsibility for safe food now not only lies with upstream producers, including processors, but also with distributors. The law also emphasizes professionalization of enterprises that must keep record for inspection. It also requires the government to become more transparent. (see p27 for more on the Law)

Observers are waiting for details of the Rural Contract Law to coalesce. It will provide the legal basis for upscaling, mechanization and industrial reform. Liu Shouying 刘守英 State Council DRC, warns it may harm both peasant interests and land efficiency. Risks facing banks will rise, he warns, due to property, bundles of management rights, being subject to inconsistent valuation. Each village member, he maintains, should be given a share in collective property, with a clear right to mortgage and manage their own contracted land rights.
In an attempt to bring domestic prices in line with global ones, the State Council is pushing efforts to make Chinese farming more efficient. In 2014 it moved to a target price support system. The pilots on cotton and soy in 2015 has shown that total productivity will decrease. There is also need for social support for peasants who cannot adapt to the new system. These issues notwithstanding, the State went ahead and canceled its purchasing program for rapeseed and has lowered the purchase price for corn. The dismantling of the state procurement system is moving forward.

The State Council’s ‘Opinions on expediting transforming the agricultural development model’ seeks to increase efficiency by industrialization through farm upscaling, standardization, education, mechanization and informatization. It calls for consolidating agricultural sectors, preferential policies for service sector development, better functional zoning for grain production, reforming subsidies, and new rural financial systems.

1 September ‘Notice on resuming value-added tax for fertilizer’ revokes the 13 percent VAT exemption. Fertilizers affected fall mostly under harmonised standards codes in the 3104 and 3105 range covering fertilizers containing potassium nitrate; potassium chloride; potassium; nitrogen, phosphorus and potassium; diammonium phosphate; and phosphorus. Policy aims both to curb land over-use and reduce fertilizer pollution.

MoF, MoA and CBRC issued ‘Opinions on guiding the establishment of an agricultural credit system’. It follows adjustments to agricultural subsidies in May, when 20 percent of general farm subsidies were reserved for a new system to support up-scaled farming. Provincial governments are to establish rural credit organizations within three years to replace state support.

Replacing a failed 2009-20 plan for building grain and oil reserve facilities’ a new plan from 2015-20 develops a ‘new normal’ for food security. Released by NDRC, SGA, MoF, food reserves remain central to the supply chain due to increasing population, demand for food and climate change.

National plans are providing the logistical frameworks for increasing transport networks and developing agricultural markets. Coastal centers are slated for further clustering and agglomeration. On the following pages we highlight two national plans from MofCOM detailing policy goals for agricultural markets and logistics hubs.
The national market system plan for agricultural development released by MofCOM 31 August 2015 details the establishment of around 100 key wholesale markets in eight market clusters over the next five years. A network of three vertical and three horizontal logistics lines will connect these eight markets to each other forming the distribution network. 

The eight clusters correspond to other regional industrial layouts, such as manufacturing, and reflect population and agricultural resource distribution. To promote urban and rural integration, the plan stresses stretching industrial chains and improving roads, cold chains, warehouses, and other infrastructure systems. The new network is designed to eliminate intermediaries between producers and consumers, incorporating e-commerce, rural fairs and wholesale markets in suburbs, and retailers in cities.
The agricultural markets spatial plan complements the logistics hubs spatial plan 2015-20 released in May. Aiming to support Belt and Road, Jing-Jin-Ji Beijing cluster and Yangtze river economic belt, the plan includes 3 vertical and 5 horizontal lines, 37 national, 66 regional and many more local hubs.
subsidy reform

While a target-price system is the current policy preference, pilot results show it to be a harder option than expected. While options to support farmers without distorting markets are being considered, land-based subsidies are not off the table. Wheat and rice minimum purchase prices are sensitive to change and are currently hotly debated. The corn price has been lowered. Rapeseed procurement has ended.
End of state procurement

October is likely to see provinces set target prices on major agricultural commodities. Centrally set floor prices on corn, wheat and rice will continue at least in 2016, but will be phased out. Provinces will then be required to set their own support mechanisms. Early provincial movers, Heilongjiang and Xinjiang, are changing to target-price systems which is supported by the central government. Sinograin will find its core functions redefined in the new environment.

Rapeseed purchase canceled

Xinjiang cotton subsidy

Corn flower lowered

Corn substitute import license

Wheat and rice purchase falls

In an attempt to bring domestic prices into line with cheaper global prices, the state rapeseed purchase program was canceled in June 2015 by the State Grain Administration. Abandoning a nationwide program, central directions will now guide local policies set at the provincial level. Eight rapeseed producing provinces are to take charge of production and incentives.

Xinjiang adjusted its target price policy for cotton from 1 September, a year after its pilot program began. It has now moved away from subsidy ratios of 60 percent based on farmed area and 40 percent on sales to designated purchasers, to now providing 10 percent on farmed area and 90 percent on sales. The new system has also moved to an electronic platform where farmers can sell their harvest to purchasers.

In August an NDRC official said northeast China’s temporary corn purchase policy is under discussion. A new policy was published in September with a lower minimum purchase price. This reflects wider policy encouraging grains such as corn, soy bean, cotton, rapeseed to be more market-oriented in the face of global competition.

The new corn policy coincides with a license system for corn substitutes coming into force. China began issuing import licenses for corn substitutes such as sorghum and barley from September. In order to deter imports to supply feed enterprises, the minimum price of corn should at least be lowered to the price of imported sorghum or barley at C¥300 to 400 yuan per ton.

The annual national summer grain harvest purchase saw 18.9 million tons of wheat purchased, a 25 percent decrease over 2014, while the 2.35 million tons of early indica rice purchased showed a 24 percent fall. Stricter control of substandard grain from Hubei, Anhui and Henan accounts for the drop, says insiders from China Grain Reserves Corporation. The 2016 floor price has been announced at the same level as 2015.
Q3 saw global financial markets misreading China slowdown signals as cyclical. We see, however, clear evidence of deferred structural shifts in the real economy and genuine momentum for financial reform. Following the industrial slowdown, warning signs have hung over the agricultural, manufacturing and construction sectors for over twelve months. Amid concerted efforts to internationalize the RMB, any talk of aggressive currency devaluation is missing the larger end-game play for acceptance in the IMF Special Drawing Rights basket.
RMB internationalization remains policy end-game

The currency is set to fluctuate more as domestic agricultural prices are forced to compete with world markets. Contrary to popular international opinion, financial reformers remain committed to market economy best practice, and we see no reason to panic on changes to the daily RMB trading band. Market fundamentals are, however, likely to push the RMB lower in the short term. Expect capital opening to proceed unevenly with capital flight fears now being realized.

**RMB demand weakened**

Demand for RMB has weakened over 2015 as the dollar strengthens internationally, with many Chinese corporations borrowing abroad in USD. Despite this strengthening, PBoC continued to peg RMB at roughly the same rate to the dollar.

**devaluation market-driven**

The sudden devaluation in mid August 2015 should not be seen as a competitive devaluation to shore up export growth, but rather a correction to better reflect market demand and signal to markets that there may be greater volatility in the future.

**IMF SDR policy agenda**

Governor Zhou Xiaochuan 周小川 said in March 2015 PBoC’s would move toward capital account convertibility. This was partly to support China’s bid to include the RMB in the IMF’s Special Drawing Rights reserve currency basket. Allowing the RMB to move independently of the US$ is key if it is to be accepted by the IMF to diversify the SDR currency basket.

Zhou has served as governor of PBoC since 2002. As China’s financial czar he has also headed up CSRC, CCB, and SAFE. Student of market pioneer Wu Jinglian 吴敬琏, Zhou drove state-owned commercial bank reform and interest rate liberalization, earning the sobriquet ‘Mr RMB’ by advocating RMB internationalization. Softening with age to gradualism, he advocates incorporating international experience into domestic policy, framed as inclusive finance.

Ma Jun 马骏, PBoC Research Bureau chief economist

Former Deutsche Bank economist, and oft-quoted China bull, Ma moved to head PBoC's research bureau in early 2014. He argued fiercely for PBoC control of state accounts, achieved under the Budget Law amendment. Following latest reserve requirement reduction, Ma said China's fundamental monetary conditions have changed, due to shifts in balance of payments. Easing reserve requirements simply kept the money supply stable.

Xiao Gang 肖钢, China Securities Regulatory Commission chairman

The man with a target on his back, widely blamed for the 2015 stock plunge. In reality, Xiao has pushed through key reforms since taking office in 2013. He has proven both an iron-fisted technocrat and CCP team player, penalizing firms for failing to meet disclosure standards, yet quickly aligning his pro-market agenda with central rhetoric. Strong capital markets, he said in 2013, are a manifestation of the China Dream.
domestic banking reform key to currency market

Reform, led primarily by PBoC, has removed implicit government guarantees that stoked cheap commercial bank credit and steep regulatory capital requirements that had allowed shadow banking to flourish. PBoC has also reined in risky activity on the fringes of the financial system and encouraged better credit provision for smaller institutions and individuals. State banks, though still enjoy a privileged position as holders of captured savings. Policy that purports to encourage growth of private competition, seldom erodes this position.

- deposit insurance scheme - came into effect 1 May 2015
- certificates of deposit - introduced mid-2015
- *Commercial Banking Law* revision went into effect 1 October 2015
- approval of private banking licenses, to be operated by companies like Tencent and Alibaba in 2014
- expanding consumer finance pilots nationwide in June 2015
- inter-banking regulations on 18 July 2015, encourages more investment through increased legal transparency

People’s Bank of China
中国人民银行

PBoC, answerable only to the State Council, is China’s central bank, controlling monetary policy, regulating financial institutions, and managing risk. Gradualist, pro-market governor Zhou Xiaochuan 周小川 is steward of a tradition, traceable to former premier Zhu Rongji 朱镕基, of putting PBoC at the forefront of financial reform, actively promoting financial inclusion and consumer rights. PBoC has fostered RMB swap agreements, promoted its internationalization, and maintained a low inflation rate.

China Securities Regulatory Commission
中国银行业监督管理委员会

A ministerial level public service unit under the State Council that regulates securities and futures markets, CSRC frames laws and investigates contested funds. A framer of the *Securities Law* and *Securities Investment Fund Law*, empowered to freeze alleged illegal funds. Its Research Center focuses on the capital market, looking closely into how it interacts with the pension system.

China Banking Regulatory Commission
中国银行业监督管理委员会

CBRC separated from PBoC in 2003 to strengthen independent monetary policy making. Its current chairman Shang Fulin 尚福林 focuses on loans for SMEs and private bank pilots. Nominally responsible for curbing the shadow banking sector, in reality it defers to PBoC on major issues. Commercial banks report to CBRC on the workings of asset management products which are then reported to PBoC and are included in overall statistics on social financing.
In the vanguard of a long slowdown, policy makers are searching for a transition mechanism. Maneuverability though is constrained by high municipal and corporate debt, weak global demand, and resistance from entrenched interests. Avoiding the acute problem of raising domestic consumption, a series of large-scale policy initiatives such as the Belt and Road and Capacity Cooperation are attempts to stoke overseas demand to avoid structural reform in the real economy.

The 2015 share price collapse itself was not a reflection of underlying economic weakness, but a feature of the underdeveloped nature of Chinese equity markets. Equity markets are largely segregated from the rest of the financial system and the underlying real economy, so wide swings pose little systemic risk. Trades are made largely on rumor and expectation of policy support, more than underlying beliefs about companies’ future performances. This is exacerbated by both a lack of institutional investment in the market and by the state retaining majority ownership in listed firms.

Regulators’ costly attempt to prop up plummeting share prices following their abrupt downturn was a poor reflection on their commitment to less interventionist policy. Nonetheless, capital market reforms have mostly proceeded apace. Under current chairman Xiao Gang’s tenure, China Securities Regulatory Commission (CSRC) has focused on increasing transparency. Many domestic observers trace the trigger of the 12 June market collapse to CSRC’s attempt to clamp down on widespread margin lending, blaming the regulator only for acting too late. The second market downturn, in mid-august, was also attributed to CSRC’s pulling out of China Securities Finance Corporation, the state-backed margin lender that bought shares and lent to brokerages to prop up markets in July.
State purchasing restructure leaves a policy gap in rural support. Discussions and pilots have so far centered on developing a system of agricultural target-price insurance, and land-backed rural finance reforms. The commodification of agricultural land is the most significant ideological and practical shift in China’s agricultural tenancy system since the formation of the PRC. The development of an insurance system to protect producer’s incomes is conversely possibly among the most progressive rural finance agenda in the world today.
## rural land to be loan collateral by 2017

Suggested in the Third Plenum Resolution and promised in the 2015 No. 1 Document, State Council has issued guidelines allowing rural land holders to mortgage management rights on contracted land. Pilots are expected in 2017. Allowing peasant land to circulate in markets is a cultural and ideological shift and an economic rights watershed with widespread repercussions for commercial banking, enterprise reform, urban real estate markets and capital account opening.

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<th>financing dependent on state plans</th>
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<td>Expect to see inefficient small-scale farmers move to urban areas through combination of urban services incentives and exclusion from rural financing mechanisms. Preferential treatment has been signaled for four types of farm: scaled enterprises, farmer’s cooperatives, family farms, and farms run by professionals. Finance is to be extended to upscaled, modern enterprises to encourage professionalization of agricultural production.</td>
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<th>land mortgaging steps forward</th>
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<td>Land management rights reform is to be overseen by an inter-ministerial leading group chaired by PBoC. The groups will coordinate implementation between State Council and local governments. PBoC and CBRC will draft financial regulations to be fleshed out by other financial institutions. Critics suggest that they may be unwilling to accept contracted land management and housing property rights as collateral.</td>
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<th>land management rights pilots</th>
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<td>County-level pilots will be based on provincial government recommendations. They will be carried out in areas that already use modern agricultural practices and developed rural land management rights transfer processes, as part of other pilots. Ministry of Land and Resources will vet these mortgage pilots. Similar pilots have already begun in several locations, particularly Henan and Shandong.</td>
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<th>agricultural financial risks emerging</th>
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<td>Agriculture Bank of China calls for financial risk control in an August report. Rapid transformation of the agricultural economy will be hostage to systemic weaknesses in rural finance and will require attention in H2 2015. Migrant workers returning to rural homes to start businesses will, says the bank, become a leading force in China’s economic growth. Hence there is an urgent need to strengthen risk control.</td>
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fertilizer VAT back, price insurance piloted

Reintroduction of a 13 percent VAT on imported fertilizer is designed to curb overuse and reduce overcapacity. Farmers have for too long been squeezing excess yields through over fertilization, avoiding structural adjustment to more effective farming techniques. Price insurance mechanisms are slated to ease market transition from central purchasing. An agricultural credit system is shaping up, with a few key markets already piloting and more to follow.

VAT resumed on fertilizer

A 13 percent value-added tax on fertilizer, exempted in 1993, resumed from 1 September 2015, states a notice from MoF, Central Administration of Customs and State Administration of Taxation. The VAT policy on potash introduced in 2004 was also abandoned. The 2014 Central Rural Work Conference had called for solutions to overcapacity and excessive fertilizer use. Producers and farmers will not be severely affected, claimed MoF, given subsidy and support policy will be adjusted with changes in production costs.

agricultural price insurance pilots

Following a national insurance 10-point plan, in August 2014, agricultural insurance was launched in more than 20 provinces with 12 products covering 810,000 households. Target-price insurance gives peasants certain guarantees over prices with insurers liable to compensate when market prices are lower than expected. Guiyang in May launched insurance pilots covering 100,000 pigs and 30,000 mu of vegetable production with funding of C¥11.9 mn from Guizhou province, Guiyang municipality, and peasants on a 5:3:2 ratio.

Chengdu rural-urban reform pilot

A plan for Chengdu to launch a rural finance reform pilot was issued by PBoC, NDRC, CBRC, CSRC, MoF, MLR, MoHURD, MOA, and the Sichuan provincial government with the Central Rural Work Leading Group. It is the first of its kind and builds on Chengdu’s urban-rural reform pilot (in place since 2009) and the State Council’s 2014 ‘Opinions on financial services for the development of the three rurals’. Nineteen financial reform tasks to be implemented by 2020 were listed. They focus on new urbanization, agricultural modernization, and the urban-rural relationship.
Wu Xiaoling 吴晓灵
NPC Financial and Economic Committee vice chair

Former VP of PBoC Wu argues agricultural subsidies should be replaced with insurance. China should maintain existing rural credit cooperatives and mutual funds which allow farmers access to bank loans but also promote other financing institutions to create a holistic alternative to subsidy-based farmer support. Intensified agriculture, not large scale farming, she argues, is optimal for China.

China Agricultural Development Bank
中国农业发展银行

One of three policy banks established in the 1990s, CADB, took over ABC's policy related banking business and has a 2015 updated mandate for agricultural development and rural infrastructure. CADB plays a key role in the 2015 agenda to expand access to rural credit and strengthen rural financial services. It is to provide loans for infrastructure projects such as water utilities and regional roads.

Xiang Junbo 项俊波
China Insurance Regulatory Commission chairman

Carved out of the PBoC in 1998 and upgraded to ministerial level in 2003, CIRC is an institutional legacy of the Zhu Rongji 朱镕基 era. It was further empowered with 2006's Banking Supervision and Administration Law and anti-money laundering measures. The insurance supervisor has cleaned up but not yet marketized the industry. Expect a more empowered institution as rural, social and health policy undergo insurance-based reforms.

Agricultural Bank of China
中国农业银行

ABC was founded as a commercial entity in 1979 amid reforms to create an independent banking sector. As a policy bank, its mission was to develop a rural financial system. Following commercialization in 1994, it concentrated its policy operations into CADB, cut ties with rural credit unions, and transferred non-performing assets to the China Great Wall Asset Management Corporation. Its 2010 IPO raised US$22.1 billion.

Lou Jiwei 楼继伟
Ministry of Finance minister

Lou is a veteran economic reformer. A Zhu Rongji 朱镕基 acolyte, he was instrumental in the 1994 tax system reform. After heading China’s sovereign wealth fund, he was appointed Finance Minister in 2013. At MOF has launched initiatives to reform the fiscal system and clean up budgets including the debt swap to jump-start a municipal bond market. Lou leads the State Council Leading Group For Rural Reform.
Hurdles remain with top-down strategies for aggregating small peasant holdings. Devolution means provincial governments are to solve problems locally. Pilots on farmer’s cooperative reform have so far been hampered by lack of clarity on management rights for contracted rural land. Progress in property rights on farmland is needed before upscaling or industrialising production can proceed. Scale remains the goal, the individual the hurdle.
Upscaling farmland rhetoric is beginning to be matched with clearer implementation plans. Mechanization, informatization and the development of industrial agricultural clusters are policy priorities. However with policy directives coming from non-agriculture ministries such as finance, there is little expectation of movement. The national agricultural census, to be conducted in 2016, should provide the dataset upon which future farmland reform measures are based.

With the release of the 17 point ‘Guidance for management of meso-scaled farming’, 2 June 2015 Ministry of Finance urges that farms be scaled up to improve food security, farmer income and production efficiency. Local pilots that improve infrastructure, nurture new business entities, and offer financial support are encouraged. This follows the 2014 Central Rural Work Conference and the CPC Central Committee and State Council’s 2014 document ‘Opinions on guiding the orderly transference of rural land management rights and developing appropriate scale management’. In May 2015, MoF and MoA issued adjustments to the food subsidy policy directing provinces to allocate 20 percent of funds for general input subsidies to support nationwide farm upscaling.

Upscaling of farms is to be promoted using a four-pronged approach, announced Lu Guimin 卢贵敏 State Agricultural Development Office director, the inter-agency group under the Ministry of Finance. He lists: creating scalable farmland with centralised planning, making-over management and supervision to better support new enterprises, and allowing space for private capital; industrialising agriculture by building clusters; expanding support; and funding innovation, investment and mechanization; improving rural social services by setting up a new system based on land; integration of industries; better marketing channels incorporating IT; further devolution and renewing institutions in the countryside; launching incentives for local experiments in scaled farming; not neglecting regulation and services.
A graduate of the Central University of Finance, Lu has been at MOF for more than thirty years. He has led the State Rural Reform Office since its establishment in 2008. Since 2013, he has been in charge of planning for subsidy reform and farm upscaling.

Established in 1994 to balance the ‘three rurals’ contradictions: agricultural land, the peasantry and village interests. Led by Wang Yang 汪洋, and administered by veteran agronomists Chen Xiwen 陈锡文 and Han Jun 汉军. Members include ministers of Agriculture, Water Resources, NDRC, State Forestry Administration and the head of Party’s Leading Group for Poverty Alleviation and Development.

Third national agriculture census will be undertaken in 2016, overseen by a new leading group headed by Wang Yang 汪洋. China previously undertook agricultural censuses in 1996 and 2006. Zhang Shuying 张淑英 NSB rural statistics division secretary says the agricultural census will focus on indicators for the upscaling of farming and will also add urbanization and village level socio-economic indicators.

With over 20 years experience in rural issues, Liu’s prolific commentary focuses on land ownership. He was among the earliest analysts to note the reluctance of peasants to entrust their land to non-family members, due to the deep-seated insecurity of their ownership under the household contracting system.

A supporter of fixed-price controls on commodities following the domestic food crisis in 2009, Li has now joined the chorus calling for re-engineering state support of agriculture. China’s dependency on food imports—the future of national food security—carries risks and China must increase its global competitiveness. Localities should be allowed to set their own policies within national objectives.

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Significant moves are underway in China’s thinking and strategies for food security. Excessive use of fertilizer, water and labor are being questioned. Consideration of greater global interaction is gaining traction. With major restructuring of rural land to speed up, security is to focus on better warehousing and expanded trade. Enterprises tapping into global supply chains are to be more responsible and smarter. Professionals are in demand.
‘going global’ rebranded ‘capacity cooperation’

Promoted on recent tours to Europe, South America and Central Asia, ‘international production capacity cooperation’ is a re-geared, centrally-orchestrated effort to internationalize and complement domestic economic reforms and industrial restructure. The term was included in the Central Committee of the Party and State Council document on modernizing agriculture. Boosting production capacity in other countries is increasingly being accepted as a solution to feeding China as it moves to sustainable domestic agriculture and expanded modern diets.

Agriculture enterprises ‘going global’ must change focus and concepts said Han Changfu 韩长赋, Minister of Agriculture at the Second Inter-ministerial Meeting on Agriculture Going Global in September 2015. The goal for enterprises must be to tap into the chain of resources with a focus on the ability to be internationally successful, mindful of local rules and perceptions of China in other jurisdictions. The importance of inter-ministerial meetings was stressed in Document 1, the annual guiding document on agricultural development.

COFCO is receiving special support to promote itself as a top global trader, paving the way for other Chinese enterprises. Critics have suggested other less prestigious agricultural SOEs should refrain from compromising China’s global image and ensure their own houses are in order before moving abroad. China’s foreign exchange surplus fueled sovereign wealth funds are seeking domestics partners to increase investment abroad and try to restructure the domestic industry towards international standards.

China is relaxing its tight definition of food security. High production costs, environmental degradation and an acceptable level of basic food security are key drivers. In 2015, industrialization of agriculture has gained traction and a rethink of its foreign strategy is taking place. Politburo member in charge of Agriculture, Wang Yang 汪洋, made a special visit to FAO in June and has been active in setting up partnerships in agricultural production with neighboring countries, in particular the Russian Far East. Agriculture minister Han Changfu 韩长赋 has travelled widely throughout 2015 talking up partnerships on his more than 20 visits abroad, latest in the US and Mexico.
Tasked with attracting foreign cooperation, managing investment projects and agriculture aid projects for MoA, the center sits in the middle of China’s agricultural foreign policy making. Their role has been significant since early 1980s. The Center works closely with MoA’s International Cooperation Department for whom they provide research and draft regulations and plans.

In 2015 China established an inter-ministerial group to support ‘going global’ in agriculture. MoA has chaired two meetings this year. The first encouraged provinces to plan improvements, while the second convened officials from MoA, NDRC, MoF, MofCOM and MoF. The latter included a speech by MoA Minister stressing the need to make support for going global more sophisticated.

Established in 2007, sovereign wealth fund, CIC’s, capital comes largely from foreign exchange reserves. It was chosen as a pilot for more liberal SOE management in 2014. With its global presence increasing, CIC has stated agriculture is its top priority. 2015 initiatives include a JV with COFCO to increase its agriculture portfolio and regional funds to increase agriculture trade.

After leading mergers for HK-based SOE China Resources Group, Ning has headed COFCO since 2004. Acquiring top 10 grain dealers Nidera and Noble Group in 2014, COFCO is going global with a vengeance. A champion of free trade, Ning challenges China’s protectionist agriculture. He favors recalculating food security needs and leveraging global markets to deliver competitive, safe, high-quality food.

Agronomist with a global view and experience, Du has been with CASS Rural Development Institute since 1985. He has been a visitor at the University of Adelaide and completed his PhD at the University of Tokyo in 2007. Chinese agriculture is experiencing a major change in development model, and Du sees that Belt and Road countries can fill shortages.

China’s sovereign wealth fund head, set to underwrite many of the projects under the Capacity Cooperation initiative. Cautious in his support, CIC is to JV with COFCO to increase China’s power in global food commodities. Domestic industries should internationalize, he argues, domestic capabilities should be a focus of reform. Competitive advantages should be strengthened while ensuring quality of trade matches need.
Following the 2008 melamine in milk scandal, China’s first comprehensive food safety law was rushed into effect in 2009. Raising penalties, and legislating zero tolerance in a system with lax enforcement, did not lead to better outcomes. China’s milk industry has never properly recovered from the scandal. The new law moves to a risk management model. Loopholes have been tightened and shared responsibility mechanisms introduced. Penalties are to be yet stricter. Implications for trade are still blurred, it is unlikely to affect political factors as driver of non-tariff barriers.

food safety 食品安全 health 医疗卫生 environmental monitoring 环境监测 grain 粮食
China Food and Drug Administration has highlighted 7 major developments under the revised Food Safety Law, demonstrating that it understands the mechanics of a functional food safety system. However, in the absence of a trust-based social fabric, it will continue to expect technical solutions, that defy implementation until China reaches a higher level of development. Much of the law will remain aspirational until the required social, legal and structural changes can catch up.

| consolidation | Reform achievements over recent years in food safety supervision and regulation are consolidated. Food and Drug Administrations at local levels will take overall responsibility in supervision and regulation. County-level FDA can now also set up offices at town and village level. |
| risk management | Food safety risk management is emphasized. A complete set of basic institutions in risk observance, assessment and standard-making have been established as well as a risk communication system with support from experts in relevant sectors. The structure of local FDAs will be set by local governments. |
| supervision | Strict supervision through the whole process is planned. A traceability system will be established to stress liability of food producers and operators, local governments and administrators. |
| record keeping | Food safety control at origin is improved. A stricter control of agricultural input and distribution with stricter testing and records. |
| special foods | Health food, formula food for medical use, formula food for infants and special groups are defined as ‘special food’. These foods will have stricter standards and controls. |
| public participation | Public participation in food safety governance is encouraged. A recognition of food safety contribution will reward organizations and people who make efforts in food safety affairs. Media are encouraged to act as ‘fourth estate’ in supervising food safety, and responsibly publish relevant information. |
| penalties | Penalties for illegal acts will be stricter and harsher. |
implications for import policy

Domestic media have pointed out five import policy changes that can be expected to impact importers.

**AQSIQ responsibilities**
Clearer legal support and responsibility for AQSIQ, the state entry-exit inspection and quarantine administration. Fewer loopholes.

**import inspection**
An updated import inspection model. In late September a document ‘Port inspection of imported food supervision and management measures’ was issued for comment by AQSIQ Import and Export Food Safety Bureau with deadline 29 October. In August, it announced an update to importer registration system.

**exporter responsibility**
Overseas exporters and producers responsible for compliance with the law; importers are responsible for stopping and recalling food if it is found below standards or harmful to health.

**ascent of local FDAs**
Regional Food and Drug Administrations (FDA) authorised to regulate food circulating in the domestic market after passing AQSIQ tests thus making FDA a much more important agency.

**harsh penalties**
Harsher penalties for non-compliance with consequence of being banned from the market.

In late September AQSIQ issued a draft import inspection policy for comment before end October, it included:
- import food producers and operators will be required to follow Chinese food safety standards
- those who produce or export non-compliant food will be held responsible and punished under domestic law
- importers and customs authorities are to keep complete traceability records of imported food
- in case of food safety incidents, importers should have procedures in place to immediately stop imports and recall products
GMO certification and labeling implications

GMO food in China requires MOA safety certification and AQSIQ testing certification. Product labeling is now mandatory. GMO controls dominated NPC debate on the Food Safety Law revision at its annual meeting in March 2015. Some delegates suggested stricter controls, preferring to limit GMOs entering the domestic market. China is yet to developed standards on GMO products. A stricter labeling regime was adopted as a compromise.

GMO labeling

Laws requiring all genetically modified foods to be clearly labeled will come into effect on 1 October. The ambitious law sees China uniquely imposing GMO labeling on cooking oil. This makes the law impossible to implement, says Wu Gang 吴刚 China Academy of Agricultural Sciences. Testing costs are prohibitive, notes Jiang Tao 姜韬 China Academy of Sciences. Further, the policy fails to stipulate labeling for foods containing GMO oil. The law also implies GMO foods should be separately produced, stored and distributed.

non GMO competitive advantage

Despite the canceled state purchasing of both soy and rapeseed, a rational price-setting mechanism will develop in the long run, says market analyst Chen Yanjun 陈艳军. IN the meantime, China Economic Daily's Liu Hui 刘慧 notes that China’s non-GMO oils have a market advantage that could be exploited over cheaper imported GMO oils.

grain safety supervision policy

A revised draft of the ‘2004 grain quality and safety supervision measures’ was released in June 2015 by NDRC and its State Grain Administration, SGA. The draft revision overhauls the original, and integrates it with the Food Safety Law (2009), Agricultural Products Quality and Safety Law (2006) and ‘State Council decision on food safety’ (2012). It establishes a supervision and inspection system; administrative responsibility being placed with local governments, supervised by SGA. Notably, the draft includes a definition of the term ‘grain’: ‘wheat, rice, corn, soybeans, and other grain-foods’. In August it was reported that the state purchase of rice and what had decreased 25 percent due to not accepting substandard produce.
food safety architects and architecture

Center for Coordination and Innovation of Food Safety Governance, Remin University

National Food Safety Standard Review Committee

China National Food Safety Risk Assessment (CFSA)

Established in 2011, the center gives expert support to the food safety legislative process: NPC Legislative Commission, Supreme Procuratorate, and State Council Law Office. It is responsible for drafting measures and laws and providing judicial opinions and assistance. It is also a strategic partner of CFDA. Han Dayuan is the executive director and academic leader of the center.

In charge of reviewing and adapting food safety standards, the committee consists of experts in medical science, agriculture, food, nutrition, biology, and environment, as well as representatives from relevant departments under the State Council, food industry associations, and consumers’ associations. Their task is to review draft national food safety standards. Organized by NHFPC.

CFSA consists of experts in medical science, agriculture, food, nutrition, biology and environmental sciences. As part of the 2011 reform, CFSA was established as a technical institution in charge of food safety risk assessment. Reporting to the national expert committee, the center undertakes daily work for the National Food Safety Standard Review Committee.

Founder of Chinese toxicology research and an authority on food safety and nutrition. Having studied Chinese dietary habits for over forty years, Chen is an optimist, affirming China’s foods are safer than its developed peers. His opinions attempting to clarify misconceptions on GMOs and food additives have been publicly questioned. Has standard-setting and crisis control role in Food Safety Commission.

Dean of China’s top law school with primary expertise in the Constitution. Since 2011 has led an academic team to advise government and legislators on food safety governance. Believes excessive administrative mechanisms such as central leading groups or guiding opinions could be replaced by a stronger legal system. Advisor for State Council Food Safety Commission, Han leads in revising food safety law.

Prior to an April move to Sichuan as vice party secretary, Yin was the administrator of the Food Safety Commission at Ministry of Health and later at the CFDA. While at the latter, he was also a vice-minister at NHFPC. A technocrat with ten-year’s experience at DRC, he is talented at combining technical details with social imperatives and broke the record as the youngest vice-minister of Ministry of Health in 2008.
The 2011 pork scandal saw the State Council directly intervene in the food safety administrative structure, sidelining the Ministry of Health. A major ministerial restructure followed with two mega-ministries created in 2013 with National Health and Family Planning Commission responsible for standards, while China Food and Drug Administration will be in charge of regulation and enforcement. Ministry of Agriculture remains responsible for food safety to the farm gate. Further consolidation is expected within two years.
The Food Safety Commission is charged with overall supervision and coordination of China’s food safety regime. The secretariat is within the China Food and Drug Administration. Permanent members of the commission are CFDA, NHFPC, MoA. Vice Premier Zhang Gaoli 张高丽, Chairman of the Commission, has assumed control of NHFPC and CFDA, overseeing safety standards and supervision. Vice Premier Wang Yang 汪汪 administratively presides over MoA and its jurisdiction over food safety, production and distribution. Commission observers to the include MPS, AQSIQ, SGA, MOST, MIIT, MEP, NDRC, MofCOM and GACC.
After the 2013 reform, China Food and Drug Administration (CFDA) was founded as the agency responsible for food safety throughout the production, distribution and consumption chain. Inspection and administration teams previously affiliated with AQSIQ and SAIC have been transferred to CFDA. Besides CFDA, NHFPC is responsible for making standards and evaluating food safety risk, while MoA is responsible for safety administration of agricultural products. Former office of State Council Food Safety Commission has been incorporated into CFDA.
The Food Safety Law amendment requires establishing a food safety risk assessment expert committee. It consists of experts in medical science, agriculture, food, nutrition, biology and environmental sciences. As part of the 2011 reform, CFSA was set up as a technical institution in charge of food safety risk assessment. Reporting to the national food safety risk assessment expert committee, the center undertakes daily work for the National Food Safety Standard Review Committee.
Food safety structural reform is mainly focused on domestic food safety issues. AQSIQ's authority and responsibilities for imports remain unchanged. It is charged with inspection, supervision and administration of import food safety, and to ensure that imports observe national food safety standards set by NHFPC. AQSIQ reports to CFDA on import food safety, including food safety crises happening abroad.
Department of supervision on animal and plant quarantine has responsibility for quarantine, approval, registration, supervision of import animal and plant. This department undertakes quarantine and inspection tasks for GMO products and seeds. They also draft regulations on GMOs import and inspection, including ‘Measures for the administration on the inspection and quarantine of the genetically modified products entering and exiting the territory’.

Department of import and export food safety is in charge of inspection and quarantine of import food and cosmetics. It is authorised to investigate and punish when safety accidents occurs. It is also required to analyze and prevent risks.

Department of international cooperation represents AQSIQ in signing and implementing cooperation contracts. It is responsible for helping and counseling domestic actors on observing WTO and other international regulations.
appendix—policy updates

food safety and food security

- Port inspection of imported food supervision and management measures (draft)
  - Authority: AQSIQ
  - Announced: 28/09/2015
- Registration measures for infant formula milk powder (draft)
  - Authority: CFDA
  - Announced: 02/09/2015
- Regulation measures on food operation approval
  - Authority: CFDA
  - Announced: 31/08/2015
- Regulation measures on food production approval
  - Authority: CFDA
  - Announced: 31/08/2015
- Measures for administration of national agricultural food safety counties (interim)
  - Authority: MoA
  - Announced: 04/08/2015
- CFDA opinions on food safety testing and information release
  - Authority: CFDA
  - Announced: 08/06/2015
- Regulation measures for licensing crop seeds production and operation
  - Authority: MoA
  - Announced: 06/05/2015
- Food Safety Law
  - Authority: NPC
  - Announced: 25/04/2015
- Guiding Opinions on renting social grain stocking facilities for stocking national purchased grain
  - Authority: NDRC, SGA, MoF, CADB
  - Announced: 01/04/2015
- Construction plan for strengthening food reserves 2015-2020
  - Authority: NDRC, SGA, MoF
  - Announced: 23/03/2015
- Administrative measures for food recalls
  - Authority: CFDA
  - Announced: 11/03/2015
- State Council opinions on building and completing provincial accountability for food security
  - Authority: State Council
  - Announced: 23/01/2015
# appendix—policy updates

## agricultural modernization

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