Agricultural Policy Monitoring and Evaluation 2015

Chapter 7

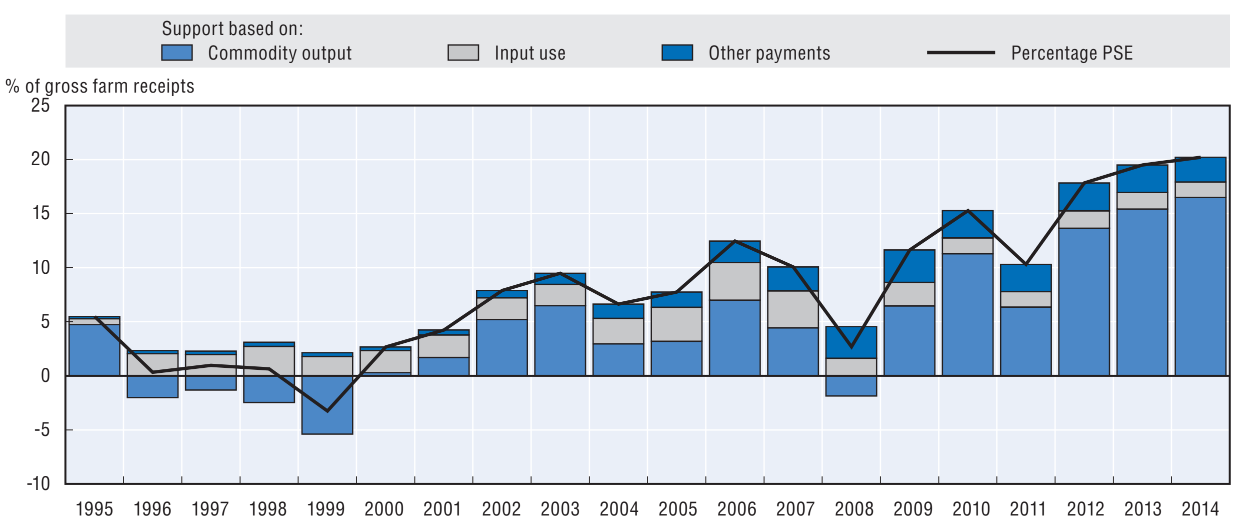
China

The China country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- In the People's Republic of China (hereafter "China") support to agricultural producers continues to grow and at 19% of gross farm receipts exceeded the OECD average in recent years. Rising minimum purchase prices for rice, wheat and an increasing range of other commodities covered by market interventions, along with falling prices on international markets, are major factors explaining why consumers are increasingly being implicitly taxed by paying higher than world market prices. The trend of rising levels of farm support has been further accentuated by the continued appreciation of the Chinese Yuan. In addition, China has become a net importer for a growing array of commodities, which are subject to import tariffs and other trade measures which raise the level of domestic prices.
- Recent policy reform to replace intervention prices for cotton and soybeans by target prices combined with compensatory payments based partly on area planted is a step in the right direction. If successfully implemented, this reform could be extended to other commodities. In future, the link between compensatory payments and production decisions should be further diluted by providing them on a historical production basis, for example, and 'greened' by making them conditional on environmentally friendly cultivation practices.
- Further efforts to improve infrastructure and access to public services (education, health care, etc.) for the rural population, where the vast majority of the poor live, should be prioritised.
- To improve long-term productivity and improve sustainability, China should further strengthen its agriculture innovation system, from research and development to farm extension services.
- Recent reforms which strengthen rural land-use rights and ease the reallocation of land resources could be further reinforced by: providing all rural households with certificates detailing their land rights; establishing transparent exchange platforms for the transfer of rights for rural farmland and construction land; increasing the duration of the right to rural farmland, with contracts automatically renewable upon expiration; and universally introducing resident permits for migrant workers that provide access to public services, while protecting land entitlements at their origin.

Figure 7.1. **China: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

China ranks first in worldwide farm production, producing as much as the combined total value of all OECD member countries. Growing demand for food due to fast income growth combined with rapid urbanisation exerts mounting pressures on natural resources used for farm production. While feeding almost 20% of the world's population, China has only 7% of the world's potable water and 10% of the world's agricultural land. Agriculture remains a key sector in China, with a share of total employment at 31.4% in 2013, contributing 10% of GDP. Even if rural incomes are growing at high rates, they remain at around one-third of those in urban areas. China has become a large net importer of agro-food products, in particular of soybeans, cotton, edible oils and sugar. Crop production is based on tiny family farms of less than one hectare on average, but livestock production originates mostly from large-scale commercial units. Agriculture remains the key user of water, accounting for around 61% of total water consumption.

Table 7.1. **China: Contextual indicators, 1995, 2013[1]**

	1995	2013[1]
Economic context		
GDP (billion USD)	726	9 253
Population (million)	1 214	1 386
Land area (thousand km^2)	9 388	9 388
Population density (inhabitants/km^2)	129	148
GDP per capita, PPP (USD)	1 497	12 247
Trade as % of GDP	19.3	22.5
Agriculture in the economy		
Agriculture in GDP (%)	20.0	10.0
Agriculture share in employment (%)	52.2	31.4
Agro-food exports (% of total exports)	7.7	2.2
Agro-food imports (% of total imports)	8.7	5.8
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-54	-65 245
Crop in total agricultural production (%)	66	64
Livestock in total agricultural production (%)	34	36
Agricultural area (AA) (thousand ha)	532 716	515 361
Share of arable land in AA (%)	23	21
Share of irrigated land in AA (%)	9	12
Share of agriculture in water consumption (%)	70	61
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

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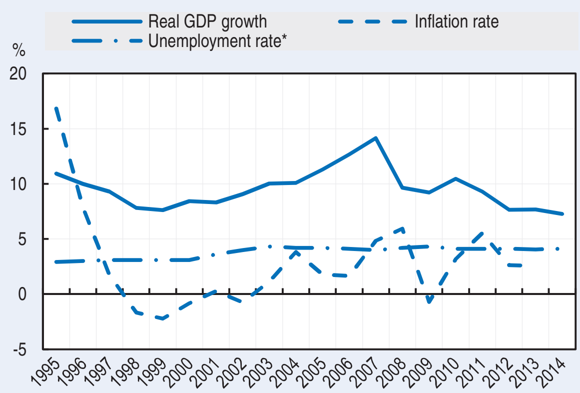
Figure 7.2. **China: Main macroeconomic indicators, 1995-2014**



* Urban unemployment rate.

Source: *OECD Factbook Statistics.*

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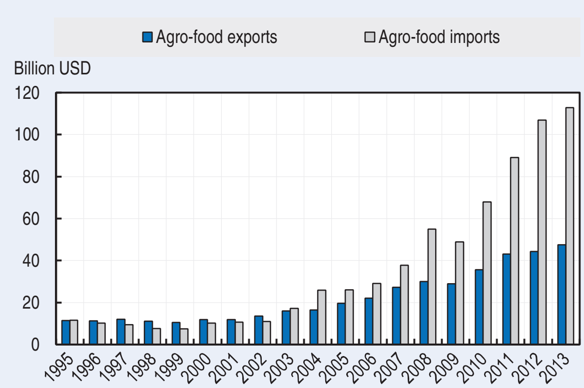
Figure 7.3. **China: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

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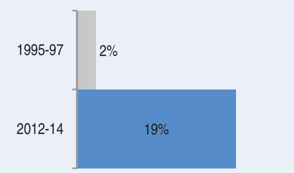
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

China has been increasing its support to agriculture through increasing transfers from consumers and taxpayers, but in recent years it is growth in transfers from consumers that dominates. The share of the most production and trade distorting forms of support is growing and the economic cost of support, as measured by TSE as % of GDP, is also growing.

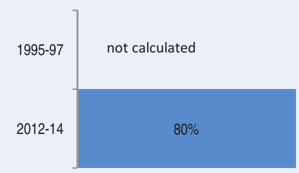
PSE as % of receipts (%PSE)

China has increased support to agriculture, which is now at the OECD average. After a fall in 2011, mostly due to a stronger increase in border prices compared to the rise in domestic prices, the %PSE has been increasing each year by 1-4 percentage points.



Potentially most distorting support as % of PSE

The share of the most production and trade distorting policies (based on commodity output and variable input use – without constraints) is high at 80% of the total.

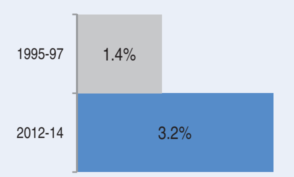


Ratio of producer price to border price (NPC)

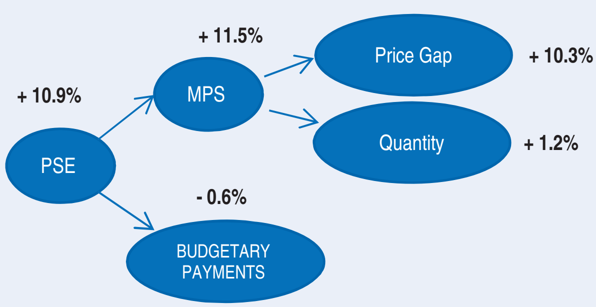
Overall, prices received by farmers were on 21% higher than those observed on world markets in 2012-14. The highest NPCs are for cotton, sugar and milk.

TSE as % of GDP

Despite strong GDP growth, total support to agriculture has increased to 3.2% of GDP. The expenditure on general services represented 11% of the TSE in 2012-14.

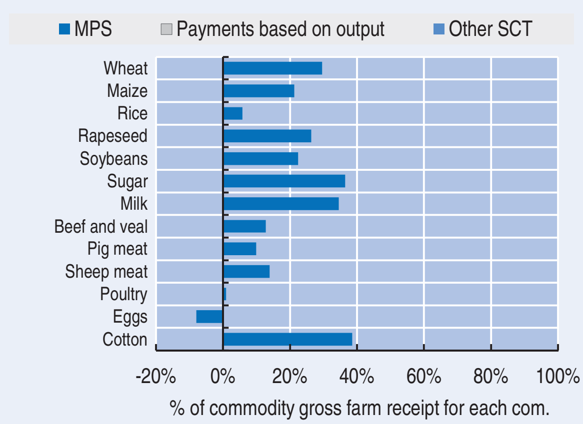


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 entirely due to the significantly larger gap between domestic and border prices (MPS).

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers were 79% of the PSE in 2012-14. The share of the STC in commodity receipts is lowest for eggs and poultry and highest for cotton, sugar and milk.

Table 7.2. China: Estimates of support to agriculture

Million CNY

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**1 997 968**	**7 997 024**	**7 412 990**	**7 993 290**	**8 584 793**
of which: *share of MPS commodities (%)*	73.1	53.4	56.6	53.4	50.2
Total value of consumption (at farm gate)	**2 053 260**	**8 776 764**	**8 086 136**	**8 715 518**	**9 528 639**
Producer Support Estimate (PSE)	**43 298**	**1 602 162**	**1 380 337**	**1 624 552**	**1 801 597**
Support based on commodity output	6 051	1 270 513	1 056 325	1 284 511	1 470 702
Market Price Support[1]	6 051	1 270 513	1 056 325	1 284 511	1 470 702
Payments based on output	0	0	0	0	0
Payments based on input use	31 931	127 296	124 715	129 158	128 016
Based on variable input use	17 115	18 671	17 286	22 636	16 090
with input constraints	0	0	0	0	0
Based on fixed capital formation	10 816	86 778	86 912	84 150	89 272
with input constraints	0	0	0	0	0
Based on on-farm services	3 999	21 848	20 517	22 372	22 654
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	3 866	170 722	167 727	176 435	168 004
Based on Receipts / Income	3 866	10 093	10 327	10 955	8 997
Based on Area planted / Animal numbers	0	160 629	157 400	165 480	159 008
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	1 450	18 989	15 699	19 812	21 456
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	1 450	18 989	15 699	19 812	21 456
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	14 642	15 871	14 636	13 419
Based on long-term resource retirement	0	14 642	15 871	14 636	13 419
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**2.3**	**19.2**	**17.8**	**19.5**	**20.2**
Producer NPC (coeff.)	**1.00**	**1.21**	**1.19**	**1.22**	**1.24**
Producer NAC (coeff.)	**1.02**	**1.24**	**1.22**	**1.24**	**1.25**
General Services Support Estimate (GSSE)[2]	**46 121**	**198 312**	**180 323**	**202 802**	**211 810**
Agricultural knowledge and innovation system	3 750	56 528	52 745	58 089	58 748
Inspection and control	2 214	12 864	12 328	12 944	13 321
Development and maintenance of infrastructure	10 773	72 738	71 935	71 776	74 505
Marketing and promotion	0	3 705	4 362	4 773	1 981
Cost of public stockholding	29 384	52 476	38 953	55 220	63 255
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	**60.5**	**11.1**	**11.6**	**11.1**	**10.5**
Consumer Support Estimate (CSE)	**-18 932**	**-1 510 255**	**-1 234 717**	**-1 486 730**	**-1 809 318**
Transfers to producers from consumers	-2 683	-1 379 640	-1 144 541	-1 380 973	-1 613 405
Other transfers from consumers	-12 321	-208 658	-151 530	-182 959	-291 485
Transfers to consumers from taxpayers	2 101	0	0	0	0
Excess feed cost	-6 029	78 043	61 354	77 203	95 572
Percentage CSE (%)	**-1.1**	**-17.1**	**-15.3**	**-17.1**	**-19.0**
Consumer NPC (coeff.)	**1.01**	**1.22**	**1.19**	**1.22**	**1.25**
Consumer NAC (coeff.)	**1.01**	**1.21**	**1.18**	**1.21**	**1.23**
Total Support Estimate (TSE)	**91 521**	**1 800 474**	**1 560 660**	**1 827 354**	**2 013 407**
Transfers from consumers	15 005	1 588 298	1 296 071	1 563 933	1 904 890
Transfers from taxpayers	88 837	420 834	416 119	446 381	400 002
Budget revenues	-12 321	-208 658	-151 530	-182 959	-291 485
Percentage TSE (% of GDP)	**1.4**	**3.2**	**3.0**	**3.2**	**3.3**
GDP deflator (1995-97=100)	**100**	**171**	**169**	**171**	**173**

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for China are: wheat, maize, rice, rapeseed, soybean, sugar, milk, beef and veal, sheep meat, pig meat, poultry, eggs, cotton, apples and peanuts.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

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Policy developments

Main policy instruments

A key driver behind agricultural policy measures employed in China is the desire to maintain 95% **self-sufficiency** for corn, wheat and rice. At the end of 2013 a new food security strategy was announced that envisions an enhanced role for trade in meeting food security goals. In particular, while the government will try to maintain self-sufficiency in wheat and rice, it will allow "moderate" grain imports for feed (GAIN, 14016, 2014).

Market price support is the main channel for providing support to Chinese farmers. It is provided through tariffs, tariff rate quotas (TRQ) and state trading, combined with minimum guaranteed prices for rice and wheat and ad hoc interventions on a growing number of other agricultural commodity markets. While the amount of transfers provided through this channel has been trending up since the end of the 1990s, it has fluctuated significantly over the last ten years, partly as a result of the government's policy to balance producer and consumer interests in the context of price volatility on international markets.

Minimum prices for grains are set every year by the National Development and Reform Commission (NDRC) in consultation with the Ministry of Agriculture and other government institutions. Designed to help meet the demand in grain-deficit provinces, their application is limited geographically to major grain-surplus provinces that produce about 80% of China's commercial grains. They differ for each type of grain and only apply for a fixed period limited to several months after the harvest.

The state-owned China Grain Reserves Corporation (Sinograin) is obliged to make **intervention purchases** if the market price dips below the established support level. During periods of price hikes and to maintain sufficient market supplies, the government holds weekly auctions of grains.

Several other agricultural commodities are subject to government-led **ad hoc interventions** at pre-determined prices, mostly intended to stabilise market prices and to ensure adequate supplies. Intervention prices may differ across provinces and purchases are not undertaken systematically every year. In recent years, such interventions included maize, sugar cane, soybeans, rapeseed, cotton and pork.

China's **applied tariffs** on agricultural products are close to the WTO bound levels and are applied in *ad valorem* terms. However, occasionally, applied tariffs are adjusted to mitigate impacts of volatile international prices on domestic markets as was the case in 2007/08, when tariffs on selected agricultural commodities and on a wide range of food products were temporarily reduced.

Budgetary transfers to producers have grown consistently since the end of the 1990s. Most of them are provided through four basic programmes: direct payments for grain producers; payments to compensate farmers for an increase in prices of agricultural inputs, in particular fertilisers and fuels; subsidies for improved seeds; and subsidies for purchases of agricultural machinery. Direct payments for grain producers and almost all subsidies for chemicals and seeds are paid at a flat rate per unit of land. Subsidised agricultural insurance schemes have grown in importance in recent years and entail growing budgetary transfers. Payments for returning farmland to forests and for exclusion of degraded grassland from grazing reflect environmental concerns.

Within **general services**, public stockholding of grains is the most important single item followed by a wide variety of programmes supporting development of agricultural infrastructure, including irrigation and drainage facilities.

A "red line" on **arable land** at no less than 120 million ha has been set and the conversion of farmland for non-agricultural use is strictly controlled. China's second land survey conducted in late 2012 concluded that China's arable land amounted to 135.4 million ha, 13.3 million ha more than previous estimates indicated. However, about 40% of land suffers from various forms of degradation.

The rural population's **social policy coverage** has continued to improve. As part of China Rural Poverty Alleviation and Development Programme for 2011-20, there have been a number of initiatives to extend the coverage and/or to increase benefits within government initiatives such as the Minimum Living Guarantee Programme (rural *dibao*), the New Rural Pension System and the New Co-operative Medical Scheme.

Since the reform of the fiscal system in 1994, **sub-national governments** have been required to co-finance policy-related costs from their own budgets. As financial capacity of sub-national governments differs strongly across China, sub-national governments have considerable control over how policy is actually implemented within their jurisdiction.

Domestic policy developments in 2013-15

Between 2007 and 2014, the **minimum prices** for **rice** and **wheat** were increased each year on the basis of the growing costs of agricultural production. Due to the ongoing appreciation of the Chinese Yuan, USD equivalents of minimum prices rose even faster. In the context of falling grain prices on international markets over the last two to three years, this policy resulted in a growing positive price gap between domestic and international prices (Figure 7.4). The NDRC has announced that in Yuan terms the minimum prices for wheat and rice in 2015 will be kept at the 2014 levels.

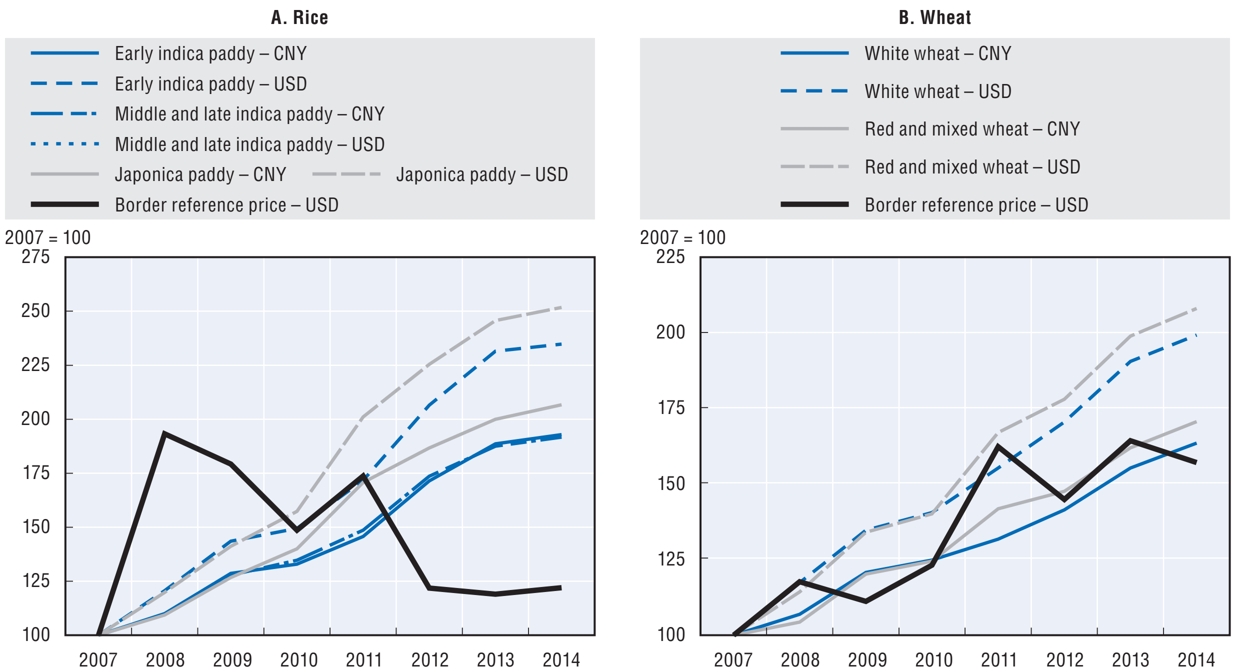
The amounts of crops purchased by state-owned companies at minimum or intervention prices change from one year to the next, depending on the relative levels of market prices and those offered by the government. In 2014 (until 20 December), the government purchased 123.9 million tonnes of grains, 48.9% more than in 2013. It represented around one-third of total purchases by all kinds of enterprises at 364.9 million tonnes (*Renmin Daily*, 2015).

Minimum prices for grains are closely linked with China's **grain reserve system** which is under the overall responsibility of the State Grain Administration (SGA). Detailed minimum grain inventory levels for each province are specified with the main grain producing provinces in north-eastern China required to maintain at least three months of sales inventory and other provinces to keep at least six months of sales inventory. The actual level of public stockholding for food security is unknown, but the International Grains Council estimates that China's reserves of wheat, coarse grains and rice are at about 40% of total domestic use, which is much more than in any other major grain producing or consuming country (IGC, 2014). The cost of public stockholding of various commodities reached around CNY 54.4 billion (USD 8.8 billion) in 2013 (MOF, 2014).

In marketing year 2014/15, the stock holding programme for cotton was abandoned and switched to a trial subsidy programme based on the **target price** system. The previous system elevated prices paid to farmers to well above the world market levels, thus pulling a majority of production into the state-held reserves, which at the end of the marketing year 2013/14 increased to a record level of 13 million tonnes, equivalent of about 160% of annual domestic use (GAIN-CHI14055, 2014).

The new trial system has been applied in Xinjiang province, the key **cotton** production area in China. It is based on compensation to cotton farmers if the market price falls below a target price of CNY 19 800 (USD 3 193) per tonne. Compensation is based on a combination of the cotton area and the volume sold to cotton grinners. On the basis of the difference between the target price and

Figure 7.4. **Evolution of minimum purchase prices for rice and wheat in China, 2007-14, 2007 = 100**



Note: Indices of nominal minimum prices for various varieties of rice and wheat in CNY; indices of nominal prices converted to USD equivalents at annual average exchange rates; indices of border reference prices in USD.

Sources: NDRC, various press releases; OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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the market price and the estimated cotton production in Xinjiang, the central government will estimate the total subsidy amount and then will allocate funds to the Xinjiang government. The Xinjiang government will then distribute the funds to farmers in two ways: i) 60% of the funds will be based on the certified planted area; and ii) 40% of the funds will be based on certified sold production. The subsidy is scheduled to be distributed to cotton producers in February 2015 (GAIN-CHI14055, 2014).

In the nine cotton-producing provinces outside Xinjiang cotton farmers will receive a direct subsidy of CNY 2 000 (USD 323) per tonne in 2014/15. The central government will allocate funds to these provinces based on production volumes in each of them, and provinces will be responsible for distributing subsidies to cotton farmers based on area or production volumes. It is planned that in 2015/16 and beyond the subsidy to farmers in these provinces will be equivalent to 60% of the subsidy rate to be distributed to the farmers in Xinjiang, but not higher than CNY 2 000/tonne (GAIN-CHI14055, 2014).

To further support the reform of cotton policy in Xinjiang, the central government is committed to allocate CNY 1 billion (USD 161 million) per year in 2014-18 to develop the textile industry in Xinjiang. In 2014, it was topped up by the Xinjiang government allocation of CNY 2.5 billion (USD 403 million) for the same purpose. In addition, the central government approved a rebate on a value added tax for the Xinjiang textile sector and the Xinjiang government provided a transport subsidy for textile and garments, a subsidy for mills using Xinjiang cotton, and an increase in transport subsidy for Xinjiang yarn to be shipped out of the province (GAIN-CHI14055, 2014).

Similar to cotton, a pilot target price programme with a direct subsidy for **soybean** producers has been introduced in 2014 in four northeast provinces of Heilongjiang, Jilin, Liaoning and Inner Mongolia. It is based on the difference between the government target price and the market price as registered in autumn 2014. The target price was set at CNY 4 800 (USD 773) per tonne, which is CNY 200/tonne higher than the average price in the previous season. The subsidy will be based on area and will be paid to soybean farmers in May 2015 (GAIN-CHI14052, 2014).

Direct payments to support grain production and to increase grain producers' incomes remained at the previous level of CNY 10-15 per *mu* (1/15 ha) (USD 24-36/ha), depending on localities. In some places like Beijing and Shanghai, the subsidy level is much higher as central government funding can be supplemented from local sources. The payment is provided to the person who holds the contract rights to the land, not to the person who cultivates the land. Central government funding for direct payments was increasing each year up to 2007, but then stabilised at CNY 15.1 billion (USD 2.4 billion) per year in 2007-14 (MOA, 2014).

The centrally funded **comprehensive subsidy on agricultural inputs** remains the most important single budgetary transfer supporting agriculture. While the objective of this subsidy is to compensate grain producers for an increase in prices of agricultural inputs such as fertilisers, diesel fuel, pesticides and plastic films, it is implemented as a payment per unit of land, not necessarily sown to grains. This makes it a direct payment supporting farmers' incomes. Budgetary transfers for this programme were increased each year to reach CNY 107.8 billion (USD 17.1 billion) by 2012 and stabilised roughly at this level in 2013 and 2014 (MOA, 2014).

Support for improved quality seeds is provided via the **Improved Seed Variety Subsidy** programme. It had increased strongly by 2013, but then fell to estimated CNY 21.4 billion (USD 3.5 billion) in 2014. As from March 2009, the actual implementation mechanism of this subsidy depends on the commodity. Thus, for the improved hybrid seeds of rice, maize and rapeseed, the government pays cash directly to farmers (through their account in the bank) on the basis of the cultivated area, and for the improved seeds of wheat, soybean and cotton, it is for the provinces to decide if the subsidy takes the form either of a direct payment or of reduced seed prices. To a growing extent it is paid directly to farmers and it is not monitored to determine whether the payment is used for seed purchases or for other expenses. In 2013 and 2014, the unit seed subsidy remained unchanged at CNY 10 per *mu* (USD 24/ha) for wheat, soybean, maize, early indica rice, rapeseed, potatoes, highland barley and peanuts and at CNY 15 per *mu* (USD 36/ha) for cotton, middle indica rice, late indica rice and Japonica rice (MOA, 2014).

The **subsidy for the purchase of agricultural machinery** continued to increase. The central government subsidy for purchase of agricultural machinery amounted to CNY 21.8 billion (USD 3.5 billion) in 2013. The eligible entities are individual farmers but also so-called specialised households and agricultural machine service delivery organisations. The programme compensates the cost of purchases by reimbursing the purchaser or compensating the seller for 30% of the purchase price. In principle, in 2014 the subsidy covered machines in 12 categories and 48 sub-categories at the maximum level of CNY 50 thousand (USD 7.9 thousand) per single piece (MOA, 2014). But, in practice, neither the national list of eligible items nor the ceilings of the subsidy per item are enforced.

There are numerous programmes **supporting livestock production** including those specifically targeting pork producers or cow genetic improvements, but also more general subsidies for livestock breeding, standardised livestock farms and animal epidemic prevention. Transfers for these purposes are relatively small, sometimes suspended and then resumed, depending on the market situation. Some of them are provided within larger programmes such as the "new variety extension payments for livestock". It is reported that the government raised environmental standards for animal farming in mid-2014. This resulted in the closure of many swine farms in Jiangxi, Guangdong and Zhejiang provinces in locations the government considered not appropriate for animal farming. For example, in Jiangxi province pig and poultry inventory fell by more than 1 million head (GAIN-CH14052, 2014).

As from 2012, all provinces and autonomous regions have been covered by **agricultural insurance schemes** for both livestock and crop producers. In 2013, 73 million ha of crop area were covered, accounting for 45% of the total planting area. China has thus become the world's second largest agricultural insurance market after the United States. The cost of the insurance premium is shared by the central government, local governments and farmers themselves. There are 25 insurance corporations who are eligible to conduct the scheme. The central government subsidy increased from CNY 2.2 billion (USD 289 million) in 2007 to CNY 22.5 billion (USD 3.6 billion) in 2013 (MOF, 2014). In 2013, the agricultural insurance schemes paid CNY 20.9 billion (USD 3.4 billion) in compensation to the benefit of 33.7 million rural households (Xinhua, 2014).

Under the "**grain for green project**" (officially called the "Returning Farmland to Forests Programme") cultivated lands in environmentally fragile areas are retired from crop production (mainly grains), and converted to pasture or forest. About CNY 200 billion (USD 30 billion) is foreseen to be allocated for this project for 2010-21, but the majority of the funds are to be spent on compensations for already converted land and the actual compensations allocated to farmers are smaller each year.

A new "**grassland ecological protection**" programme for eight western provinces was announced in 2011 and further expanded to five other provinces (Shanxi, Hebei, Heilongjiang, Liaoning, Jilin) in 2012. Currently, all pastoral and semi-pastoral area counties in 13 provinces are covered. Since 2011, the rules have remained the same: payments are made for the suspension of grazing (CNY 6 per *mu*; USD 14.3/ha), as rewards for not exceeding stock-carrying capacity of grassland (CNY 1.5 per *mu*; USD 3.6/ha), and as subsidies for improved breeds of animals, improved varieties of pasture grass and general input subsidy (CNY 500 per household; USD 79). Financial rewards are also paid to county governments on successful implementation of the programme. In 2013, the budget allocation for this programme amounted to CNY 16.0 billion (USD 2.6 billion) (MOA, 2014).

Budgetary support for **agricultural infrastructure** is provided mainly for irrigation construction, land consolidation and "agricultural industrialisation". Some of these programmes cover agricultural infrastructure, on-farm investment and broader rural infrastructure. Overall, if the latter two components are subtracted, expenditures defined as supporting agricultural infrastructure can be estimated at CNY 74.5 billion (USD 12.1 billion) in 2014, 4% above the 2013 level (MOF, 2014).

Some reforms have been undertaken to strengthen land use rights and improve allocation of land. In line with the decision adopted by the Third Plenary Session of the 18th Central Committee of the Communist Party of China in November 2013, farmers were given the right to use **land as collateral**. Otherwise, farmland remains owned by village collectives, which extend land-use contracts to individual households, currently for "at least 30 years". The government continues to support the creation of larger farms by encouraging the transfer of land from small-scale farms and from migrant workers to so-called "major grain-producing farmers households", "household-run farms" and "farmers' professional co-operatives". By 2014, about 26% of land-use rights had reportedly been traded compared to about 9% in 2008 (Sina News, 2014). While it is not officially defined, "large grain farms" are considered those of at least 100 *mu* (6.7 ha) in northern provinces and 30 *mu* (2 ha) in the south.

Trade policy developments in 2013-15

The average applied **MFN tariff** on agricultural products (WTO definition) has declined slightly to 14.8% in 2013 from 15.1% in 2011, but remained higher than the average on non-agricultural products at 8.6% (WTO, 2014).

Imports of wheat, maize, rice, sugar, wool, wool tops, cotton and some fertilisers are subject to **tariff rate quotas** (TRQ). The latest notifications to the WTO suggest that up to 2012 quota fill rates for all commodities were low with the exception of sugar, wool and cotton (WTO, 2014). More recent trade statistics would indicate that fill rates for wheat, maize and rice increased quite strongly, but still not exceeding the TRQ level thus in-quota tariffs at 1% should have been applied. For cotton, China's imports have systematically been much larger than the quota of 0.894 million tonnes per year. China is permitted to levy a high tariff on out-of-quota cotton imports at 40% versus 1% for in-quota imports. Instead, a sliding duty was applied on the above TRQ imports, subject to additional quota. Under this system, China fixed a threshold price (CNY 14/kg in 2013) against which cotton imports were charged a specific duty of CNY 0.57/kg if the actual import price was higher, or a variable levy of up to 40% if the actual import price was lower than the threshold price. For 2014, the threshold price was raised to CNY 15/kg and the formula modified. As a result, for cotton imports at prices equal or higher than CNY 15/kg, the sliding duty was the same as in 2013 (CNY 0.57/kg), but for imports at prices lower than the new threshold the sliding duty was higher than in 2013. To boost demand for domestic cotton, the government decided not to issue any additional quota above the TRQ in 2015, thus all above TRQ imports will face 40% duty (*Reuters*, 2014).

In October 2013, China blocked imports of corn from the United States after detecting unapproved **MIR 162**, a genetically modified insect-resistant variety of corn. This move shut off imports not only of corn, but also of dried distiller grains (DDGs). The ban was lifted in December 2014 following the approval of MIR 162 and of two biotech soybean varieties by the Chinese Ministry of Agriculture (*China Daily*, 2014).

In 2014 and again in 2015, the government relaxed **restrictions on fertiliser exports**. While in 2014 export taxes were lowered for both high-tariff and low-tariff seasons, in 2015 they will be fixed at flat annual rates. This will result in a significant reduction in high-tariff season export taxes (from about USD 70/tonne to USD 16/tonne on phosphates), but an increase in the rate for the low-tariff season exports (Persona, 2014).

In mid-2014, China's **bilateral FTAs** with Switzerland and Iceland came into effect. As a result, 76% of China' agro-food exports to Switzerland will be at zero-tariff and an additional 16% at reduced tariffs. In particular, China expects to expand exports of such products as fruits, vegetables, candies, sweet food and pastry (MOFCOM, 2015). In turn, such Swiss agro-food products as cheese, yoghurt, skimmed milk powder, butter, beef jerky, chocolate, baby food, biscuits, jams, roasted coffee, confectionery, ice cream, non-alcoholic beverages, and wine will be imported into China tariff-free or at reduced tariffs.

The conclusion of the China-Australia FTA, **ChAFTA**, was announced in November 2014. ChAFTA will unlock significant agro-food export opportunities for Australia, in particular for products such as dairy, beef and live cattle, sheep and goat meat, barley and sorghum, skins, hides and leather, horticulture, seafood and wines. For these commodities, tariffs will be eliminated or significantly reduced, with reductions being phased in within defined periods. As is the case with all of its FTAs, China has not provided further liberalisation on rice, wheat, cotton or sugar, all of which are considered significantly sensitive (DFAT, 2015).

In addition, China applies unilateral preferential tariffs (zero rated) on certain products imported from 40 least developed countries (LDCs). Since 1 July 2013 duties on 95% of tariff lines have been lowered to zero for imports from those LDCs that have diplomatic ties and have completed an exchange of notes with China (WTO, 2014).

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