

# The China No. 1 Central Document 2018:

What is it and what does it mean for Global Agriculture?

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# Study Outline

## **I. Executive Summary**

## **II. Background**

- A. What Is China “No. 1 Central Document”?
- B. Why Is China “No. 1 Central Document” Important?
- C. Why “Deep Dive into China No. 1 Central Document” Service Is Introduced?
- D. No.1 Central Documents in Recent Years

## **III. Overview of 2018 China No. 1 Central Document**

- A. Theme of the Year
- B. Main Objectives
- C. Major Tasks and Arrangements

## **IV. Document In-Depth Interpretation**

- A. New Developments
  - 1. From Production Growth to Quality Improvement
  - 2. Hainan Nanfan Plant Breeding Base
  - 3. Adapt Small Farms to Modern Agriculture
  - 4. Rural Area Governance and Anti-Corruption
  - 5. Food Security Law
- B. Further Developments
  - 1. Crop Rotation and Land Fallowing Pilot Program
  - 2. Organic Fertilizer
  - 3. Arable Land Use Right Registration and Certification
  - 4. Arable Land Use Right Financing Eligibility
  - 5. National Reserve Program Reform
  - 6. Commodity Price Reform
  - 7. Excess Grain Stock Reduction
  - 8. Crop Insurance Pilot Programs
  - 9. New Agribusiness Entities and Professional Farmers
- C. Key Issues Not Explicitly Covered
  - 1. Plant Biotechnology
  - 2. Agricultural Products Imports
  - 3. Biofuel Policy

## **V. Implications**

- A. Implications for China Crop Production
- B. Implications for China International Grain and Oilseed Trade
- C. Implications for Selected Industries



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# Background

## What is the China “No. 1 Central Document”?

The China “No. 1 Central Document (‘‘Document’’) is the first policy document jointly released every year by the Central Committee of the Communist Party of China and the State Council. It is the most important policy ‘‘theme’’ put out by the government of the People’s Republic of China (PRC).

The first Document can be dated back to Oct. 1, 1949, when the PRC was founded. Between 1982 and 1986, the Chinese government focused on agriculture, rural communities and farmers (frequently referred to as the ‘‘Three Rural Issues’’, or ‘‘San Nong Issues’’) consecutively for five years in the Documents to plan for rural area reforms and agricultural development. After a period of focus on other issues, starting in 2004 the theme of the Document has returned to the Three Rural Issues, highlighting the importance of these issues in Chinese social development and economic growth. The most recent document, the 2018 Document, is the 15<sup>th</sup> consecutive document focusing on this theme and it reveals much about the future thrust of policy initiatives by the PRC government.

Given the focus the past 15 years, the ‘‘No. 1 Central Document’’ has now essentially become a particular term used exclusively to refer to the overarching policy statement by the Chinese government on the Three Rural Issues each year.

The Document is typically finalized by end of previous year and released in February of current year.

## Why is China ‘‘No. 1 Central Document’’ important?

**The China ‘‘No. 1 Central Document’’ is important for several reasons:**

- ▶ The Document is widely seen as a ‘‘weather vane’’ document and indicator of policy priorities. New concepts, objectives, action plans and reforms are usually officially introduced in this Document. Accordingly, from local governments to public media, from domestic producers to international traders, from cash markets to stock markets, all stakeholders eagerly await for the release of the Document every year..
  - As an example, the now well-known concept of ‘‘food security’’ was first introduced in the 2005 Document and, given its implications on grain self-sufficiency levels and grain imports, has become an important driver of agricultural policy in China the past 12 years..



- Another example is regarding land tenure reform. After several years of pilot programs in selected areas, the Chinese government announced in the 2013 Document its plan to start nationwide agricultural land use rights confirmation, registration and certification and to complete the entire process in 5 years. This effort greatly facilitates land use rights circulation, land consolidation and development of new agribusiness entities and professional farmers<sup>1</sup>, and will have a long-lasting impact on China's agricultural productivity growth and adoption of agricultural machinery and modern farming technologies.
- ▶ The Document is of forward looking nature and has important implications for both the year of release and the years to come. Following the release of the Document, the China Department of Agriculture, the China National Development and Reform Commission, and other relevant government agencies start to introduce detailed implementation plans and rules during the year based on the objectives set in the Document<sup>2, 3</sup>. Depending on the matters of interest and their complexity level, some plans and rules target a shorter period of time while others continuously exert impact over multiple years (more often). Thus, all stakeholders in China recognize the importance and the value of in-time and in-depth understanding of the Document each year.
  - As an example, “Agricultural Supply Side Structural Reform” was first mentioned in the 2016 Document. Since then, a wide variety of policies, plans and rules have been introduced and implemented. These efforts jointly led to the termination of the temporary corn reserve program in China in 2016 and since then have lowered domestic corn prices in China, eased import demand for corn and alternative products (e.g., sorghum), revitalized downstream corn processing and ethanol industries and increased domestic soybean acreage, to name a few impacts.
- ▶ While the Document focuses on the Three Rural Issues, it has profound implications in other sectors of the economy and creates new opportunities for many other industries, domestic and foreign. The Three Rural Issues directly impact 43% of China's total population and 56% of China's total land area. These people are not only producers of crops and livestock and buyers of agricultural inputs, equipment and machinery, but also consumers with great potential for increased household consumption and expenditures. The improvement of living conditions and increased disposable income of this large population mean there is a large growing market beyond the already enormous market represented by the urban population.

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<sup>1</sup> New agribusiness entities refer to specialized agricultural households, family farms, farmers' professional cooperatives, agricultural enterprises and commercial agricultural service organizations, etc.

<sup>2</sup> During the recent 2018 Annual Plenary Sessions of the National Peoples' Congress and the National Committee of the Chinese People's Political Consultative Conference, major adjustments were made to the National Development and Reform Commission's duties and functionalities. Going forward, more implementation plans and rules are likely to come out of other government agencies.

<sup>3</sup> Some implementation plans and rules may be released soon after the release of the Document, while others may take months or even longer to come out in its final form.



- ▶ Although a domestic policy statement, the Document has clear and tangible spillover impact on other countries and international markets under the context of globalization and given China's role in international grain and oilseed trade. China is the largest soybean consumer, a major grain and alternative products importer and the largest hog producer. Changes in Chinese agricultural policies have both direct and indirect impacts on countries and industries elsewhere in the world.
  - As an example, when the Chinese temporary corn reserve program was still in place, given the domestic high corn prices and restrictions of the tariff rate quota on corn imports, the Chinese feed and livestock industry imported large amounts of barley, sorghum and DDGs as alternatives to corn for animal feeding purposes. But following the start of the “Agricultural Supply Side Structural Reform”, China imports of these commodities significantly declined.

## Why Understanding the China No. 1 Central Document Is Important to Participants in the Global Agribusiness Economy

Informa Agribusiness Consulting has been tracking the China No. 1 Central Document series for years. In the past, Informa applied the understanding and interpretation of this series of documents directly into client specific projects, especially when they were China related studies. But from on-going client communications and client feedback, it is clear to Informa that there is a rising demand for timely, in-depth and independent market intelligence on China agriculture industry and policies. In our view, client awareness of this important policy document is surprisingly low. There are several reasons that jointly contribute to this low awareness:

- ▶ Wide coverage but sparse language: The Document released each year is a long policy statement covering a wide scope of topics with varying complexity levels under the Three Rural issues. But given the overarching nature of the document (instead of being an implementation plan), the language in the Document is fairly concise and the relationships behind various developments are not always clearly specified. Therefore, it requires a dedicated effort to go through and interpret the Document to understand its full meaning and implications..
  - As an example, in 2014, China terminated the cotton and soybean temporary reserve programs and introduced a pilot target price program for selected growing areas. While that was a major policy shift to the market and to all stakeholders, the 2014 Document only used a few words to talk about it.
- ▶ Lack of in-depth and comprehensive analysis: After the release of the Document each year, many news media and news agencies in China publish articles to interpret the Document. However, most of these articles are high level interpretations or focus on just one or a few select areas. Comprehensive interpretation of the document is rarely done.



- ▶ Lack of awareness among mainstream English based news media and news agencies: Both the Document and the interpretation articles published by news media and news agencies in China are written in Chinese. No direct and complete translation is publicly available. A few Chinese new agencies will also report about the Document in their English version websites. But essentially these English language articles are high level summaries of the Document without going into details. Mainstream western English-based news media and news agencies, on the other hand, generally lack an awareness of the Document and do not provide any in-depth interpretation.
  - As an example, after the 2018 Document was released, Reuters is by far the only news agency reporting about the Document. The short article from Reuters highlighted the main theme of the 2018 Document, which is rural vitalization, but a lot of valuable details were not covered.
  
- ▶ Lack of awareness among professional market intelligence providers: To Informa's knowledge, so far there have been no professional market intelligence companies other than Informa that regularly review the document and interpret its implications for clients.



## Further Developments

### Excess Grain Stock Reduction

- ▶ It is Informa's intention to fill this market intelligence gap and to bring this value-added service to a broader audience of the market. To begin this process we have analyzed this year's Document and have developed some conclusions around its contents. For example, this year's Document contained subtle wording around the status of China's grain stocks.
- ▶ 2018 Document: "To accelerate absorption of policy driven grain stock by improvement of grain auction mechanism, targeted sales, committed sales, etc."
- ▶ 2017 Document: "To accelerate absorption of corn stock by increasing animal feeding usage and processing volume, and by expanding ways of corn consumption and demand."
- ▶ Informa interpretation:
  - The wording change from "corn" to "grain" reflects an adjustment of focus. Corn was the target crop in 2017 to reduce stocks level. In 2018, the focus appears to be no longer on corn only but expands to "grain" which also includes rice and wheat. Our conclusion is that this shift in focus means that the Chinese government believes that, 1) corn stocks levels have been effectively reduced and corn stocks now are not as severe an issue as it was in 2017; 2) while corn stocks still need to be further reduced, excessive and rising rice and wheat stocks have become an even more pressing problem now (see Exhibit #1 below); 3) the approaches that have been used to reduce corn stocks are deemed effective, and 4) China's corn stocks are still large, so current approaches to reduce corn stocks are expected to remain in place
  - The above is consistent with a recent speech given by the Director of the China State Administration of Grain who stated that in 2017, corn stocks declined 28% from its peak level and rice has become the next key crop to reduce stocks levels in the 2018 government agenda<sup>4</sup>.
  - The "targeted sales" in the 2018 Document refers to sales to target industries and/or (more often) target companies. Such companies are mainly processing companies and feed manufacturers. For corn, targeted companies have included starch manufacturers, ethanol producers (food grade and fuel grade), feed manufacturers, etc. For rice and wheat, target companies are mainly expected to be food processing companies as feed

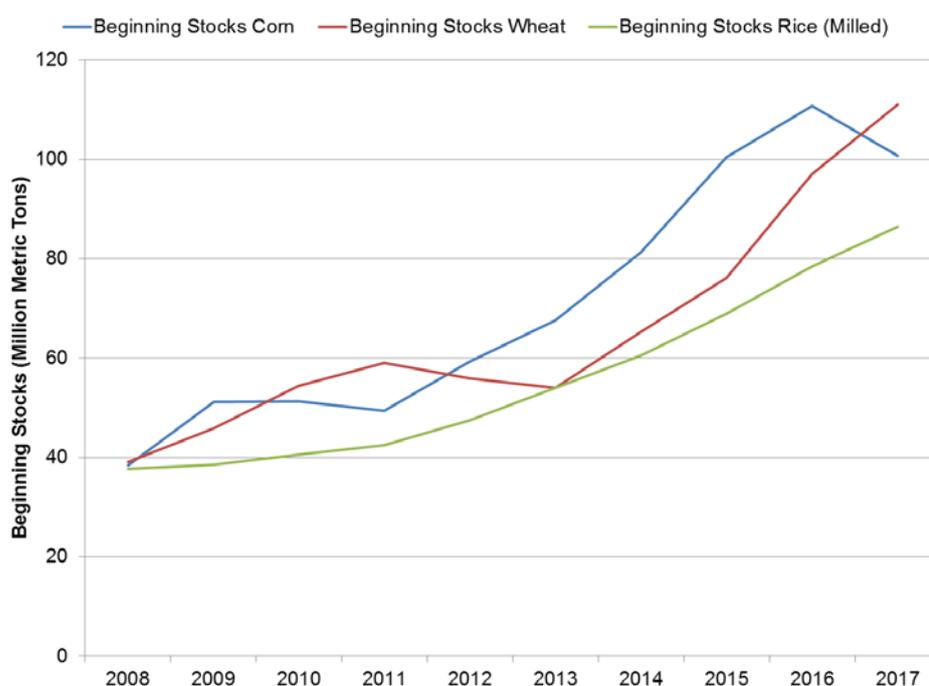
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<sup>4</sup> China's peak level of corn reserve is unknown with controversial estimates from various sources. As a result, the 28% decline may not agree with estimates from other sources or reader's own estimates. It is cited here mainly for indicative purpose. According to China based sources, China rice stocks exceeded 100 million metric tons in 2017, higher than USDA estimate which is shown in the Exhibit above.



manufacturers are not willing to pay a premium price to corn for food grain (wheat and rice) unless there are large price discounts (usually for poor quality wheat and rice). Targeted sales can be at negotiated prices or auctioned prices. It is worth mentioning that the government usually provides a subsidy (sometimes lower prices too) as an incentive to facilitate targeted sales, especially when the crop quality is poor. For corn, target companies continue to include fuel ethanol producers who generally have the lowest requirements for corn quality. As such, fuel ethanol producers are likely to benefit the most from targeted sales. Ethanol production in China will continue to increase and so will the domestically produced DDGS supply.

### Exhibit 1: China Grain Stocks in Recent



Source: Informa Agribusiness Consulting

- Committed sales refers to the case where a grain storage company takes full responsibility for the sales. Sinograin, the state-owned company responsible for grain purchasing and storage in China is expected to continue playing a major role in committed sales.
- A consequence of the policy stated in this year’s Document is that more rice and wheat are expected to be moved out of the reserve programs and hit the market this year. These old crop supplies will compete with the new crop harvest and put downward pressure on domestic Chinese prices in 2018. However, prices of recent auctions of old crop wheat and rice were relatively high, so the purchase incentive from market players was not strong. The high purchase prices set by the reserve program over the past several years were the main reason for low participation rates in recent auctions. Also, for rice and wheat, the value chain in China is shorter than corn (e.g., much less usage in animal



feeding, fuel ethanol production, etc.). So whether the rice and wheat stocks can be effectively reduced remains to be seen. Depending on the extent of subsequent policies to be introduced to lower rice and wheat stocks, China's import demand for rice and wheat could remain strong in 2018.

- In a separate section, the 2018 Document explicitly stated that the government will support mergers and acquisitions among agribusiness companies, retirement of obsolete capacity and crop processing in major crop production regions. As a result, we expect to see further consolidation of rice and wheat processing industries in China over the next few years.

► **Implications:**

- The Chinese government will continue promoting processing and animal feeding usage for corn. Given the still large corn stocks, domestic corn prices will remain under pressure and be competitive relative to landed prices of imports. Accordingly, the intention to import corn and corn alternatives (barley, sorghum, DDGs) is expected to low for the foreseeable future.
- As the government expands its focus to include rice and wheat for stocks reduction, more stocks will be sold and domestic prices pressured. However, rice and wheat stock reduction is more difficult than corn stock reduction. China imports demand for rice and wheat could remain strong in 2018.

