



Analysis of Factors Impacting China Soy Imports from U.S.

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North American Export Grain Association



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Glossary

NAEGA – North American Export Grain Association



Issue and Study Objective



AD Requirement for China Soybean Imports from the U.S.

- ❑ Beginning January 1, 2018 U.S soybean exports to China are required to have an additional declaration (AD) on APHIS-issued phytosanitary certificates for U.S. soybean consignments exceeding 1% foreign material (FM).
 - APHIS says the AD requirement is in response to China's 2016 decree 177 establishing a 1% FM standard.
 - APHIS indicates that shipments with more than 1% FM may be subject to additional inspection, cleaning or treatment at Chinese ports.
 - Half of U.S. soybeans exported to China this year would not meet Chinese rules for routine delivery in 2018, according to shipping data reviewed by Reuters.

- ❑ This new AD requirement has coincided with a sharp reduction in the U.S. quantity and market share of China's imports from December 2017 to March 2018.
 - China's imports from the U.S. decreased by almost 5.0 MMT during the December 2017 to March 2018 period while imports from Brazil increased by 5.0 MMT.
 - U.S. share of China's imports from December 2017 to March 2018 were 63% compared with 82.5% the previous year.

China Soybean Imports, December-March

	2013/14	2014/15	2015/16	2016/17	2017/18
U.S.					
1,000 MT	19,675	22,231	19,742	23,539	18,450
% Share	86.5	92.0	77.8	82.5	63.4
Brazil					
1,000 MT	1,622	706	3,163	3,004	8,095
% Share	7.1	2.9	12.5	10.5	27.8
Other					
1,000 MT	1,451	1,221	2,477	1,972	2,568
% Share	6.4	5.1	9.8	6.9	8.8
Total (1,000 MT)	22,748	24,158	25,382	28,516	29,114

Source: Global Trade Tracker

This report examines the factors that can explain why China's imports from the U.S. dropped sharply from December 2017 to March 2018 compared to the same time period in previous years. The study analyzes:

- ❑ **U.S. and Brazil soybean supply and demand.**
- ❑ **U.S. and Brazil exports and China imports.**
- ❑ **U.S. and Brazil soybean prices.**
- ❑ **China import policy.**
- ❑ **U.S. and Brazil shipping costs.**

Interviews were conducted with U.S. and Brazilian traders to get their perspectives.



Exporter Interviews



Exporter Interviews

- ❑ Informa interviewed a number of U.S. and Brazilian soybean exporters to China to get their perspectives regarding why the U.S. share of China soybean imports dropped sharply during the December 2017 to March 2018 period.
- ❑ All of the U.S. exporters interviewed believe the AD declaration on the APHIS phytosanitary certificate is having the biggest adverse impact on China's imports from the U.S. because of:
 - Risk and cost of shipments being held up in port if the shipment testing above 1% FM.
 - This risk is causing difficulties in securing letters of credit from financial institutions because of the 1% FM requirement.
 - Chinese buyers are hesitant in buying U.S. soybeans because of the risk.
- ❑ U.S. exporters argue China is not treating the U.S. and Brazil on a level playing field because:
 - The U.S. is the only exporter required to provide the AD declaration.
 - Exporters argue that the FGIS Grade Certificate already includes the percent FM so the AD is not needed.
 - Brazil only indicates percent FM on the ANEC contract.
 - Nearly all Brazil soybeans are exported under Association Nacional Dos Exportadores de Cereais (ANEC) Contract which includes percent FM. This contract states "Foreign matter basis 1% maximum 2% with non-reciprocal allowance of 1% for each 1%, fractions in proportion, in Buyer's favor for any deficiency." The Brazilian exports thus can exceed 1% FM with applicable discount up to 2%.
 - Some exporters argue that Brazil and the U.S. define the percent FM differently. For example, the sieve used by Brazil appears to be less strict than the sieve used by the U.S.
 - The Brazil's **foreign material and impurities** are defined as all material passing through a 3 millimeter sieve (7.5/64 inches).
 - The U.S. **foreign material and impurities** are defined as all material passing through a 3.175 millimeter sieve (8.0/64 inches).



Exporter Interviews Continued

- ❑ Brazil soybeans normally receive a price premium over U.S. soybeans because of higher protein content. U.S. exporters say the spread between Brazil and U.S. soybean prices widened during the December 2017 to March 2018 period by as much as 10 cents per bushel for U.S. Gulf and to 20 cents per bushel for PNW. This wider spread demonstrates the risk involved in China importing U.S. soybeans. China was willing to buy more soybeans from Brazil even though Brazil prices were much higher than normal than U.S. prices.
 - There were instances when PNW soybeans were considerably cheaper than Brazilian soybeans and the U.S. exporter could not make a sale.
 - Chinese buyers normally prefer to import #2 soybeans from the U.S. with 2% FM and do not want to pay a premium for #1 soybeans with less than 1% FM.
- ❑ All the U.S. exporters argue that the issuance of the GMO safety certification is often delayed by China to slow imports of soybeans into the country. However the exporters say that this requirement hampers both Brazil and the U.S. and is not an issue for just the U.S.
- ❑ None of the exporters indicate logistics problems or transportation costs were the reason for lower China soybean imports from the U.S.
- ❑ Brazilian soybean exporters though argue that the main reason the U.S. share of the China market decreased from December 2017 to March 2018 was because Brazil:
 - Had record soybean supplies from a record crop and needed to increase soybean exports.
 - Recent improvements in shipping capacity allowed Brazil to ship soybeans and corn simultaneously this past year. In the past it was necessary for Brazil exporters to switch from exporting soybeans to corn after September of each year.
 - Farmers held soybeans off the market in the first half of 2017 because of lower prices and a less favorable exchange rate. In the second half of the year prices and the exchange rate improved and farmers started pushing more soybeans onto the market.



U.S. and Brazil Supply and Demand Analysis



U.S. and Brazil Supplies and Stocks at Record Levels

- ❑ Brazil had record a record crop and supplies in 2017/18.
 - Production was a record 114.1 MMT, 18.6 MMT above the previous year's crop.
 - As a result supplies on September 1 were a record 43.2 MMT, 12.9 MMT above the previous year.
 - December 1 stocks were a record 20.8 MMT, 4.1 MMT above the previous year.

- ❑ U.S. production and supplies were also a record in 2017/18.
 - Production was a record 119.5 MMT, 2.6 MMT above the previous year.
 - Supplies on September 1 were also a record at 127.8 MMT, 5.5 MMT above the previous year.
 - December 1 stocks were also a record 86.0 MMT, 7.1 MMT above the previous year.

U.S. & Brazil Soybean Supplies and Stocks in MMT

Soybean Supplies September 1, 2017

	2013/14	2014/15	2015/16	2016/17	2017/18
Brazil	28.6	27.4	33.8	30.3	43.2
United States	95.2	109.4	112.0	122.3	127.8

Source: Informa

Soybean Stocks December 1, 2017

	2013/14	2014/15	2015/16	2016/17	2017/18
Brazil	13.3	13.4	14.9	16.7	20.8
United States	58.6	68.8	73.9	78.9	86.0

Source: Informa

Although Brazil had record supplies on September 1 and record stocks on December 1, the U.S. also had record supplies and stocks and had soybeans to export to China to maintain previous levels and shares.



Brazil Export Gains to China Offset U.S. Export Losses to China

- ❑ Brazil's exports to all destinations for the period December 2017 to March 2018 were a record 15.6 MMT, 1.5 MMT above the previous year's record.
 - Most of the gain in exports was to China, with exports to China a record 12.5 MMT, 1.1 MMT above the previous year's record.
 - Exports to other destinations were also a record 3.1 MMT, slightly above the previous year.
- ❑ U.S. exports to all destinations for the period December 2017 to March 2018 fell by nearly 3.3 MMT from the previous year despite record supplies.
 - China accounted for a large part of the decrease, with U.S. exports falling by 1.2 MMT.
 - Exports to other destinations fell by 2.1 MMT during that period.

U.S. and Brazil Soybean Exports in MMT

December 2017 to March 2018 Soybean Exports

	2013/14	2014/15	2015/16	2016/17	2017/18
Brazil	9,091	6,685	11,537	14,053	15,597
China	7,508	5,114	8,937	11,339	12,478
Other	1,583	1,571	2,600	2,714	3,119
US	22,567	22,303	21,152	22,942	19,666
China	13,747	13,188	12,297	13,916	12,728
Other	8,819	9,115	8,856	9,025	6,938

Source: Informa

Brazil's gain in exports during the December 2017 to March 2018 period was at the expense of U.S. exports. Brazil's gain of 1.1 MMT of soybean exports to China essentially offset the loss in U.S. exports of 1.2 MMT.

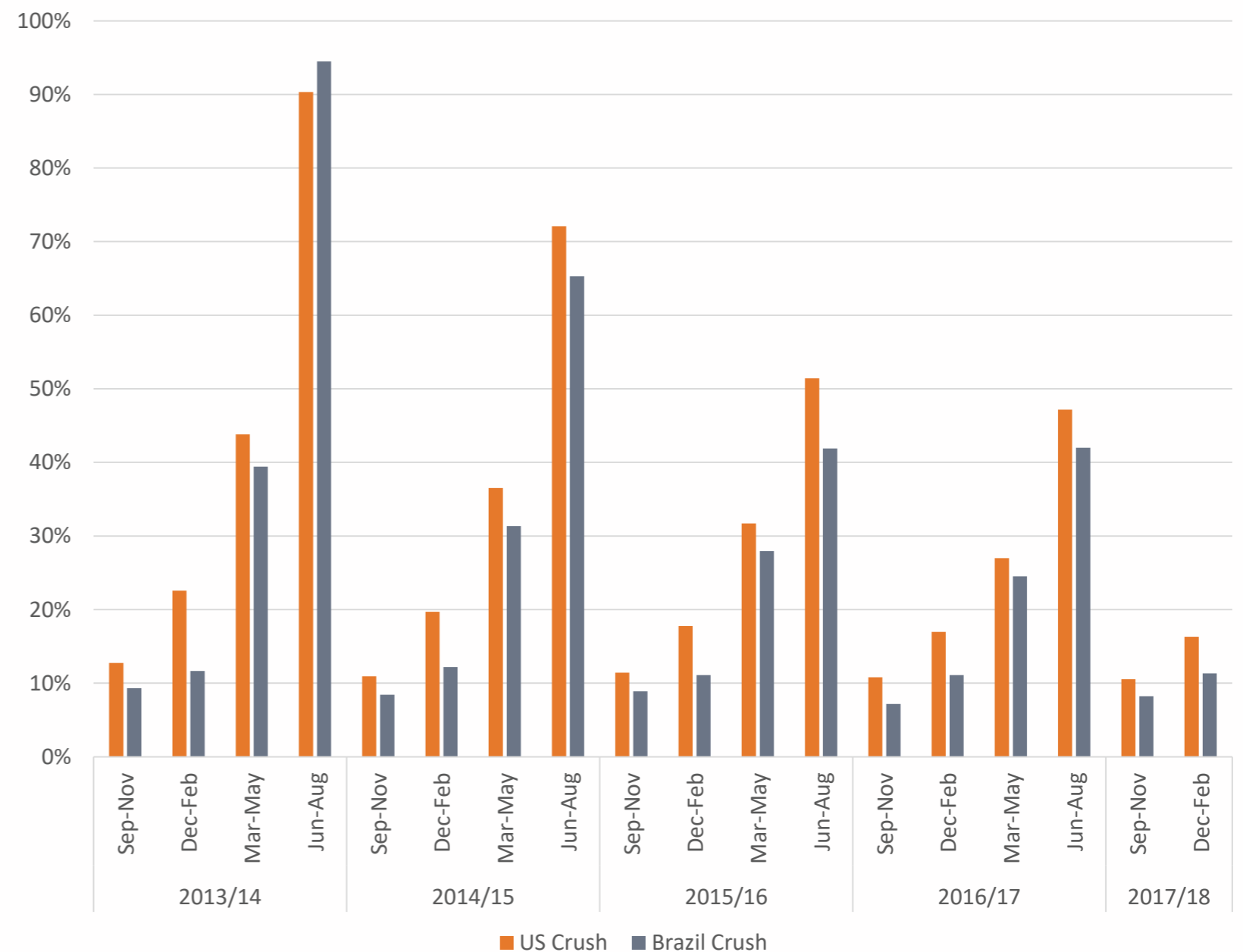


Reduction in US Crush as a Percent of Stocks

- ❑ Higher levels of soybean supplies did not lead to increased crushing in either the U.S. or Brazil.
- ❑ In the US, the percent of soybean supplies used for crush declined in the Dec-Feb quarter, maintaining a downward trend since 2013/14, from 23% of stocks to 16% in the second quarter of 2017/18
- ❑ Brazilian crush has remained relatively unchanged, consistently attributing ~8% between September to November and ~11% in December to February since 2013/14
- ❑ While the US carried a record amount of soybean stocks into December, it used the smallest percentage of its supplies for crushing over a five year period, opening up a larger portion of soybean for exports.

Thus the decrease in U.S. soybean exports to China in the December-February period was not the result of greater U.S. soybean crush or reduced availability of supplies for export.

Percentage of Stocks Used for Crush



Source: Informa



China Import Analysis

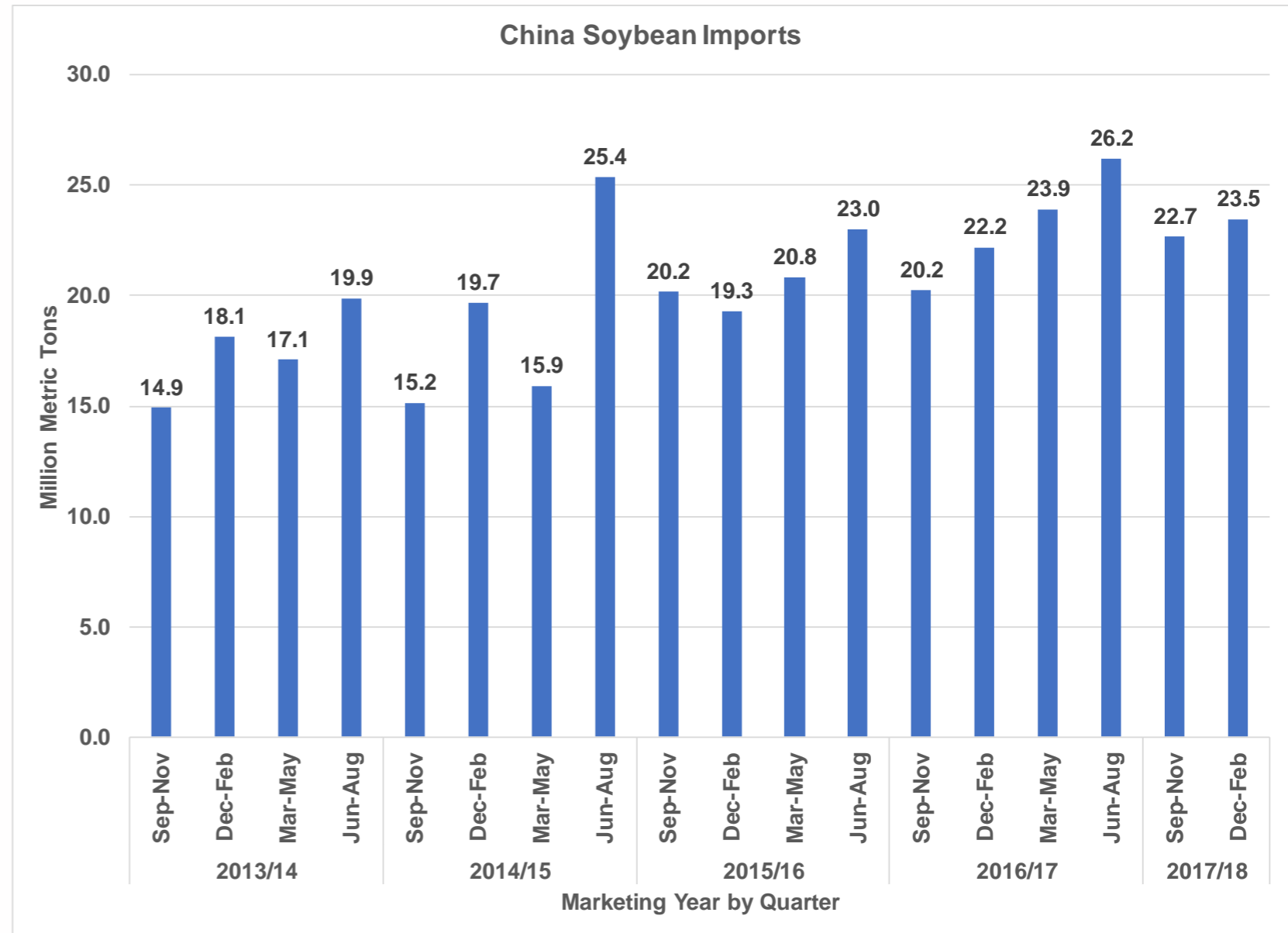


China Imports Growing

- ❑ China's soybean imports in 2017/18 marketing year are forecast at a record 98.0 MMT, 4.5 MMT above the previous year.
- ❑ On a quarterly basis China's imports are growing in all quarters.
- ❑ In the December 2017 to February 2018, when U.S. exports to China dropped sharply, China's total imports during that period are estimated at a record.
 - China's imports during the December-March 2017/18 period were 23.5 MMT, 1.3 MMT above the previous year and 4.2 MMT above two years ago.

The U.S. had the supply to meet China's large imports.

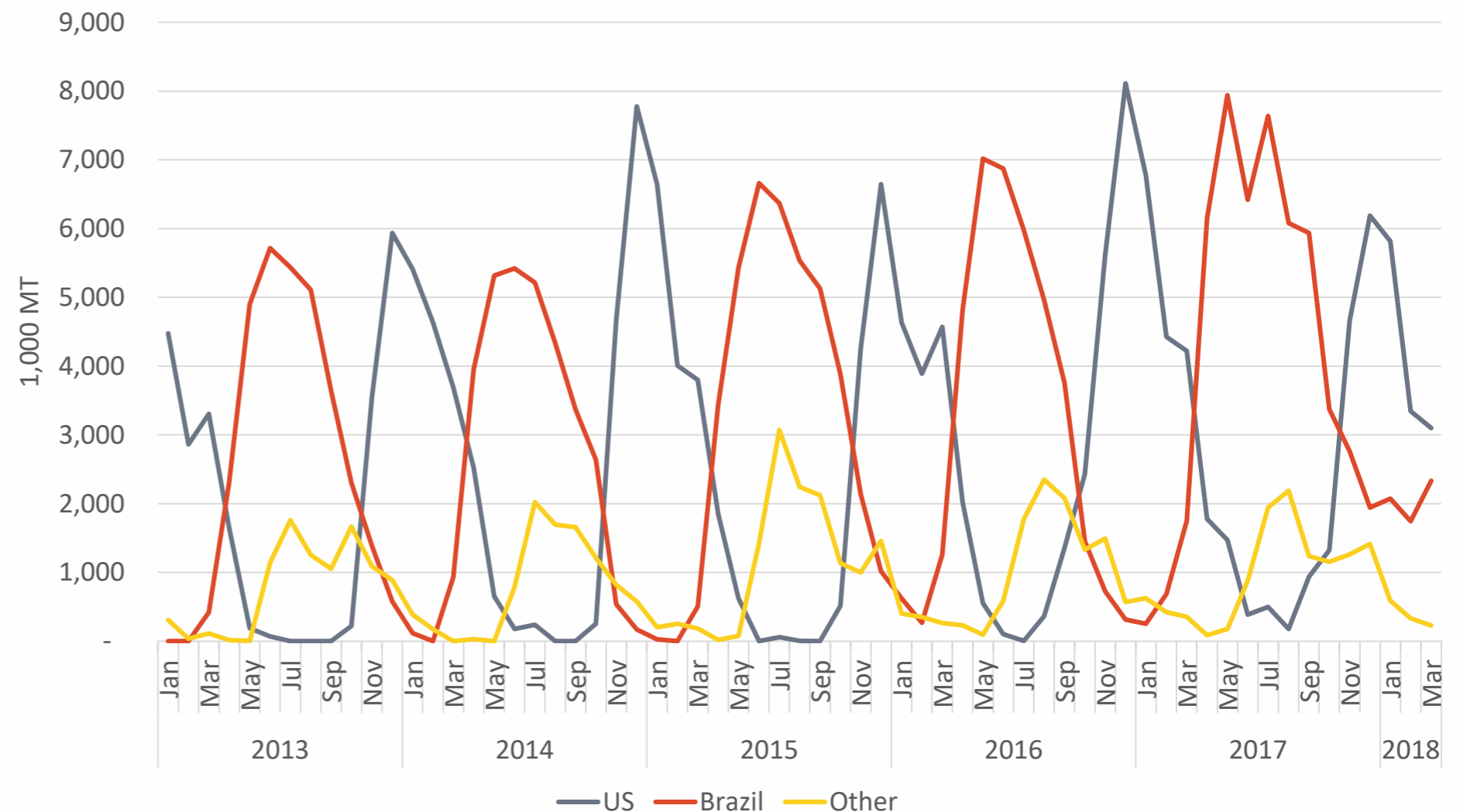
China Soybean Imports in MMT



China Soybean Imports - Monthly Volume

- ❑ The U.S. and Brazil are the primary soybean suppliers to China.
 - The U.S. plants soybeans in late April through June and harvests in late September through November.
 - Brazil plants soybeans in mid-August through mid-December and harvests in February through May.
- ❑ With the U.S. and Brazil having alternate seasons, China's imports run in a cycle with high imports from the U.S. during the growing season in Brazil and high imports from Brazil during the growing season in the U.S.
 - Additionally, imports from countries other than the U.S. and Brazil peak during the US growing season.
- ❑ These trade patterns are consistent for years 2013 through 2016; however, for the 2017/18, December-March period, the share and quantity of imports from the U.S. fell sharply from levels for those months as in the past.
- ❑ Instead, China's imports from Brazil continued into Brazil's growing season when imports from Brazil are traditionally lower and imports from the US are traditionally higher.

Chinese Monthly Soybean Imports



Source: Global Trade Tacker

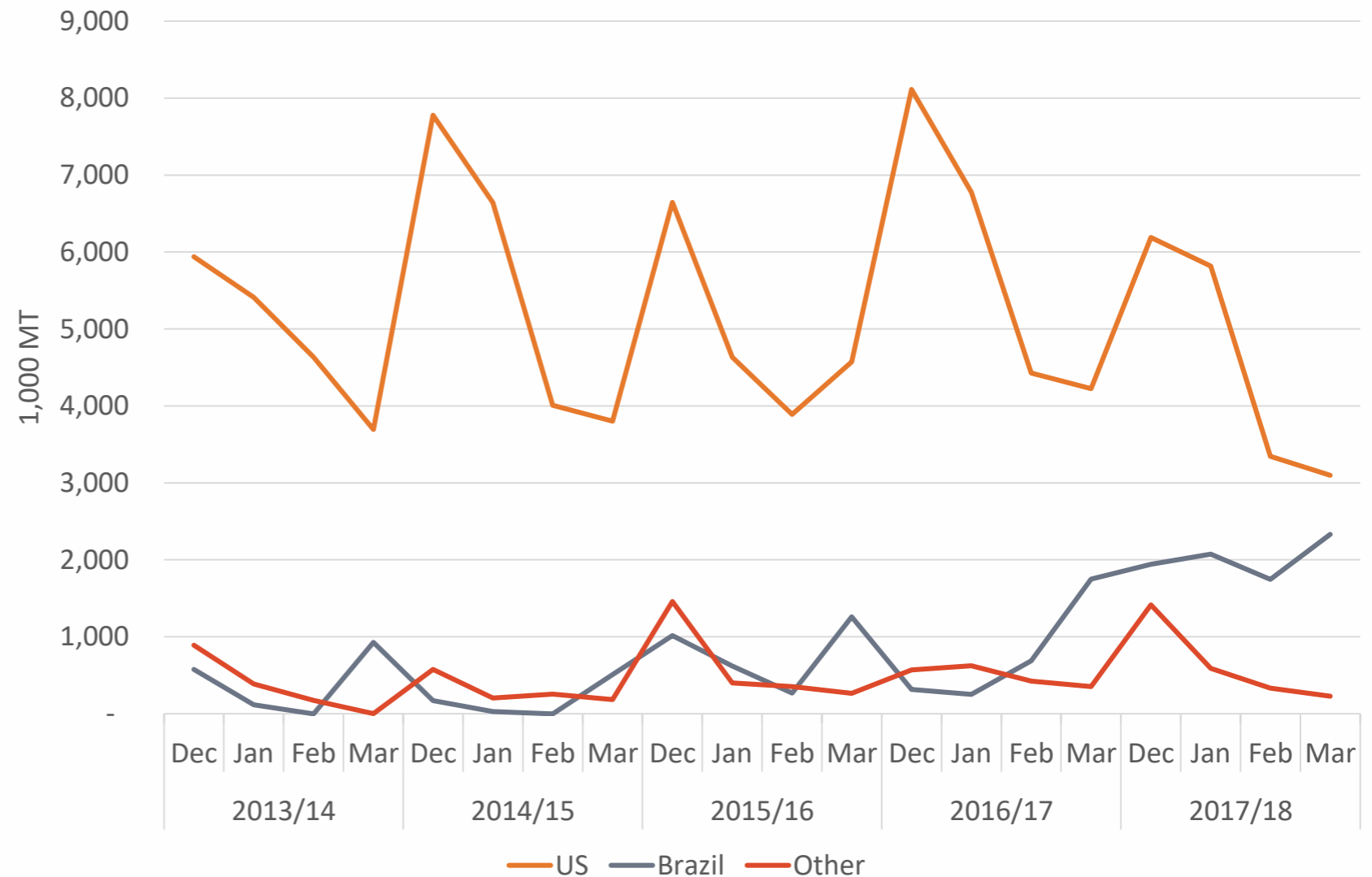
China's imports from Brazil and the U.S. shifted from previous trends in the December 2017 to March 2018 period.



China Soybean Imports - December-March Volume

- ❑ As discussed on the previous slide, China's imports from Brazil traditionally drop off during Brazil's growing season and shift to imports from the US where harvest has recently occurred. China's imports deviated from this trend, in 2017 and into 2018.
- ❑ To better illustrate this deviation, the months December through March are examined for the last five years.
- ❑ Imports from Brazil during the 2017/18 December-March period were 2.7 times greater than during the same time period in 2016/17 and 11 times greater than in 2014/15.
- ❑ Conversely, imports from the US during the 2017/18 December-March period were 22 percent lower than during the same time period in 2016/17.
- ❑ Imports from countries other than the US and Brazil during December-March are comparable with historic levels and did not replace imports from the U.S.

Dec-Mar Import Volumes into China Market



Source: Global Trade Tracker

Imports from Brazil substantially increased during the December-March lower period while imports from the US decreased from a traditionally higher period.



China Soybean Imports - Monthly Market Share

- ❑ Much like the previous slides illustrating the decreased levels of China's imports from the US and increased import levels from Brazil, the share of imports into China tells a similar story.
- ❑ Traditionally, the US and Brazil reach shares of ~85 percent and above during the other's growing season; however, in 2017 and into 2018, US share of Chinese soybean imports did not reach 70 percent.
- ❑ Also during this time, when Brazil's share of Chinese imports is traditionally lower than 20 percent, Brazil's share reached a level over 40 percent.
- ❑ Additionally, the share of Chinese imports held by countries other than the US and Brazil was near or slightly below historic levels.

Brazil's increased share in Chinese imports came primarily at the detriment of US share.

Share of China Soybean Imports

US Share of China Soybean Imports												
HS 1201												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	93.6%	98.7%	86.1%	41.5%	3.7%	1.0%	0.0%	0.0%	0.0%	5.2%	58.9%	80.2%
2014	91.5%	96.4%	79.9%	38.8%	10.9%	2.8%	3.2%	0.0%	0.0%	6.1%	77.4%	91.2%
2015	96.6%	94.0%	84.6%	35.0%	10.2%	0.0%	0.6%	0.1%	0.0%	9.3%	57.5%	72.9%
2016	81.9%	86.3%	75.0%	28.6%	7.2%	1.3%	0.1%	4.7%	18.8%	46.6%	71.7%	90.2%
2017	88.5%	79.9%	66.7%	22.2%	15.3%	5.0%	5.0%	2.1%	11.6%	22.6%	53.7%	64.8%
2018	68.6%	61.7%	54.7%									

Sources: Global Trade Tracker and Informa

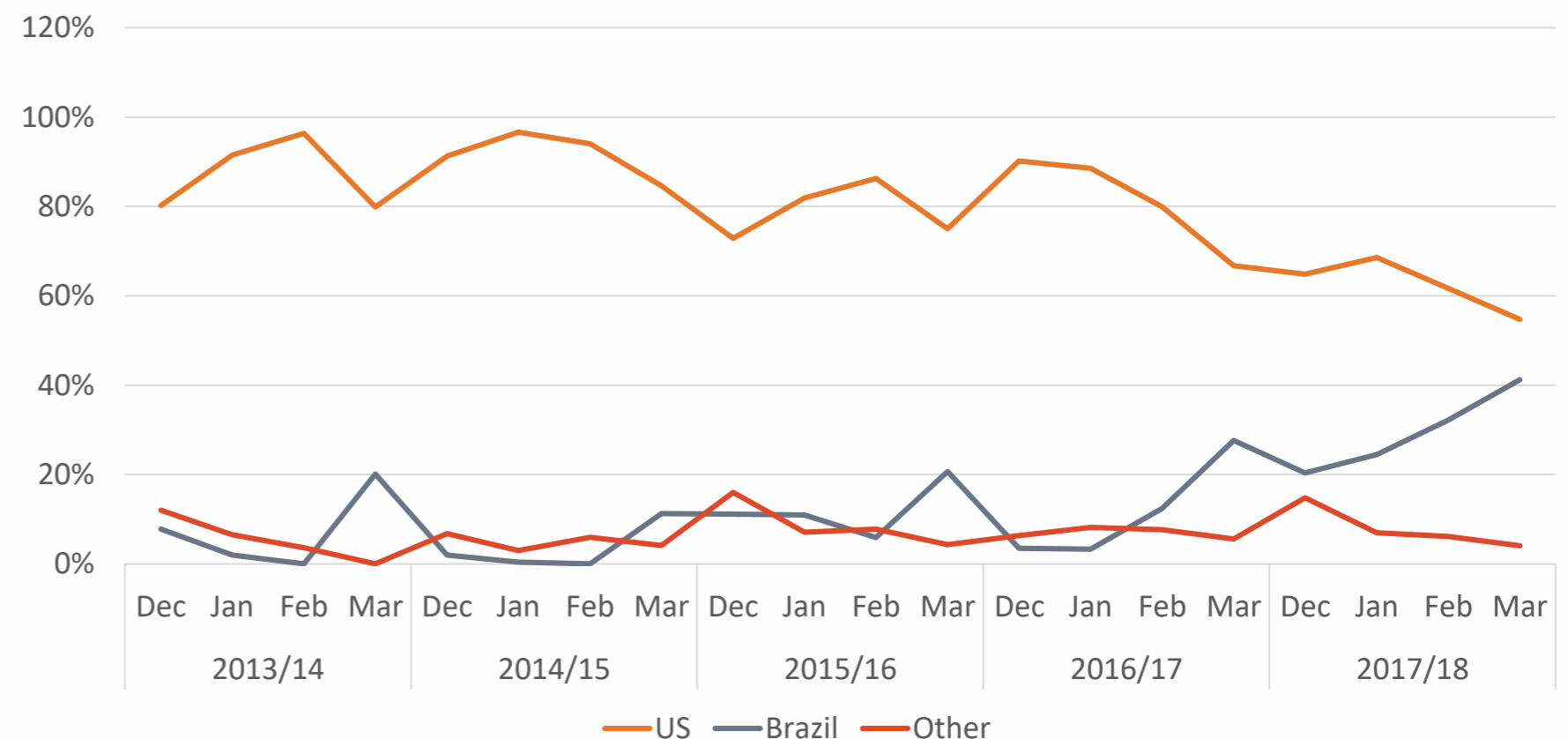
Brazil Share of China Soybean Imports												
HS 1201												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	0.0%	0.0%	10.9%	58.1%	96.2%	82.5%	75.6%	80.3%	77.6%	55.0%	23.0%	7.8%
2014	2.0%	0.0%	20.1%	60.7%	89.1%	84.8%	69.8%	71.9%	67.0%	64.3%	8.9%	2.0%
2015	0.4%	0.0%	11.3%	64.7%	88.6%	82.4%	67.0%	71.1%	70.7%	70.2%	28.9%	11.1%
2016	11.0%	5.9%	20.7%	68.1%	91.6%	90.9%	77.1%	64.6%	52.2%	27.9%	9.3%	3.5%
2017	3.3%	12.4%	27.7%	76.7%	82.8%	83.5%	75.7%	72.0%	73.2%	57.7%	31.8%	20.3%
2018	24.5%	32.2%	41.2%									

Sources: Global Trade Tracker and Informa

China Soybean Imports - December-March Market Share

- ❑ To better illustrate the deviation discussed in the previous slide, the months December through March are examined for the last five years.
- ❑ As illustrated in the chart, Brazil's share of Chinese imports rarely makes up 20 percent; however, during 2017 and into 2018, Brazil's share of Chinese imports achieved levels of over 40 percent.
- ❑ Additionally during these periods, the share of imports held by countries other than the US and Brazil remained around historic levels suggesting the increased share held by Brazil came primarily from US share.

December-March Share of China Soybean Imports



Source: Global Trade Tracker

Brazil's increased share in Chinese imports came primarily at the detriment of US share.



Policy Evaluation



Systems Approach to China Imports from U.S.

- ❑ Beginning January 1, 2018, an additional declaration (AD) is required on the U.S. soybean phytosanitary certificate where foreign material on the grade certificate exceeds one percent.
- ❑ This AD is part of a larger systems approach for soybean exports to China. This system begins at farm level and continues through to China's ports of arrival. The four main components include:
 - Production and harvesting measures designed to reduce weed seed contamination in U.S. soybeans;
 - Soybean sampling and foreign material analysis by USDA to monitor for weed seeds in China-bound U.S. bulk and container shipments;
 - Notifying China when a soybean shipment exceeds 1 percent foreign material by placing an additional declaration on the official phytosanitary certificate that says "this consignment exceeds 1 percent foreign material;" and
 - Possible inspection, cleaning, treatment or other protective measures by China to mitigate pest risk.
- ❑ APHIS states that the "USDA's Federal Grain Inspection Service (FGIS) will sample China-bound soybean shipments and analyze foreign material to monitor for weed seeds in U.S. bulk and container shipments. **When FGIS determines that a consignment exceeds 1 percent foreign material, APHIS will include an additional declaration on the phytosanitary certificate that says: "This consignment exceeds 1 percent foreign material."** This action will allow all U.S. soybean exports to China to continue without interruption until the United States is able to fully implement the other parts of the systems approach during the 2018 crop year. In China: China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) has agreed to expedite agricultural clearance of shipments with 1 percent or less foreign material. They will determine whether any phytosanitary measures including inspection, cleaning, treatment or other protective actions may be appropriate to mitigate pest risk in shipments with more than 1 percent foreign material. AQSIQ will not hold or unnecessarily delay incoming shipments based solely on the volume of foreign material."

The U.S. is the only country required to provide an AD phytosanitary certificate. This information is already provided by the U.S. on the FGIS Grade Certificate. The FM percent is provided only on Brazil's ANEC contract – "foreign matter basis 1% maximum 2% with non-reciprocal allowance of 1% for each 1% fractions in proportion."

Source: USDA APHIS



U.S. Grading Standards

- ❑ Soybean exports are covered under the United States Grain Standards Act (USGSA)
- ❑ The Grain Inspection, Packers and Stockyards Administration (GIPSA) is required to certify the quality and weight of all export shipments of grain covered by the USGSA.
- ❑ These grading standards regulating the acceptable levels of foreign material have been in place for many years; however, recent changes by China requiring an additional declaration has created some concerns amongst both importers and exporters.

Grades and Grade Requirements for Soybeans						
Grade	Minimum Test Weight (lb/bu)	Damaged Kernels		Foreign Material (%)	Splits (%)	Soybeans of Other Colors (%)
		Heat Damaged (%)	Total (%)			
US No. 1	56	0.2%	2%	1%	10%	1%
US No. 2	54	0.5%	3%	2%	20%	2%
US No. 3	52	1%	5%	3%	30%	5%
US No. 4	49	3%	8%	5%	40%	10%
Sample Grade*						

*U.S. Sample grade is soybeans that: (a) Do not meet the requirements for the grades U.S. Nos. 1, 2, 3, or 4; or (b) Contain 4 or more stones which have an aggregate weight in excess of 0.1 percent of the sample weight, 1 or more pieces of glass, 3 or more crotalaria seeds (*Crotalaria* spp.), 2 or more castor beans (*Ricinus communis* L.), 4 or more particles of an unknown foreign substance(s) or a commonly recognized harmful or toxic foreign substance(s), 10 or more rodent pellets, bird droppings, or an equivalent quantity of other animal filth in a 1,000 grams of soybeans; or (c) Contain 11 or more animal filth, castor beans, crotalaria seeds, glass, stones, or unknown foreign substance(s) in any combination; or (d) Have a musty, sour, or commercially objectionable foreign odor (except garlic odor); or (e) Are heating or otherwise of distinctly low quality.

Source: USDA/AMS – GIPSA, Iowa State University



US No. 1



US No. 2



US No. 3



US No. 4



Sample Grade*

Brazil FM percent for Grade #1 is 1%, for Grade #2 is 1.5%, for Grade #3 is 3% and grade #4 is 5%. It is important to note that ANEC quality specifications used in export trade do not match those of any one grade. For example, allowable foreign material is the same as No. 1 grade, but broken beans is equivalent to the No. 3 limit, while damage uses the limit established for grade No. 4.



US Soybean Exports to China – Required Documentation

- ❑ There are three documents required for exporting soybeans to China, APHIS Phytosanitary Certificate, Soybeans Biotech Safety Certificate and the FGIS Grain Inspection Service.
- ❑ APHIS Phytosanitary Certificate
 - **Purpose:** Certifies soybeans free of quarantine pests.
 - **Target:** Plant Health
 - **Requesting Ministry:** AQSIQ
- ❑ Soybeans Biotech (GMO) Safety Certificate
 - **Purpose:** An MOA certificate is needed that indicates that the product "contains registered GMO's," proper labeling is also required for all biotech products.
 - **Target:** Plant Health
 - **Requesting Ministry:** MOA
- ❑ FGIS Grain Inspection Service
 - **Purpose:** Certifies product quality.
 - **Target:** Product Quality
 - **Requesting Ministry:** AQSIQ

Traders indicate that China periodically slows imports from both Brazil and the U.S. by delaying approval of the Biotech safety certificate.

Source: USDA/AMS – GIPSA, Iowa State University



BRAZILIAN STANDARD SOYBEAN EXPORT CONTRACT - ANEC

- ❑ Brazil has a standard contract issued by ANEC (Associação Nacional dos Exportadores de Cereais) translated (National Grains Shipping Association).
- ❑ According to trade sources most Brazilian soybeans shipped to China have 1% FM. The contract also indicates that a shipment can have up to 2% FM with proportional discounts in price above 1% FM, although traders say shipments rarely exceed 1% FM.
- ❑ All trading from farm gate to the port applies the standards of ANEC contract. Almost all of the soybeans produced in Brazil are cleaned and dried to reach this standard. For soybean delivered from farmers to local elevators, coops and trading without drying and cleaning, costs and discounts are applied.
- ❑ Damage soybeans in some cases are mixed for traders that apply heavily price discounts to mix them with good quality product in the level to reach the ANEC standard.

ANEC CONTRACT

<http://www.anec.com.br/en/services/contracts>

QUALITY / CONDITION FOR BRAZILIAN SOYBEANS

2. QUALITY / CONDITION: Brazilian soybeans, crop.....	11
- Oil content basis 18.5% (AOCS Ac 3 – 44) with non-reciprocal allowance of 1% for each 1%, fractions in proportion, in Buyer's favour for any deficiency;	12
- Moisture maximum 14%;	14
-Foreign matter basis 1% maximum 2% with non-reciprocal allowance of 1% for each 1%, fractions in proportion;	15
- Damaged beans basis 8%, maximum 8.5% with non-reciprocal allowance 2:1, fractions in proportion, of which maximum 4% heat damaged and burned (being maximum 1% burned) and 6 % mouldy;	16
-Broken beans maximum 30%;	18
-Greenish beans maximum 8%	19
-Free from poisonous seeds / husks but tolerance 1 particle of treated vegetable seeds with unknown level of toxicity for each 1 kg sample at each lot of 5,000 metric tons loaded and max 0.005% castorseed and/or castorseed husks.	20
To be final at time and place of shipment per certificate/s issued by Independent Surveyor, cost being for Seller's account. Other quality/ condition in accordance with Brazilian Legislation ruling at time and place of shipment.	22
Buyer has the option, at his expense, to request for joint sampling and sealing, advising the Seller in due time the name of the Independent Surveyor he is appointing.	23
	24
	25
If the difference of any of the following items between Buyer and Seller certificates does not exceed the below mentioned percentages, then the Seller's results will be final. Otherwise, at request of either party at his expenses, within 45 days from the B/L date, a third test shall be carried out by a mutually agreed Independent Laboratory. The average of the 2 closest analysis results shall be final under this contract and must be settled by a complementary debit note.	26
	27
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- Moisture 0.5%, Damaged Beans 0.5%, Heat Damaged 0.5% and Foreign Matter 0.2%	30
Greenish beans 0.5%, Burned 0.10% and Mouldy 0.5%	31
Such agreement can be settled directly between Shipper (first Seller) and final FOB Buyer. In that case, all the parties involved in the string must be informed in writing about the agreement and at a later stage about the results. Settlement of differences to be done between each counter party.	32
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According to U.S. exporters the ANEC contract is the only place 1% FM is indicated. In addition the ANEC contract does allow for imports from Brazil to exceed 1% FM up to 2% FM with proportional discounts.



Soybean Biotech Safety

- ❑ China has strict regulations around GMOs and the Soybean Biotech Safety Certificate must accompany US soybean exports to China.
- ❑ There continues to be concern around China's biotech approval system and its inability to keep up new events.
- ❑ According to an FAS Report "The approval system lags behind the pace of international commercialization of new events and adds uncertainty to the soybean trade. Currently, four soybeans events are in the Chinese regulatory pipeline and under review for final approval. USDA continues to request MOA to streamline its biotech approval process as market access is key for trading partners and critical for China's price stability and food security. In addition, China has not yet established a tolerance level for the adventitious presence of unapproved biotech events in imports of bulk grain, oilseed, and hay products. Although there were no reported disruptions to U.S. soybean exports to China, please consult Post's Annual Biotechnology Report for additional information on China's biotechnology policy and for an updated list of China's approved biotech events."

According to traders both the U.S. and Brazil are impacted by delays in China approving the soybean biotech safety certificates.

Source: USDA/AMS – GIPSA, Iowa State University



Freight Differences



Brazil Freight Costs

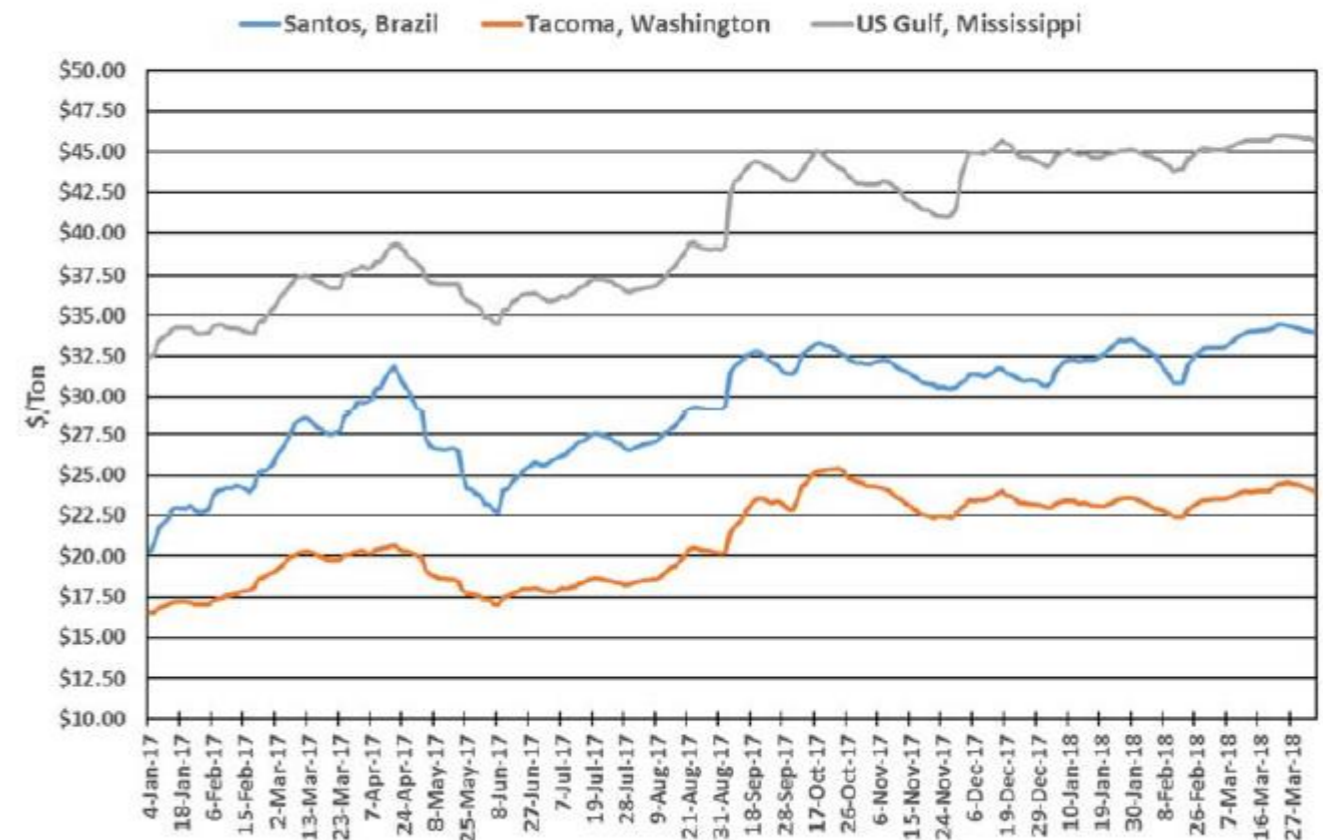
- ❑ Historically, the ocean freight rates for grain cargos from South America to Asia are less expensive than from the U.S. Gulf because of dry-bulk vessel route patterns, lower cost port charges, higher Panama Canal tolls, and less burdensome navigation restrictions.
 - Brazilian ports also provide less expensive dockage costs for vessels
- ❑ However, ocean freight rates from Pacific Northwest are lower than from Santos, Brazil.
 - The rate per ton from Tacoma, Washington was \$24.01 per ton compared with \$34.01 per ton from Santos, Brazil in March 2018.

Ocean freight rates have been lower from Tacoma, Washington to North China than from Santos to North China, and that spread widened this year. Thus freight rates are not the reason China's imports from the U.S. decreased from December, 2017 to March, 2018 and were below normal. This supports one of the exporters comments that even though PNW soybean prices were much lower than for Brazil soybeans, they could not make a sale to China.

Grain Ocean Shipping Rates

Grain Ocean Shipping Rates					
Index/Routes	Cargo/Vessel Type	DWT	Unit	Rate per Ton	YTD Change
Santos, Brazil to North China	Soybeans	60,000	\$/ton	\$34.01	9.7%
Tacoma, Washington to North China	Soybeans	60,000	\$/ton	\$24.01	3.6%
Mississippi Gulf to North China	Soybeans	55,000	\$/ton	\$45.69	3.0%
Mississippi Gulf to North China	Soybeans	66,000	\$/ton	\$44.09	3.4%

Soybeans to North China



Summary of Findings



Study Findings

- ❑ The study finds that the AD on the phytosanitary certificate is the main reason for the reduced U.S. soybean shipments and share of the China import market for the period December 2017 to March 2018.
 - The AD declaration singles out the United States when FM exceeds 1% while other countries such as Brazil do not face this same requirement.
 - Brazil's ANEC contracts indicate that Brazil soybeans can exceed 1% with an allowable discount up to 2%.
- ❑ Although Brazil had record soybean supplies from a record crop, the U.S. also had record supplies from a record crop and had soybeans available to maintain previous shares of the China import market.
- ❑ Price is not an issue because the spread between Brazil and U.S. soybean prices widened from December-March 2017/18 period and Brazil soybeans were much higher priced. Brazil soybeans normally are priced at a premium because of higher protein levels.
- ❑ Freight costs were not the reason for lower U.S. exports to China because ocean freight rates were lower from Tacoma, Washington to North China than from Santos, Brazil to North China.
- ❑ Although the GMO safety certification can be an issue for U.S. soybeans, exporters indicate that Brazil faces the same issue.
- ❑ The potential trade tariffs that China may impose if there is a trade war between the U.S. and China is another issue which came later than the AD declaration which began in January. A trade war can only exacerbate the AD declaration issue.

The study recommends that APHIS USDA:

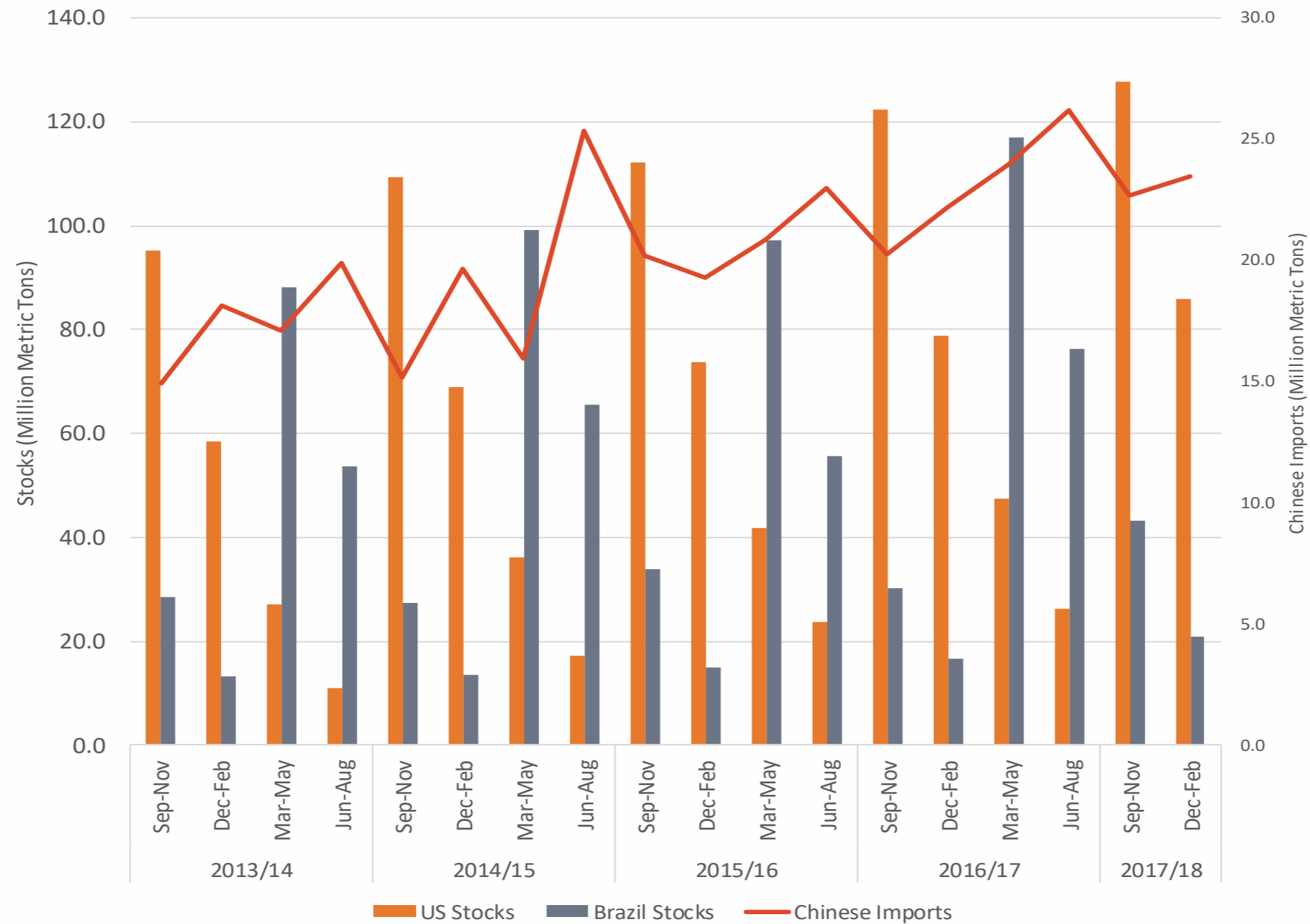
- ❑ Work with China's AQSIQ to make sure soybean imports from the U.S. are not treated differently from imports from Brazil. Since other suppliers such as Brazil are not required to provide an AD on their phytosanitary certificate, then the U.S. should not be required to do so. The U.S. already indicates the % FM on the FGIS Grade Certificate.
- ❑ Work with AQSIQ to clarify what the remedies are for soybeans with an FM between 1% to 2%. Exporters say they are told by the Government of China there are remedies to resolve the situation but the Government of China does not explain what the remedies are.
- ❑ Review Brazil's soybean grading standards to make sure those standards are equivalent to the U.S. standards, especially in how the percent FM is determined.



Appendix



Summary US and Brazil Soybean Quarterly Stock Levels and China Imports



The U.S. had significantly higher soybean stocks on the December 1, 2017 than Brazil and could have met the increasing import demand from China.



US and Brazil Soybean Quarterly Supply and Demand Tables

	2013/14		2014/15		2015/16		2016/17		2017/18	
	US	Brazil	US	Brazil	US	Brazil	US	Brazil	US	Brazil
Sep 1 Supply	95.2	28.6	109.4	27.4	112.0	33.8	122.3	30.3	127.8	43.2
SEP-NOV										
Imports	0.2	0.0	0.2	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Crush	12.2	8.9	11.9	9.2	12.8	10.0	13.2	8.8	13.5	10.5
Exports	18.4	4.1	22.1	2.4	21.6	6.4	25.2	2.2	23.1	9.1
Seed/Residual	6.2	2.3	6.7	2.5	3.9	2.6	5.1	2.6	5.3	2.7
Total Use	36.8	15.3	40.8	14.0	38.3	18.9	43.5	13.6	41.9	22.4
Stocks (Dec 1)	58.6	13.3	68.8	13.4	73.9	14.9	78.9	16.7	86.0	20.8
DEC-FEB										
Imports	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.0
Crush	13.2	6.8	13.5	8.4	13.1	8.2	13.4	8.8	14.0	9.8
Exports	19.4	4.5	19.7	3.0	18.5	5.0	19.8	5.1	16.4	7.0
Seed/Residual	-0.8	---	-0.4	---	0.7	---	-1.5	---	-1.7	---
Total Use	31.8	11.4	32.9	11.4	32.3	13.2	31.7	13.8	28.8	16.8
Stocks (Mar 1)	27.0	2.0	36.1	2.2	41.7	1.8	47.3	2.9	57.3	4.1
Production	---	86.1	---	97.0	---	95.4	---	114.1	---	117.0
Mar 1 Supply	27.0	88.1	36.1	99.2	41.7	97.2	47.3	117.0	57.3	121.1
MAR-MAY										
Imports	0.7	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Crush	11.8	10.7	13.2	11.3	13.2	11.6	12.8	11.6	11.6	11.6
Exports	5.2	22.3	5.1	24.1	4.9	29.0	7.0	30.4	30.4	30.4
Seed/Residual	-0.3	1.8	1.0	-1.6	0.0	1.0	1.4	-1.2	-1.2	-1.2
Total Use	16.7	34.7	19.2	33.8	18.1	41.7	21.2	40.8	40.8	40.8
Stocks (Jun 1)	11.0	53.6	17.1	65.5	23.7	55.7	26.3	76.3	76.3	76.3
JUN-AUG										
Imports	0.8	0.2	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Crush	10.0	10.4	12.3	11.1	12.2	9.9	12.4	11.0	11.0	11.0
Exports	1.6	16.0	3.2	20.6	7.9	15.6	7.1	22.1	22.1	22.1
Seed/Residual	-2.2	---	-3.4	---	-1.6	---	-1.4	---	-1.4	---
Total Use	9.3	26.4	12.1	31.8	18.5	25.5	18.2	33.1	33.1	33.1



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