

Special Report: China Moves to Restrict Soymeal Trade with 13 Percent Value-Added Tax

Issue

The Chinese Tax Authority has announced that it will impose a 13 percent value-added-tax (VAT) on soybean meal, effective January 1, 1999. The tax, which already exists for soybean and soybean meal imports is intended to benefit domestic farmers and crushers. Fish meal remains exempt from the VAT tax. Soybean meal imports are expected to fall - this month, USDA lowered China's 98/99 import forecast for soybean meal by 500,000 tons to 3.0 mln tons. China remains a soybean, meal and oil deficit country, and the policy could actually increase soybean imports.

Summary: Implications for Soy Product Imports

- China is embarking on a trend of importing oilseeds as opposed to the products meal and oil. As the chart indicates, China's crackdown on vegetable oil smuggling and fears of a retroactive VAT on meal imports have already resulted in an increase in soybean and rapeseed imports in MY 1998/99.

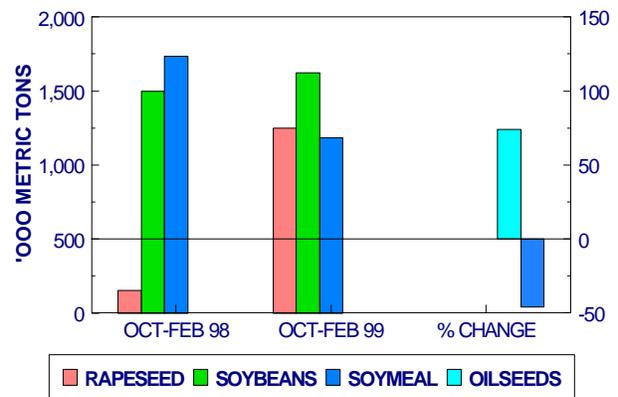
- **Soybean meal imports** will slow even further due to VAT exemptions for fish meal. China also increased its production of fish meal in 1998. Combined with a recovery of world fish meal production in 1999, Chinese imports and use of fish meal are expected to rebound.

- **Soybean oil and other edible oil imports** will remain limited by the amount of import quotas issued. Imports have slowed due to the lack of import quotas, which are expected to be issued soon.

Near-term imports of oilseeds for crushing should favor soybeans.

Rapeseed imports, although at a record level, will slow seasonally this spring.

OIL AND MEAL IMPORT LIMITATIONS HAVE LED TO INCREASE IN OILSEED IMPORTS



Analysis

- Due to large supplies and policy uncertainty, soybean meal imports have slowed in early 1999. During this spring and summer, the pace is expected to slow further. The VAT will have the fundamental effect of increasing the cost of soybean meal imports, thus lowering import demand. The new price structure will lead to an increase in whole soybean imports (and domestic soybean crush) at the expense of soybean meal imports. The timing of this switch will benefit Brazil which is prepared to export a record amount of soybeans from the crop it is currently harvesting.

- Of the remaining protein meal trade, the share of soybean meal imports is expected to fall. A rebound in world availabilities of fish meal will satisfy a larger share of China's high protein meal demand in 1999.
- Soybean imports currently remain ahead of last year's pace, and MY 1998/99 imports are forecast to grow 17 percent year-to-year. Rapeseed imports are slowing after reaching 1.3 mln tons during Oct-Feb. The prospect for soybean imports remains positive despite rumors that China will also move to slow this trade, or even subsidize its own exports.
- **Implications for the world oilseed trade:** In summary, China's import demand for soybeans will grow in 1999, following continued positive domestic economic growth and an expected improvement in crushing margins. Soybean imports are currently forecast at 3.5 million tons with further growth possible, yet dependant on the level of rapeseed imports, protein meal imports and other changes in policy.
- The United States is most competitive in soybean trade in Asia. In 1997/98 China imported 64 percent of its soybeans from the United States compared to only 18 percent of its soybean meal. Thus, any policy change favoring soybean imports should - in a typical year - benefit United States producers more than other soybean exporters. However, Brazil is expected to export a record amount of soybeans in 1999. There are already signs that the United States will lose market share in China and East Asia.

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