China lockdown sends ripples across international animal production

For animal production, just as for many other sectors that trade globally, China is a central node within our industry's complex supply chains. As China is starting to lift its restrictions again, what can we say about the knock-on effects of China's lock-down on animal production to date? And what happens now that these measures are replicated in other markets?

Soaring Chinese demand for chicken and pork imports

Wuhan, the capital of Hubei province in China, is home to more than 11 million inhabitants and to the Huanan Seafood Wholesale Market, where the first human infection with SARS-CoV-2 likely took place. From January 23, 2020, onwards, Chinese authorities effectively put all of Wuhan under quarantine: Places and trains could no longer leave the city, buses, subways, and ferries were suspended. Lock-down measures were extended to much of Hubei province and beyond.

According to analysts and Chinese state media, poultry production was seriously affected: Transport restrictions prevented feed such as soybean meal from being delivered to poultry farms, forcing farmers to cull millions of young birds. Hence, the first noticeable ripple effects on international animal production were felt in terms of Chinese import demand. In February, the Financial Times reported that China lifted the ban on importing live chickens from the US to tackle the worsening protein shortage.

This protein shortage is, of course, a longer-term issue due to African Swine Fever's decimation of the Chinese hog population by 40% that has sent pork prices skyrocketing in the past year and fueled inflation. According to Nikkei Asian Review, the added pressure of COVID-19-related domestic transport disruption on pork prices has led to a boost in Chinese demand for imported meat. The U.S. Meat Export Federation reported that US pork exports to China in January 2020 were almost ten times higher than the year before, reaching 74,350 metric tons. However, pork exporters were and still are having trouble getting their pork into China because of the lockdown measures' paralyzing effect on sea freight.

Prices hikes for vitamins and amino acids

By the same token, Chinese manufacturers were and still are having trouble getting their products out of China, or even more fundamentally, producing them in the first place. Much of the world's supply of feed

ingredients such as B vitamins, vitamin D3, threonine, and lysine is produced in China. The ripple effect of China's lockdown on global animal production supply chains has thus been keenly felt in terms of the availability and pricing of multiple vitamins and amino acids.

Delayed January exports are starting to trickle in, but disruptions in shipping links are expected to continue for some time yet – and supply chain bottlenecks translate into price hikes. Analysts report vitamin and amino acid price hikes of varying magnitude relative to pre-pandemic levels, and markets appear to be getting more volatile rather than more stable. Among others, Nan-Dirk Mulder, Senior Global Specialist for Animal Protein at Rabobank, therefore, expects animal health and feed additive prices to continue to rise in 2020.

China restrictions ease, but everyone else under lockdown

If we look at China in isolation and assume that its lifting of restrictions will steadily continue, there is reason to be cautiously optimistic. Martijn de Cocq, Lead Analyst at FeedInfo News Service, reports that Chinese production of premix, compound feed, and amino acids and vitamins is back to 80-90% of 2019 levels. Against a backdrop of backlogs, low stock levels, and shortages of certain raw materials, manufacturers are playing catch-up now to meet both domestic and export demand, putting pressure on spot prices for various feed additives and also on seaport capacity.

Chinese economic recovery also bodes well for animal product import demand. Despite the delays and disruptions to supply chains and trade flows caused by COVID-19, Iowa State University researchers Wendong Zhang and Tao Xiong, for instance, anticipate American exports of poultry, pork, and beef products to China to grow from $3 billion to $5 billion in 2020.

However, even if China bounces back quickly, eschews further rounds of lockdown measures, and returns to producing and shipping its usual volumes of feed additives (albeit at temporarily higher prices) – in terms of global animal production, we also have to ask ourselves what happens in the target markets for Chinese exports.

Deciding factors: transport and labor

Specifically, we have to consider domestic transport logistics, e.g., how raw materials are getting from ports to feed manufacturing facilities how end products are getting to farms. The undisrupted functioning of the feed supply chain is indispensable for animal production. Hence, many countries have already explicitly classified feed as an essential good that needs to be exempt from transport restrictions imposed to stem the spread of Sars-Cov-2. The EU Commission, for instance, has adopted a directive on "green lanes" to facilitate cross-border freight transports, including that of feedstuffs. The other hot-button cross-border topic, which eventually will affect animal feed as well, is, of course, seasonal labor, which is urgently required for spring planting in both Europe and North America.

The big dark cloud hovering over every sector within animal production is the question of what would happen if they are severely affected by staff shortages due to coronavirus infections. We simply don't know. All lockdown measures put in place right now, at a considerable social and economic cost, are about preventing a scenario where large parts of the population are simultaneously ill. However, at the level of, say, a feed mill or a farm, even just a few infections among staff, could require them to suspend operations, with unthinkable consequences for animal welfare and food security.

In the absence of a crystal ball, we have to accept a certain baseline of unnerving uncertainty about future developments and focus on the positives: Globally, feed manufacturing is going strong, and animal producers are busier than ever to play their role in maintaining reliable food supply chains during these extraordinary times.