

Potential Wheat Demand in China: Applicants for Import Quota

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Summary

What Is the Issue?

China is the world's largest wheat market, but its wheat imports are constrained by a tariff rate quota (TRQ) system. The process for distributing quotas to applicants is opaque. Moreover, a more commercialized flour-milling industry—the source of most demand for imported wheat—has emerged since the quota system was adopted in 2001. This study analyzes lists of companies applying for quotas in order to better understand the operation of the TRQ system and China's potential demand for wheat imports.

What Did the Study Find?

Wheat imports at the 1-percent in-quota tariff appeared to be profitable, while imports outside the quota system were unprofitable. Correspondingly, more than 900 Chinese companies applied for TRQs during the 7 years of applications examined, including 177 companies that applied every year. However, the wheat TRQ never filled during those years.

Applicants for wheat TRQ were predominantly wheat-milling companies, but food processing, trading companies, and feed-milling companies also applied. Applicants appeared to be larger in scale than most flour-milling companies. Applicants were predominantly private sector companies, but state-owned and multinational applicants were also common—largely reflecting the composition of firms in the industry. China reserves 90 percent of the wheat TRQ for importation through one state-designated trading enterprise (STE). Besides the STE, 45 other state-owned companies comprised about 5 percent of TRQ applicants. China revised application procedures in 2020, but it remains unclear whether privately owned applicants can import through the STE.

Wheat-growing provinces consistently accounted for about three-fourths of TRQ applicants, reflecting the geographic concentration of flour-milling in those regions. However, customs statistics indicate that companies in those provinces together accounted for only 10 percent of wheat imports. About 80 percent of wheat imports were



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attributed to companies headquartered in Beijing and Guangdong Province—regions that have relatively few flour mills and few applicants for TRQ. The geographic disparity between applicants and imports implies that applicants located in wheat-growing regions have a lower chance of obtaining a share of the import quota.

How Was the Study Conducted?

The study describes China's tariff rate quota system for wheat and analyzes features of potential wheat importers revealed in lists of TRQ applicants posted on the National Development and Reform Commission (NDRC) website from 2015 to 2021. The number of applicants, their locations, products, and processing volume/capacity were analyzed. The lists do not reveal quota allocated to applicants, nor the applicants' actual volume of wheat imported. The geographic distribution of TRQ applicants was compared to the geographic distribution of wheat imports tabulated from customs data to infer patterns of quota allocation to applicants in various regions.