



## Agricultural Industry – No.1 Policy for 2013

This China law special discusses China's agricultural policy priority for the year 2013, focusing on family farms and farmer cooperatives, agricultural subsidies, agricultural financing and food safety.

We will set out the main features of the new No.1 Policy. Moreover, we will discuss the impact we expect the policy to have on foreign companies who wish to engage in the Chinese agricultural industry.

### Introduction

Since 2003, the Chinese government has adopted a series of measures to support and benefit agriculture, farmers and the countryside (the "Three Nongs") in China. Agricultural tax was cancelled, and China's agricultural system stepped into the so-called Agricultural Adjustment Period.

The first policy document of China (the "No.1 Policy") is regarded as an indicator of the country's policy priority on Agriculture. The No.1 Policy is issued once a year by the Central Committee of the Communist Party of China and the State Council and concentrates on various aspects of the Three Nongs.

On 31 January 2013, in its tenth anniversary, the No.1 Policy for 2013 was released. The policy focuses on encouraging family farms and farmer cooperatives, as well as on agricultural subsidies, agricultural financing and food safety.

### History of the Policy

The various No.1 Policies have introduced many incentives to support the agricultural industry and have aimed to raise agricultural subsidies, improve food safety and agricultural competitiveness, increase grain production, protect the environment, improve social and technical infrastructure in the countryside, etc.

The table below lists the key features of the No. 1 document on agriculture from the year 2004 to 2013.

<b>2013</b>	Encouraging family farm & farmer cooperatives
<b>2012</b>	More investments on agricultural technology
<b>2011</b>	Constructing water conservancy
<b>2010</b>	Promoting new socialist countryside
<b>2009</b>	Improving the system of transferring land-use contracts
<b>2008</b>	Urban area supporting rural area
<b>2007</b>	Introducing the modern concept of development to agriculture
<b>2006</b>	Industry supporting Agriculture
<b>2005</b>	Exempting agricultural tax
<b>2004</b>	More agricultural subsidies

This overview shows that rural development and investment are recurring objectives, even though at times approached from a different angle.

Even though the governmental policies have over the years improved the Chinese agricultural industry, rural development still lacks behind the development in urban areas. As a result many farmers and/or the children of farmers have migrated to urban areas. Consequently, many farms can no longer be operated to their full capacity and a great deal of agricultural knowledge and

experience is not sustained. The No.1 Policy for 2013 aims to, amongst others, forestall this migration.

### **The No.1 Policy for 2013**

#### **Introduction of “family farm”**

A family farm is a farm of moderate scale owned and operated by a single family. This type of farm has been targeted in prior No.1 Policies, but is now subject to a clearer set of standards. For example, a family farm needs to apply for a license from the local Administration for Industry and Commerce. On 1 April 2013, the first family farm license in Jiangsu Province was granted to a family engaged in planting rice. Even though currently a country-wide regulation on the registration of family farms does not exist, they are expected to be recognized as legal entities in the future. The registration of family farms allows them to conduct business with companies in a more structured way. The financial conditions of family farms will be more transparent under the Policy.

This policy is mainly designed to encourage rural residents to continue their farms rather than moving to the cities to look for jobs in a non-agricultural sector.

#### **Re-emphasizing agricultural subsidies**

The No.1 Policy for 2013 re-emphasizes the governmental incentive of granting of agricultural subsidies. We therefore believe that more favorable policies for the agricultural sector are expected to be published in the course of 2013.

In 2013, agricultural subsidies are likely to be granted to family farms and to specific industries such as the seed industry, agricultural machinery industry, and other industries needing modern agricultural technologies.

#### **Stimulating agricultural financing**

In China, farmers are not allowed to mortgage their house, nor are they allowed to mortgage any rights of land-use or farmland-use, as such rights are allocated to them by the Rural Collective. This limits their options to attract financing. The new No.1 Policy announces more incentives for agricultural financing such as loan discounts and tax exemptions. Family farms are expected to enjoy more favourable policies than larger agricultural enterprises. Companies are encouraged to provide funds or invest in agricultural production.

#### **Stricter standards on agricultural-food safety**

Large retailers have difficulties assessing the quality and safety of products that come from small farms. Food safety is a key concern in China and the small scale

production from smaller farms and food processing companies is generally less modernized and more time consuming to inspect. The No.1 Policy acknowledges this issue and sets one of its priorities on imposing stricter standards on agricultural food safety.

#### **Impact on foreign agricultural companies**

The No.1 Policy now makes it easier for agricultural companies to apply for subsidies, funding and tax exemptions. With help from this policy, Chinese farmers will have a growing purchasing power and we expect the policy to expand domestic demands.

In its ambition to further improve the national agricultural industry, China is increasingly looking at foreign countries with strong developed agricultural industries.

For those foreign agricultural companies with profound knowledge in the areas of food safety, livestock breeding, farming and/or the slaughtering industry, we see growing opportunities to successfully doing business in China.

#### **HIL International and our agricultural practice**

HIL is a firm specialized in Chinese agricultural law and practice.

If you are interested to be held up-to date on relevant developments, or if you would like to receive further information or advice on this issue, please feel free to contact us.

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