

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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China - Peoples Republic of

Dairy and Products Annual

2015

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Report Highlights:

China is the world's fourth largest dairy producer, and a major importer, primarily of powdered milk. Falling international prices and high production costs led to plummeting production in 2015, with only partial recovery expected in 2016. Despite serious structural, infrastructure, and competitiveness challenges facing China's dairy industry, milk production is expected to benefit from improved genetics and gradually increasing average farm size. Imports of UHT milk, dominated by Europe, are expected to benefit from the booming e-commerce platform. U.S. exports continue to be hampered by new registration requirements. Whole milk powder imports are forecast to recover to 400,000 but far below 2014 levels of 671,000 tons.

Commodities:

Dairy, Milk, Fluid

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

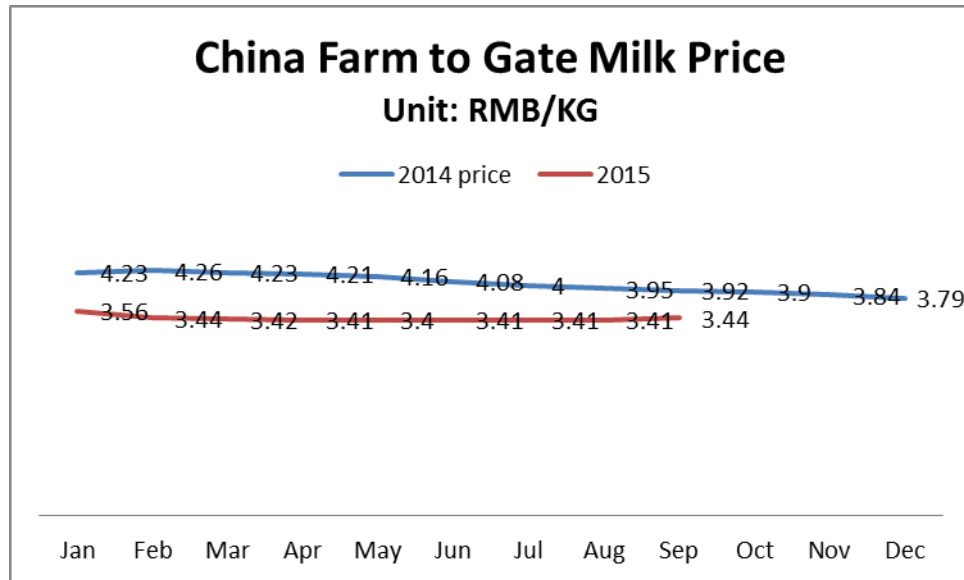
Fluid milk PS&D table

Dairy, Milk, Fluid Market Begin Year China	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	8500	8400	8400	8400	0	8500
Cows Milk Production	37250	37250	37500	37250	0	38000
Other Milk Production	1550	1550	1600	1550	0	1600
Total Production	38800	38800	39100	38800	0	39600
Other Imports	320	320	350	350	0	380
Total Imports	320	320	350	350	0	380
Total Supply	39120	39120	39450	39150	0	39980
Other Exports	26	26	25	25	0	25
Total Exports	26	26	25	25	0	25
Fluid Use Dom. Consum.	15150	15150	15450	15150	0	15450
Factory Use Consum.	23944	23944	23975	23975	0	24505
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	39094	39094	39425	39125	0	39955
Total Distribution	39120	39120	39450	39150	0	39980

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Production:**Milk production continues to increase slightly in 2016**

Post forecasts 2016 milk production at 38 million tons, a slightly increase from USDA's 2015 estimate, reflecting the rising number of dairy cows. Improved genetics from imported live dairy cows helped increase milk production per animal. Australia is the leading source of live dairy cattle and the free trade agreement signed between the two countries should strengthen its leading position. Chile became a new source of live cattle in 2015 and sent more than 6,000 head to China through the first eight months of 2015; the majority of them were dairy cows. The U.S. has been banned from supplying live cattle to China since BSE was detected in the U.S. in late 2003.



Source: MOA

Domestic milk prices are expected remain low in 2016, constrained by continuing low international market prices due to production increase in major exporting countries to China such as Europe and New Zealand. The continued low milk prices forced many smaller farms to close and accelerated ongoing structural changes in the industry. The structural changes involve building larger scale dairy farms to improve efficiency and reduce cost. Besides economies of scale, the government believes larger enterprises will lead to a safer dairy supply.

Policy

In 2015, China’s Ministry of Agriculture announced it will continue its dairy cow semen subsidy policy in order to improve breeding stock. The subsidy, provided to farmers, covers doses for approximately 8.4 million breeding cows. The species included are Holstein (covers Jersey), buffalo, Simmental, Brown cattle, Yak and SanHe cattle. MOA has a program to subsidize approximately 3,000 embryos but large dairy farms prefer imported semen or embryos over domestic ones because of the perception of better quality.

Consumption

Demand up slightly in 2016

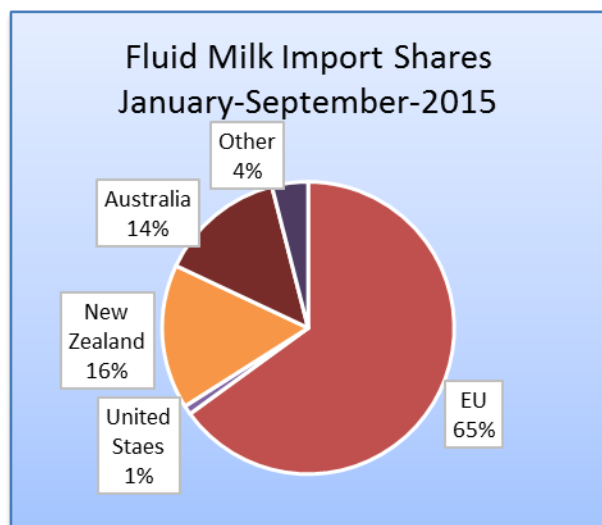
Post forecasts fluid milk consumption at 40 million tons, a slight increase from the previous USDA estimate. In order to stay competitive, industry sources report that Chinese dairy companies use low-priced imported whole milk powder to turn back into fresh milk. It is estimated that approximately 20 percent of imported whole milk powder is turned back into milk. Domestically produced fresh fluid milk is constantly selling in retail packaging at promotional prices in supermarkets and many dairy farms started to sell fresh milk in retail package under their own brand as a way to increase their margins.

Trade

Imports of UHT milk will continue to grow in 2016

Post forecasts imports of UHT milk at 380,000 tons, an 8.5 percent increase over USDA's official estimates. Traders report that confidence in the safety of imports is driving the growth. Furthermore, UHT milk has now reached China's second and third tier cities, adding millions more potential consumers. Booming e-commerce platforms provide easy access channels and home delivery for consumers in inland China. The expected low international prices for UHT milk in 2016, and thriving e-commerce development in China, will continue to boost the sales and consumption of imported UHT milk. Policy changes in Europe are expected to allow the EU to continue to dominate the market.

Imports from U.S. are constrained by the slow approvals of U.S. dairy products under China's new registration regulations (see Import Policy). Once resolved, imports of U.S. fluid milk are expected to get a boost thanks to overall good perception about U.S. products in China.



Source: China Customs

Import Policy

Those interested in exporting dairy exports to China must be in compliance with Decree 145, administered by the Certification and Accreditation Administration (CNCA). Since the implementation of Decree 145, many U.S. companies have noted delays in getting their dairy plants and products registered. U.S. government agencies and U.S. industry are working closely with Chinese authorities in an attempt to speed up the registration approval process. For further background information please see the following GAIN report [Registration of Overseas Food Manufacturing Facilities](#) and visit the U.S. FDA website for registration guidance at:

<http://www.fda.gov/food/guidanceregulation/guidancedocumentsregulatoryinformation/importexports/cm378777.htm>

Whole Milk Powder PS&D table

Dairy, Dry Whole Milk Powder	2014	2015	2016
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Market Begin Year China	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	130	130	300	300	0	109
Production	1350	1350	1375	1375	0	1500
Other Imports	671	671	400	350	0	400
Total Imports	671	671	400	350	0	400
Total Supply	2151	2151	2075	2025	0	2009
Other Exports	6	6	6	6	0	2
Total Exports	6	6	6	6	0	2
Human Dom. Consumption	1845	1845	1980	1910	0	1920
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1845	1845	1980	1910	0	1920
Total Use	1851	1851	1986	1916	0	1922
Ending Stocks	300	300	89	109	0	87
Total Distribution	2151	2151	2075	2025	0	2009

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Production

Low raw milk prices lift whole milk powder production

Post forecasts production continues to increase to 1.5 million tons due to low milk prices and increased milk production. Large dairy companies will continue to turn additional milk into powder to store and reduce losses. Processors continue to turn unutilized fluid milk into powder as the most economical way to deal with this surplus. The domestic milk powder products 'shelf life is usually 1 year versus the 2 year shelf life for imports.

Consumption

Consumption to remain flat in 2016

Post forecasts 2016 consumption at 1.9 million tons, slightly below USDA estimates for 2015. Whole milk powder is used for infant formula, milk beverages, reconstituted milk, ice cream, and the bakery sector. The table below illustrates whole milk powder usage in China and an approximate market share in each category. The demand for reconstituted milk (turned from whole milk powder) will continue to increase, supported by the urbanization process in third and fourth tier cities that increase marketing channels. Much of China's production is located in the northern part of the country while the majority of consumers are located in east and south China. Cold chain networks are not well-developed, making reconstituted milk a practical choice to meet the demand of Chinese consumers, especially outside major cities.

Approximate Whole Milk Powder Usage in China	
Infant formula	37% market share
Milk beverage	32% market share
Reconstituted milk(turn back into milk) and Yogurt	22% market share
Ice cream	3% market share
Chocolate and bakery	5% market share

Source: Industry Publications

Trade

Imports likely to recover in 2016

Post forecasts 2016 imports at 400,000 tons up from the adjusted 2015 number, which has been lowered to 350,000 tons. Imports will likely rebound as Chinese dairy companies draw down carry-over stocks through the end of 2015. The new import environment reflects a dramatic change from an import surge that occurred from October 2013 through May 2014. At that time, industry predictions of higher milk prices for 2014 and the possible negative side effects of China's new foreign facility registration policy on import dairy products, that became effective on May 1st 2014 helped fuel imports.

This is New Zealand dominates the WMP import market with more than 90% market share. However, trade sources report that Chinese firms are increasingly eyeing alternative supply sources and are actively seeking overseas investments.

Export

China exports negligible amounts of whole milk powder due to international competition. Post forecasts exports will drop to 2,000 tons in 2016. Export destinations are Myanmar, United Arab Emirates, Turkey, Hong Kong and North Korea.

Nonfat Dry PS&D table

Dairy, Milk, Nonfat Dry Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Beginning Stocks	0	0	0	0	0	0
Production	49	49	50	45	0	40
Other Imports	253	253	200	200	0	210
Total Imports	253	253	200	200	0	210
Total Supply	302	302	250	245	0	250
Other Exports	2	2	1	0	0	0
Total Exports	2	2	1	0	0	0
Human Dom. Consumption	300	300	249	245	0	250
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	300	300	249	245	0	250
Total Use	302	302	250	245	0	250
Ending Stocks	0	0	0	0	0	0
Total Distribution	302	302	250	245	0	250

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Production

Production of nonfat dry milk continues to decline in 2016

Post forecasts 2016 nonfat dry milk production at 40,000 tons and adjusted 2015 estimates to 45,000 tons because of availability of lower cost imports. China has limited nonfat dry milk production and consequently relies on imports almost entirely for the food processing and infant formula sectors.

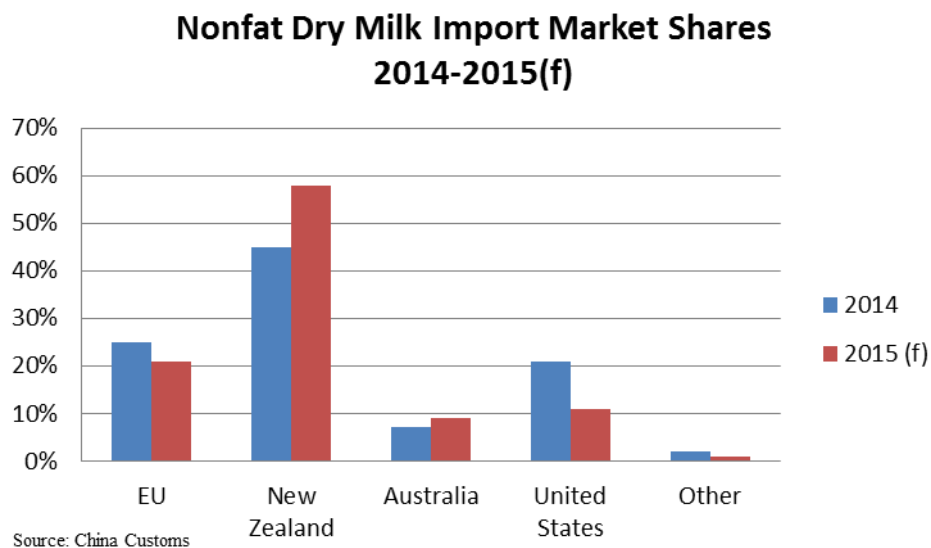
Consumption

Consumption is forecast at 250,000 tons, 2 percent increase from Post adjusted 2015 estimates. The outlook for nonfat dry milk remains relatively stable as decline in infant formula use is offset by growth

in lactobacillus beverage products. China's CFDA announced its new registration regulations that require domestic Chinese infant formula companies to register their formula and one formula can only be used for one brand. The new regulations are expected to affect negatively the production of domestic infant formula. However, the government hopes the new regulations will increase the safety and consumer confidence in the domestic products.

Trade

Post forecasts 2016 imports at 210,000 tons and further adjusted 2015 imports down to 200,000 tons. New Zealand and the EU are supplying most of China's import demand. The free trade agreement between Australia and China will boost access and may help Australia surpass the United States as the third leading supplier to China.



Government encourages overseas Investment

On August 18th, at the China D20 dairy summit, China's Vice Premier Wang Yang encouraged top dairy companies to go abroad to acquire dairy resources to meet the growing demand in China. Many large dairy concerns have already acquired and established overseas production bases. Popular destinations for investment are those countries that have free trade agreements with China such as New Zealand and Australia. Some Chinese consumers turned to overseas milk products when melamine was found in baby formula.