

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Dairy and Products Semi-annual

2015 Dairy and Products Semi-annual

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Report Highlights:

Changing market conditions have led Post to make adjustments in dairy forecasts. Post forecasts China's 2015 fluid milk production at 38 million tons, largely unchanged from the previous year, because of a slower economic growth, and falling domestic prices. Despite increasing fluid milk imports, U.S. imports are off more than 50% as a result of delays U.S. dairy plants are experiencing in gaining export approvals under China's newly implemented registration process. Post forecasts whole milk powder imports to decline to 400 thousand tons, a decrease of 30% from last year as a result of large carry-over stocks from 2014. Imports of non-fat dry milk powder continue their upward trend supported by infant formula and milk beverage production.

Dairy, Milk, Fluid

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Fluid milk PS&D table

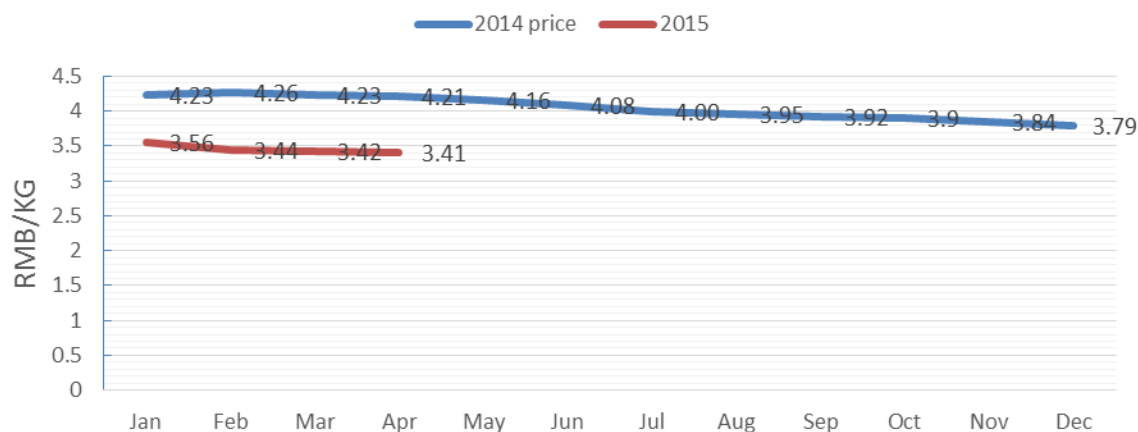
Dairy, Milk, Fluid	2013		2014		2015		
Market Begin Year	Jan 2013		Jan 2014		Jan 2015		
China	USDA Official	Old Post	USDA Official	New Post	USDA Official	New Post	
Cows In Milk	8350	8350	8710	8400	9000	8400	(1000 HEAD)
Cows Milk Production	34300	34300	36000	37250	37500	37250	(1000 MT)
Other Milk Production	1450	1450	1500	1550	1484	1550	(1000 MT)
Total Production	35750	35750	37500	38800	38984	38800	(1000 MT)
Other Imports	185	185	300	320	400	350	(1000 MT)
Total Imports	185	185	300	320	400	350	(1000 MT)
Total Supply	35935	35935	37800	39120	39384	39150	(1000 MT)
Other Exports	26	26	22	26	25	25	(1000 MT)
Total Exports	26	26	22	26	25	25	(1000 MT)
Fluid Use Dom. Consum.	14350	14350	15111	15150	15744	15150	(1000 MT)
Factory Use Consum.	21559	21559	22667	23944	23615	23975	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	35909	35909	37778	39094	39359	39125	(1000 MT)
Total Distribution	35935	35935	37800	39120	39384	39150	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD	0	0	0	0	0	0	

Production:

Milk production is flat in 2015

Post forecasts 2015 milk production at 37.25 million tons, a slight decrease from the previous USDA estimate, as dairy firms are constrained by declining domestic raw milk prices. Farm gate milk prices have declined 19% since January, 2014. Declining prices have been particularly painful for smaller dairies that invested heavily during the recent boom in Chinese dairy when prices soared. Industry sources note that many of these small operations have been dumping milk and culling their herd or selling their cows to larger dairy farms in order to stem their losses.

Farm Gate Milk Prices Continue to Decline Unit: RMB/KG



Source: MOA

These conditions have also forced many smaller farms to exit the business and facilitated ongoing structural changes in the industry. This restructuring involves building larger scale dairy farms to improve efficiency and reduce cost. Besides economies of scale, the government believes larger enterprises will lead to a more manageable and safer dairy supply.

Production is also aided by improved genetics from the imports of live dairy cattle that have helped improve milk production per cow. According to China customs, in 2014 China imported 196,770 heads of dairy cow; Australia is the leading supplier followed by New Zealand and Uruguay. The U.S. has been banned from supplying live cattle since BSE was detected in the U.S. in late 2003.

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 will also start embryo subsidy in 2015, and is planning on subsidizing 3,000 embryos.

Consumption

Demand growth is weak in 2015

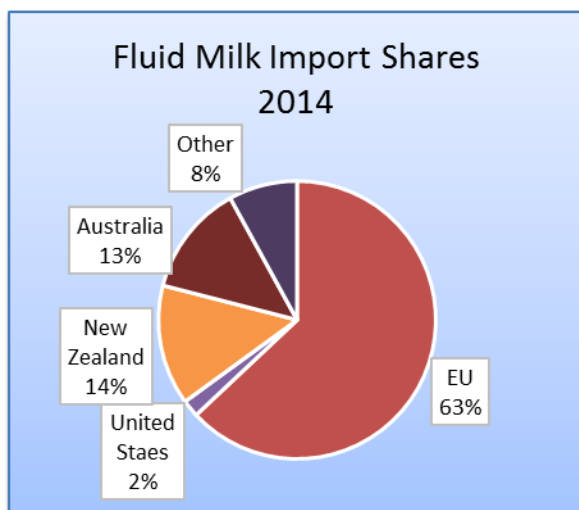
Despite urbanization and growing popularity of fresh milk, Post forecasts fluid milk consumption at 39 million tons, a slight decrease from the previous USDA estimate as a result of a slowing economy. According to industry sources, in order to remain competitive, many dairy companies have abandoned lower end fresh milk product lines, often sold in plastic bags, in favor of more highly packaged products. They report that the smaller volumes and higher per unit prices improve profit margins.

Trade

Imports of UHT milk continue to grow in 2015

Post forecasts imports of UHT milk at 350,000 tons. This is below USDA’s estimate for 2015 but still an increase from USDA’s 2014 official estimates. Traders report that confidence in the safety of imports drives growth. Furthermore, UHT milk has now reached China’s second and third tier cities adding millions more of potential consumers. Additionally, the EU’s decision to lift production quotas combined with the Russian ban on dairy products from Europe led to very competitive UHT prices in China.

The U.S. saw import gains made in 2014 evaporate during the first three months of 2015, with the decline attributed to delays in 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 recover.



Source: China Customs

Imports are also aided by e-commerce platforms that provide easy access channels and home delivery for consumers in inland China. Current low international prices for UHT milk, and thriving e-commerce development in China, will continue to boost the sales and consumption of imported UHT milk.

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 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	2013	2014	2015

Market Begin Year	Jan 2013		Jan 2014		Jan 2015		
China	USDA Official	New Post	USDA official	New Post	USDA Official	New Post	
Beginning Stocks	60	60	126	130	154	300	(1000 MT)
Production	1200	1200	1250	1350	1350	1375	(1000 MT)
Other Imports	619	619	680	671	600	400	(1000 MT)
Total Imports	619	619	680	671	600	400	(1000 MT)
Total Supply	1879	1879	2056	2151	2104	2075	(1000 MT)
Other Exports	3	0	2	6	2	6	(1000 MT)
Total Exports	3	0	2	6	2	6	(1000 MT)
Human Dom. Consumption	1750	1749	1900	1845	2009	1980	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	1750	1749	1900	1845	2009	1980	(1000 MT)
Total Use	1753	1749	1902	1851	2011	1986	(1000 MT)
Ending Stocks	126	130	154	300	93	89	(1000 MT)
Total Distribution	1879	1879	2056	2151	2104	2075	(1000 MT)
CY Imp. from U.S.	2	0	3	1	0	2	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD	0	0	0	0	0	0	
Comments							

Production

Low raw milk prices lift whole milk powder production

Post forecasts production at 1.4 million tons, up slightly from USDA's previous official forecast. Increase in production is due to large milk producing companies turning more milk into powder to reduce losses. Additionally, authorities are encouraging companies to honor their prior contracts to purchase milk from farmers. Processors report that turning unwanted fluid milk into powder is the most economical way to deal with this surplus.

Consumption

Consumption driven by food processors and UHT milk production

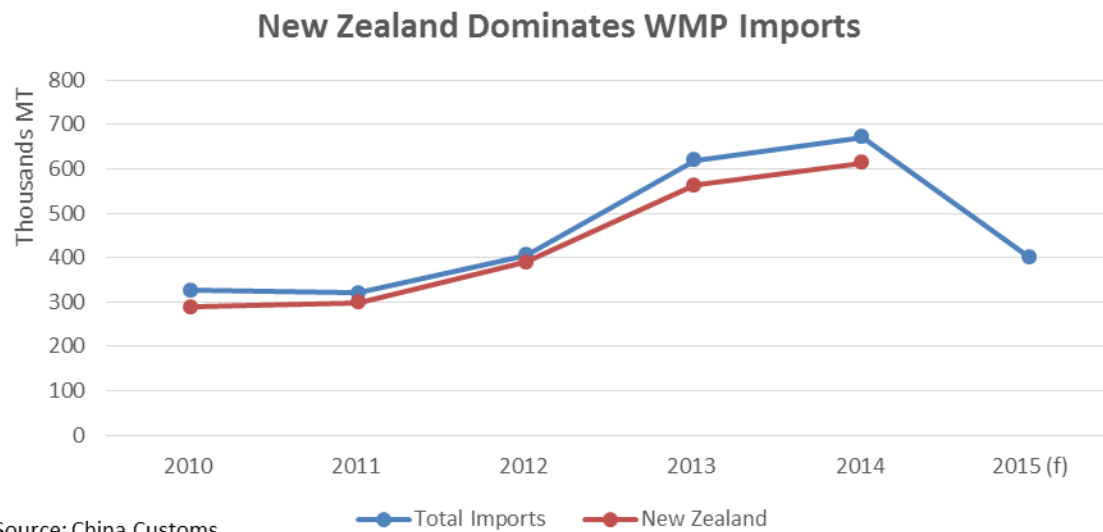
Post forecasts consumption at 2 million tons, slightly under the previous estimate for 2015. However, overall consumption is supported by growth of UHT milk demand. Local UHT milk produced with low priced WMP is significantly cheaper than fresh milk. Additionally, industry sources say demand for

whole milk powder for use in yogurt production, beverage drinks, and food processing is anticipated to remain stable in 2015.

Trade

Greater than expected carry-over stocks from 2014 will reduce import demand

Post is lowering its whole milk powder import forecast by 30% to 400 thousand tons. Trade sources report China has 300 thousand tons in carry-over stock on hand, double the previous USDA estimate. These carry-over stocks are likely to suppress import demand for the remainder of 2015. New Zealand dominates the WMP import market with a 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. Post forecast exports at 6,000 tons in 2015. Malaysia, China's largest whole milk powder export market, accounted for 30% of total exports in 2014, followed by Nigeria with 20%.

Nonfat Dry PS&D table

Dairy, Milk, Nonfat Dry Market Begin Year China	2013 Jan 2013 USDA Official	New Post	2014 Jan 2014 USDA Official	New Post	2015 Jan 2015 USDA Official	New Post	
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	54	54	49	49	50	45	(1000 MT)
Other Imports	235	235	285	253	310	268	(1000 MT)
Total Imports	235	235	285	253	310	268	(1000 MT)
Total Supply	289	289	334	302	360	313	(1000 MT)
Other Exports	0	0	0	2	0	0	(1000 MT)
Total Exports	0	0	0	2	0	0	(1000 MT)
Human Dom. Consumption	289	289	334	300	360	313	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	289	289	334	300	360	313	(1000 MT)
Total Use	289	289	334	302	360	313	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
Total Distribution	289	289	334	302	360	313	(1000 MT)
CY Imp. from U.S.	53	53	20	49	0	51	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD	0	0	0	0	0	0	
Comments							

Production

Production of nonfat dry milk continues to decline 2015

Post forecasts nonfat dry milk production at 45,000 tons, a 10% decrease from previous USDA estimates 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 313,000 tons with demand primarily supported by infant formula and milk beverage production. Further support for demand is China's growing elderly consumer population that tends to favor products that utilize skim or low fat milk powder.

Trade

Post forecasts imports at 268,000 tons, with New Zealand and the EU supplying most of China's import demand. Competitive pricing and an increased focus the Chinese market has helped the United States gain market share in recent years.

