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Report Highlights:

Post forecasts domestic raw milk production to grow marginally due to improved dairy milk yield despite declining cow inventories in 2025. Imports of fluid milk, whole milk powder, and skim milk powder are forecast to continue declining in 2025 due to higher domestic milk production. Post forecasts cheese imports to decline in 2025 due to the decreased demand for processed cheese. Butter imports are forecast at similar levels in 2025. Post forecasts whey imports to stay at similar levels in 2025 as demand for feed use is expected to grow while demand for food use is anticipated to decline.

EXECUTIVE SUMMARY

The forecasts and revised estimates provided in this report are issued by FAS China and are not official USDA data.

Fluid milk: Domestic raw milk production will grow marginally in 2025 due to improved dairy milk yield (DMY) despite declining cow inventories. Post forecasts fluid milk imports to decline while exports grow due to higher domestic milk production in 2025.

Whole Milk Powder (WMP): Post forecasts WMP production to continue to grow in 2025 due to higher raw milk production. WMP imports will decline due to higher domestic WMP supply and lower consumption.

Skim Milk Powder (SMP): Post forecasts SMP production to grow in 2025 due to higher butter production. SMP imports could decline in 2025 due to high domestic production and weak consumption.

Cheese: Domestic cheese production will grow gradually in 2025 from some major cheese producers. However, Post forecasts cheese imports to decline in 2025 due to decreased demand for processed cheese.

Butter: Post revised up its 2024 butter production estimate higher and forecasts butter production in 2025 to grow to higher levels due to higher domestic raw milk and cream production. Although consumption will grow in 2025, Post forecasts butter imports to stay at similar levels in 2025 to that of 2024. Increased domestic production will be sufficient to handle the growing demand.

Whey and Whey Products: In 2025, Post forecasts whey imports to stay at similar levels to 2024. Although marginal growth in China's piglet inventory will support stronger demand in feed use, a declining population and low prices of domestic raw milk will moderate whey use in food.

FLUID MILK

Table 1. China: Production, Supply, and Distribution for Fluid Milk

Dairy, Milk, Fluid	2023		2024		2025	
Market Begin Year	Jan 2023		Jan 2024		Jan 2025	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
						Units: 1000 Head, 1000 MT
Cows In Milk	6600	6600	6650	6400	0	6350
Cows Milk Production	41970	41970	42500	43000	0	43400
Other Milk Production	980	930	1000	950	0	970
Total Production	42950	42900	43500	43950	0	44370
Other Imports	814	814	750	710	0	680
Total Imports	814	814	750	710	0	680
Total Supply	43764	43714	44250	44660	0	45050
Other Exports	25	25	30	30	0	32
Total Exports	25	25	30	30	0	32
Fluid Use Dom. Consum.	16500	16500	16696	16930	0	17000
Factory Use Consum.	27239	27189	27524	27700	0	28018
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	43739	43689	44220	44630	0	45018
Total Distribution	43764	43714	44250	44660	0	45050

Note: Not Official USDA Data

PRODUCTION

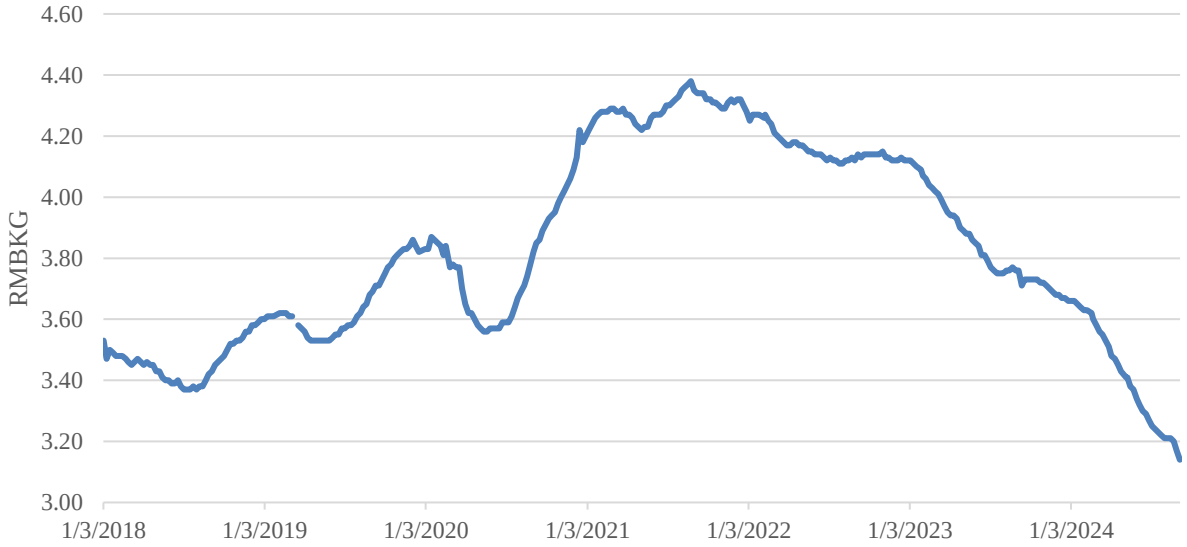
Low Raw Milk Prices Caused General Financial Losses Among Dairy Farms

Post forecasts raw milk production to grow marginally in 2025 due to improved DMY despite declining cow inventories. With a tepid market for dairy products, China's supply imbalance of raw milk worsened in 2024 as production continues to outpace consumption. As a result, raw milk prices continued to decline in the first 8 months of 2024 with an even sharper drop than in 2023 (see **Chart 1**).

The number of dairy farms operating at a loss in 2024 continued to grow. According to the National Dairy Cow System Testing System, the rate of dairy farms selling milk at prices below the cost of production reached 80 percent by the end of May 2024, while in the beginning of 2023, this rate was 60 percent. Post estimates the loss rate to further grow in later 2024. The rate of small- and medium-sized dairy farms exiting the market, which started in 2023, accelerated in 2024 as many of them reportedly cannot pay their bank loans. Many smaller dairy farms sell very limited quantities or no milk at all directly to dairy processors, forcing them to sell to middlemen[1] at extremely reduced prices.

[1] Middlemen aggregate from many small dairy operations then sell to processors.

Chart 1. China: Average Raw Milk Farm Gate Prices[2]



Source: Ministry of Agriculture and Rural Affairs (MARA)

The National Bureau of Statistics (NBS) reported that the cattle inventory[3] declined by almost 3 percent in the first half of 2024. The China Feed Industry Association also reported an over 10 percent decline in feed production for dairy cows in the first half of 2024. Sources indicate the reduction in dairy cows mostly comes from small- and medium-sized dairy farms, although less than 50 percent of dairy farms are independently owned small- and medium-sized farms.

Further Decline of Cow Inventory Curbed by Large Farm Expansions, Low Beef Prices, and Subsidies

Large dairy farms also suffered operating losses. According to semi-annual reports of nine publicly traded dairy farming companies, seven of them operated at a loss in the first half of 2024. However, dairy cow inventories in large farms continued to grow but at a slower rate. Although large dairy farms accelerated the pace of culling inefficient dairy cows, new dairy farms and large farms building their herd more than offset the number of inefficient dairy cows being culled. As mentioned in the last semi-annual report, most dairy farms are large farms owned by dairy processors or have long-term contracts with dairy processors. Large dairy farms owned by dairy processors are more resilient to low milk prices. In addition, low beef prices (see **Chart 2**) also decreased incentives to reduce dairy cow inventories. According to contacts, while milk prices are low, large dairy conglomerates are still making profit on their portfolio of dairy products which offsets losses in their dairy farms.

[2] The average price from the 10 leading raw milk production provinces and autonomous regions of Hebei, Shanxi, Inner Mongolia, Liaoning, Heilongjiang, Shandong, Henan, Shaanxi, Ningxia, and Xinjiang. Industry sources indicate farm gate prices refer to the price dairy processors pay to dairy farmers. However, as mentioned in this report, because dairy farmers cannot sell all their milk to dairy processors, sometimes they must sell to dealers at extremely low prices. Farm gate prices normally don't include prices paid to dealers.

[3] Cattle number here includes both dairy cattle and beef cattle.

Chart 2. China: Domestic Beef Prices

Source: MARA

Production Subsidy Policies

In 2024, both the central government and local governments released multiple measures to stabilize China's dairy herd and milk production. Measures from some regions include subsidies for high-quality dairy cow breeding, subsidies to produce milk powder and cheese, and interest rate subsidies for breeding and dairy processing. Inner Mongolia Autonomous Region, Hebei Province, Heilongjiang, Xinjiang Uygur Autonomous Region, Liaoning Province, Yinchuan City, Lhasa City, and Tianjin City all published support measures. Post believes these measures are unlikely to reverse the trend of declining dairy cow inventories as the operating losses for some smaller farms are too severe but may help slow the rate of reduction.

Raw Milk Production Growth from Higher Efficiencies

With small- and medium-sized farms exiting the market and the expansion of large farms, the rate of consolidation in raw milk production continues to increase. Industry data shows that about 70-80 percent of raw milk is produced by large-scale farms in 2024. Large dairy farms tend to have better herd management practices, improved dairy cow genetics, and improved daily milk yield (DMY). According to semi-annual reports of publicly traded dairy farming companies, the annual DMY of some large farms reached over 12 MT per cow in the first half of 2024. NBS also reported growth in raw milk production in the first half of 2024 despite a smaller dairy cattle inventory. Post forecasts DMY to continue to improve in 2025 with more small- and medium-sized farms exiting the market and more inefficient cows culled among large farms. The improvement in DMY will surpass the decline of cow inventories, resulting in marginally higher raw milk production.

CONSUMPTION

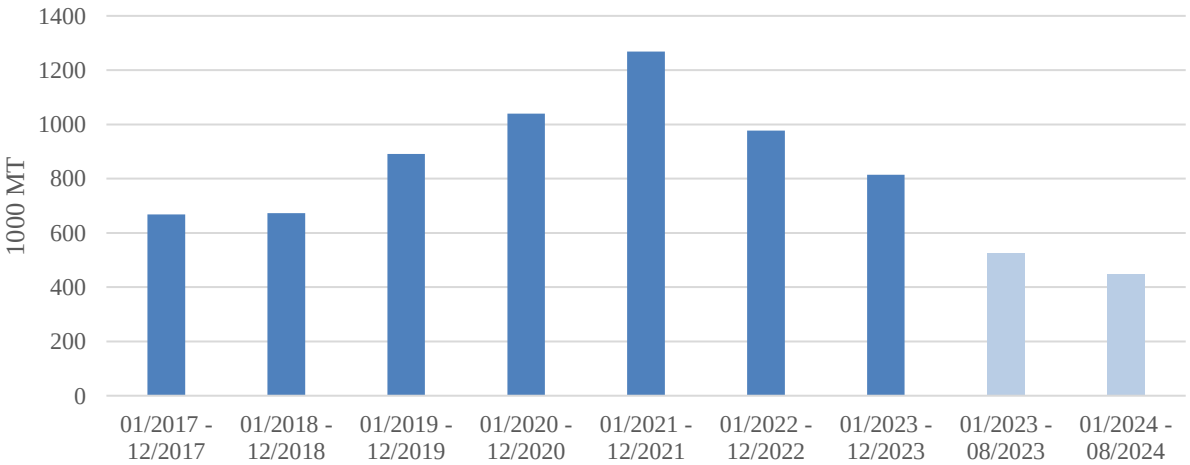
Post forecasts higher milk consumption in 2025 on both fluid use and factory use, while the larger growth will come from factory use. Fluid milk is mainly used to produce ultra heat treated (UHT) milk, with smaller volumes of pasteurized milk, yogurt, and milk drinks. The UHT milk market is stable especially in bigger cities. In 2024, although raw milk prices tumbled, UHT milk prices remained stable. High-end UHT milk, such as A2 or organic milk, will remain popular. The most likely growth in UHT consumption in 2025 will come from smaller cities and rural markets where UHT is not yet popular.

Pasteurized milk consumption is much lower than UHT milk consumption but could witness faster growth in 2025. In 2024, some pasteurized milk brands realized double digit growth despite a tepid market for dairy products. Smaller dairy farms have started to produce pasteurized milk from their excess raw milk that is not sold to dairy processors and are now selling it to bakeries and on-line platforms at reduced prices. In September 2024, the second largest dairy processor in China reached a full strategic partnership with a major e-commerce platform that could deliver on-line orders of pasteurized milk to consumers' home in one hour. Most of the growth in milk consumption, however, will come from industrial use. The excess raw milk will be used to produce whole milk powder (WMP) and skim milk powder (SMP) with a limited volume of other dairy products, such as cheese and butter.

TRADE

Post forecasts fluid milk imports will continue to decline in 2025 due to higher domestic milk production. In the first 8 months of 2024, fluid milk imports declined 15 percent from the same period last year (see **Chart 3**) and Post's estimate of total year imports has been reduced accordingly as Post revised domestic milk production higher.

Chart 3. China: Imports of Fluid Milk



Source: Trade Data Monitor, LLC

China mostly imports UHT milk, with a negligible amount of pasteurized milk. With higher domestic UHT milk production and stable UHT milk consumption, there will be less demand for UHT milk imports. In addition, the anticipated increase in pasteurized milk production could limit demand for both

imported pasteurized milk and imported UHT milk. Chinese consumers normally associate imported UHT milk with safety and quality. However, consumers believe pasteurized milk has better nutritional value. With more dairy farms producing pasteurized milk, pasteurized milk prices will be more competitive and could become a big competitor for imported UHT milk.

The two largest suppliers of fluid milk imports to China are New Zealand and Germany with the two countries accounting for about 70 percent of the total import market. Although U.S. fluid milk quality is considered “good” by the trade, import volumes from the United States are negligible. Sources indicate challenges facing U.S. products include longer shipping distances, higher prices, and retaliatory tariffs (see Policy Section).

China’s top export market for fluid milk is Hong Kong. In the first 8 months of 2024, fluid milk exports grew by 20 percent on high domestic production. Post forecasts exports to further grow in 2025 due to higher raw milk production.

WHOLE MILK POWDER

Table 2. China: Production, Supply, and Distribution for Whole Milk Powder

Dairy, Dry Whole Milk Powder	2023		2024		2025	
Market Begin Year	Jan 2023		Jan 2024		Jan 2025	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
						Units: 1000 MT
Beginning Stocks	150	150	175	175	0	200
Production	1200	1200	1240	1240	0	1250
Other Imports	430	430	410	390	0	370
Total Imports	430	430	410	390	0	370
Total Supply	1780	1780	1825	1805	0	1820
Other Exports	11	11	7	15	0	17
Total Exports	11	11	7	15	0	17
Human Dom. Consumption	1594	1594	1673	1590	0	1590
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1594	1594	1673	1590	0	1590
Total Use	1605	1605	1680	1605	0	1607
Ending Stocks	175	175	145	200	0	213
Total Distribution	1780	1780	1825	1805	0	1820

Note: Not Official USDA Data

PRODUCTION

Post forecasts WMP production to continue to grow in 2025, albeit at a lower rate, due to higher raw milk production. Dairy processers normally produce WMP to preserve excess raw milk as WMP has a longer shelf-life. Processors will continue producing more WMP with surplus raw milk as raw milk production increases and consumption remains relatively flat.

In the first 8 months of 2024, dairy processors have produced a larger volume of WMP from excess raw milk that the fluid market cannot absorb. Dairy processors normally produce WMP during springtime when raw milk production reaches its peak and the fluid milk market is relatively slow. During the summertime when cows tend to produce less milk due to heat stress, seasonal imbalances between raw milk production and consumption will ease and dairy processors will stop producing WMP. However, due to larger raw milk production in 2024, sources reported that dairy processors continued to produce WMP longer than usually, even into July 2024.

WMP production causes financial loss for dairy processors as market prices of WMP are normally lower than the cost of WMP production. Sources indicated that the financial loss from WMP production can be as high as RMB 10,000/MT ($1400/MT). To prevent wasting excess raw milk and to encourage WMP production, some provincial governments provide subsidies to dairy processors to produce WMP. In the first 9 months of 2024, Hebei, Inner Mongolia, Xinjiang, and Ningxia, major dairy production regions,

have provided subsidies to dairy processors for purchasing raw milk and WMP production. For example, the Government of the Xinjiang Uygur Autonomous Region announced a subsidy 4,000/MT ($560/MT) of WMP produced from raw milk starting from July 1, 2024, to June 30, 2026. The Municipal Government of Yinchuan, Ningxia announced a subsidy of RMB 1,000/MT ($141/MT) of WMP produced from raw milk until December 31, 2024; however, the subsidized WMP production volume shall not exceed 25,000 MT.

The subsidies combined with other policies (See Fluid Milk Section) are designed to help dairy processors in the respective areas ameliorate losses from WMP production. The large WMP production this year and the high inventory from last year has led to an even larger inventory this year. Post revised the ending inventory of domestic WMP in 2024 to be higher than 2023.

CONSUMPTION

Forecast WMP consumption will remain stable in 2025. WMP has a wide range of applications including processed food, bakery products, and dairy drinks. However, current economic concerns of consumers will limit the market for non-staple food including processed food, bakery products, and dairy drinks in 2025. Dairy processing companies have reported losses with 16 of 26 publicly traded dairy processing companies reporting declining profits in the first half of 2024. However, as WMP production grows in 2025, the larger supply of WMP will push WMP prices down. This can put dairy processors in a more difficult position. As WMP and SMP are interchangeable in many products, lower priced WMP would encourage more dairy processors to shift to use more WMP than SMP, which could help stabilize WMP consumption.

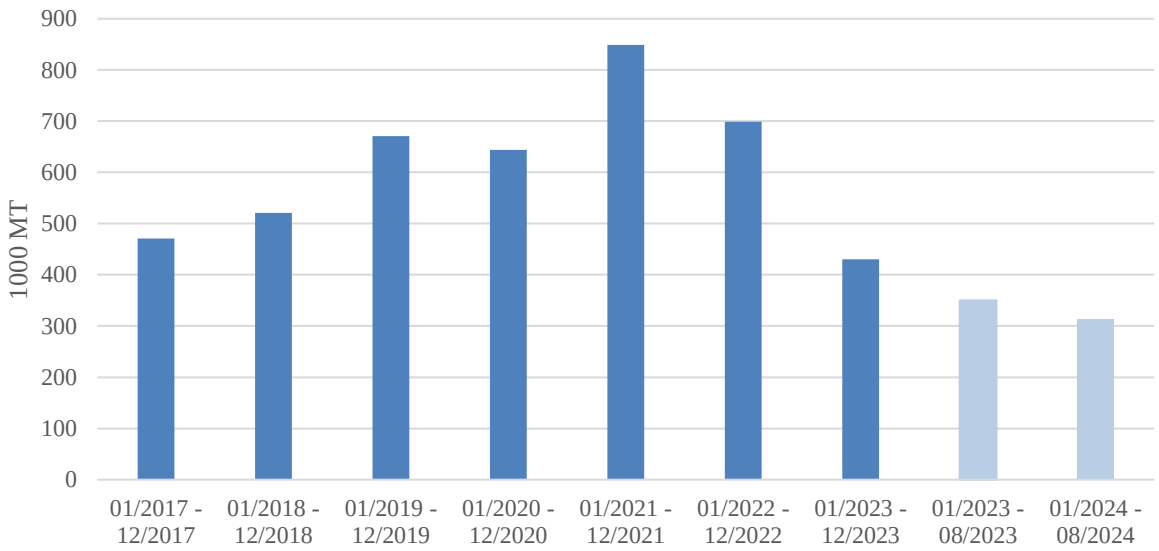
Post forecasts the adult milk (i.e., non-infants or non-children) powder market to continue to grow in 2025. Due to lower birth rates in recent years, an increasing number of dairy processors started manufacturing adult milk powder in which WMP is the main ingredient. However, as adult milk powder is only an emerging product, it’s unlikely to change the overall lackluster situation facing the WMP market.

TRADE

Post forecasts WMP imports to decline in 2025 due to higher domestic WMP supplies and flat consumption. Sources indicated that dairy processors continue shifting to use more domestic WMP than imported WMP as it is priced competitively. Dairy processors prefer imported WMP for its higher quality control and standardized nutrition levels. However, sources indicated even some international food manufacturers have started to use domestic WMP. Post believes this trend will continue in 2025 as WMP production grows. For dairy processors who will continue to use imported WMP, flat consumption will also discourage more WMP imports. Higher carryover stock from 2024 to 2025 will also contribute to larger supplies in 2025. The carryover stocks will be extremely price competitive with prices even lower than domestic WMP produced in 2025.

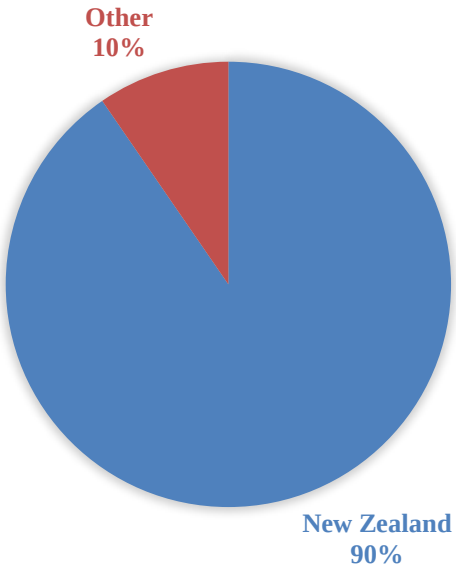
In the first 8 months of 2024, WMP imports declined by 11 percent year-over-year (YOY) (see **Chart 4**). New Zealand remained the top supplier with 90 percent of the market share (see **Chart 5**). Especially since January 1, 2024 when all New Zealand dairy exports to China became tariff free (see Report).

Chart 4. China: Imports of WMP



Source: Trade Data Monitor, LLC

Chart 5. China: Imports of WMP in Jan. – Aug. 2024 (by Origin)



Source: Trade Data Monitor, LLC

In the first 8 months of 2024, WMP exports grew significantly – by 248 percent. However, despite large domestic production, the export volumes are minimal – 12,000 MT in the first 8 months of 2024 mainly going to Venezuela, Nigeria, Hong Kong, Singapore and Mongolia. Post forecasts exports to further grow in 2025. Contacts indicated WMP exported to Hongkong and Singapore are likely utilized in feed.

SKIM MILK POWDER

Table 3. China: Production, Supply, and Distribution for Skim Milk Powder

Dairy, Milk, Nonfat Dry	2023		2024		2025	
Market Begin Year	Jan 2023		Jan 2024		Jan 2025	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
						Units: 1000 MT
Beginning Stocks	0	0	0	0	0	0
Production	30	30	31	51	0	56
Other Imports	344	344	240	240	0	200
Total Imports	344	344	240	240	0	200
Total Supply	374	374	271	291	0	256
Other Exports	3	3	1	1	0	1
Total Exports	3	3	1	1	0	1
Human Dom. Consumption	371	371	270	290	0	255
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	371	371	270	290	0	255
Total Use	374	374	271	291	0	256
Ending Stocks	0	0	0	0	0	0
Total Distribution	374	374	271	291	0	256

Note: Not Official USDA Data

PRODUCTION

Post forecasts SMP production to grow in 2025 due to higher butter production. Not all raw milk can be processed into fluid milk due to its limited shelf-life. The additional raw milk will be mostly processed to WMP and SMP. SMP production is significantly lower than WMP production. However, as Post forecasts butter production to grow in 2025 (see Butter Production Section), production of SMP as a by-product of butter manufacturing will grow as well. Butter manufacturing also increased in 2024, resulting in a larger production of SMP production. Post revised upwards its estimate of 2024 SMP production.

CONSUMPTION

Post forecasts SMP consumption to decline in 2025 due to reduced purchases of products that include SMP. SMP is mainly used in dairy beverages and ice-creams. Sometimes WMP and SMP are interchangeable in processed foods such as bakery products. Products that use SMP as ingredients are mostly snack foods, which are usually the first products that consumers stop buying during economic uncertainty.

The peak season for ice-cream and drinks consumption is July to September. However, sources indicated that the ice cream market has been slow this summer. In addition, a large inventory of

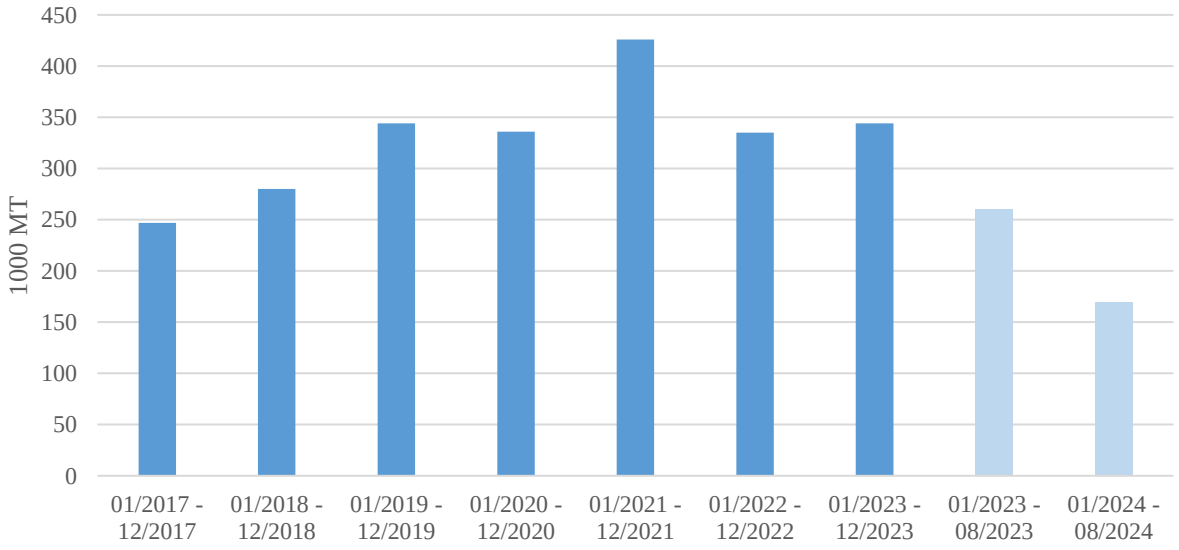
beverage products from last year carried to this summer that resulted in several major beverage producers not putting in additional SMP orders. Low priced WMP and raw milk as alternative ingredients are also competing with SMP in the processed food market.

TRADE

Post forecasts SMP imports to decline in 2025 due to weak demand, a larger domestic production, and competitively priced substitutes. Dairy processors are continuing to shift to domestically produced WMP, SMP, cream, and raw milk as substitutes for imported SMP as the domestically produced alternatives are cheaper due to the oversupply of domestic milk production.

In the first 8 months of 2024, SMP imports declined by 35 percent YOY (see **Chart 6**). As noted in the Semi-Annual Report, the safeguard measures[4] for China's milk powder imports from New Zealand ended in 2023. New Zealand now receives preferential tariffs with no limit for milk powder products including both WMP and SMP. Compared to the over 90 percent market share that New Zealand already has in the WMP market, New Zealand's market share of the PRC's SMP market is around 68 percent year to date. In YOY comparison for the first 8 months of 2023 and 2024, New Zealand's market share increased significantly due to the tariff-rate advantages (see **Chart 7**).

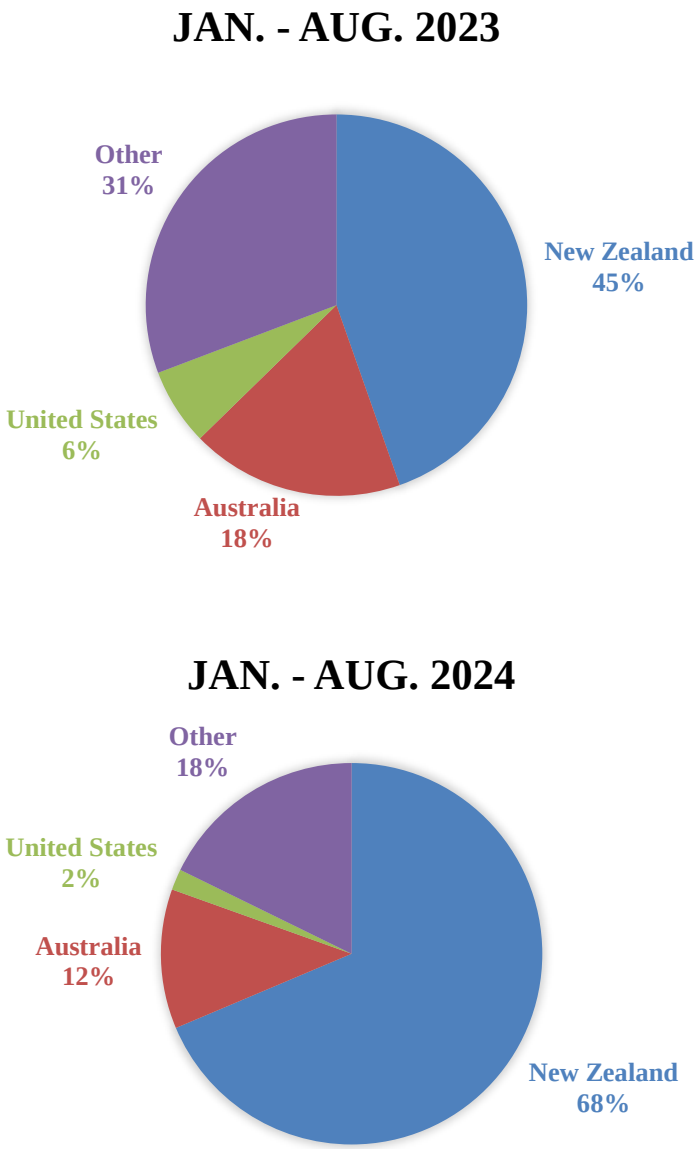
Chart 6. China: SMP Imports



Source: Trade Data Monitor, LLC

[4] The 2008 free trade agreement between China and New Zealand gradually reduced tariffs on New Zealand dairy products imported into China to zero by 2019. However, special safeguard measures for milk, milk powder, butter, and cheese returned the tariff to the most-favored-nation tariff once the import volume exceeded the import trigger level. The applicable period for the special safeguard measures for milk, butter, and cheese products was from 2009 to 2021, and the applicable period of the special safeguard measures for milk powder was from 2009 to 2023. Milk powder includes WMP and SMP. The HS codes include: 04021000, 04022100, 04022900, and 04029100.

Chart 7. China: Comparison between Imports of SMP (by Origin)



Source: Trade Data Monitor, LLC

CHEESE

Table 4. China: Production, Supply, and Distribution for Cheese

Dairy, Cheese	2023		2024		2025	
Market Begin Year	Jan 2023		Jan 2024		Jan 2025	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
						Units: 1000 MT
Beginning Stocks	0	0	0	0	0	0
Production	25	25	28	28	0	30
Other Imports	178	178	180	170	0	165
Total Imports	178	178	180	170	0	165
Total Supply	203	203	208	198	0	195
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	203	203	208	198	0	195
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	203	203	208	198	0	195
Total Use	203	203	208	198	0	195
Ending Stocks	0	0	0	0	0	0
Total Distribution	203	203	208	198	0	195

Note: Not Official USDA Data

PRODUCTION

Post forecasts domestic cheese production to grow gradually in 2025, primarily from a few major cheese producers. The large supplies of domestic raw milk and the financial loss in producing WMP has spurred dairy manufacturers to explore cheese production. In addition, the PRC and local governments are encouraging more cheese production. In September 2024, the General Office of the State Council of the PRC released a guidance document "*Opinions on Practicing the Big Food Concept and Building a Diversified Food Supply System,"* suggesting that provincial and local governments "improve the competitiveness of the dairy industry," and "guide dairy companies to develop cheese, whey, and other product processing." In March 2024, the Department of Industrial Information of the Inner Mongolia Autonomous Region announced subsidies to dairy processors that purchase raw milk in Inner Mongolia for natural cheese production.

Most cheese produced in China is processed cheese that uses imported natural cheese as an ingredient. Only about 20 percent of cheese produced in China is natural cheese. Natural cheese production should grow in 2025 with the increased supply of raw milk. However, the Chinese market only has limited demand for natural cheese, and dairy processers are not as advanced in terms of technology and equipment for cheese production compared to major cheese producing countries. These two factors will limit the growth rate of cheese production in China.

Several dairy processors have set up or expanded new cheese production facilities. For example, the largest processed cheese producer in China, that takes about 40 percent of the market share of cheese sticks marketed for children, has started to produce natural cheese. The largest cheese producing plant in Eastern China that was built in 2023 plans to further expand cheese production in 2025 to realize a production value of RMB 500-600 million ($70-85 million). Although the major product of this plant is processed cheese, this plant will also produce natural cheese. Another major dairy processor that mainly produces fluid milk started cheese production three years ago and has made cheese a strategic product in their business plan.

Post expects growth in natural cheese production will not only come from cow milk, but also from sheep milk. The construction of one sheep milk powder producing plant that could produce 7,200 MT of sheep milk powder in Yunnan province started production in 2024. This sheep milk processor mainly produces sheep milk powder but is also capable of producing fluid milk and cheese.

CONSUMPTION

Post forecasts cheese consumption to decline in 2025. After a few years of rapid growth before 2021, the value of cheese sales has declined successively in the last three years, according to a third-party report. The 2024 semi-annual report published by the largest cheese producer in China, accounting for over 35 percent of the cheese market, indicates the same trend; in the first half of 2024, this company's operation revenue declined by almost 7 percent compared to the same period in 2023.

Retail and bakery channels echoed this trend. The subdued economy resulted in growing price sensitivity among consumers. Sources indicate some high-end supermarkets, which are a major retail channel for cheese, reduced SKUs of cheese products. Bakeries, which are another major channel for cheese consumption, are also in a difficult situation. According to industry sources, almost all bakery products in chain supermarkets are not profitable. A major bakery company claimed its revenue declined in 2024, resulting in it removing some high-end cheese products.
Compared to retail and bakery channels, HRI remains a more promising sector for cheese consumption. Cheese consumption continues to grow in HRI including both western-style and Chinese-style restaurants.

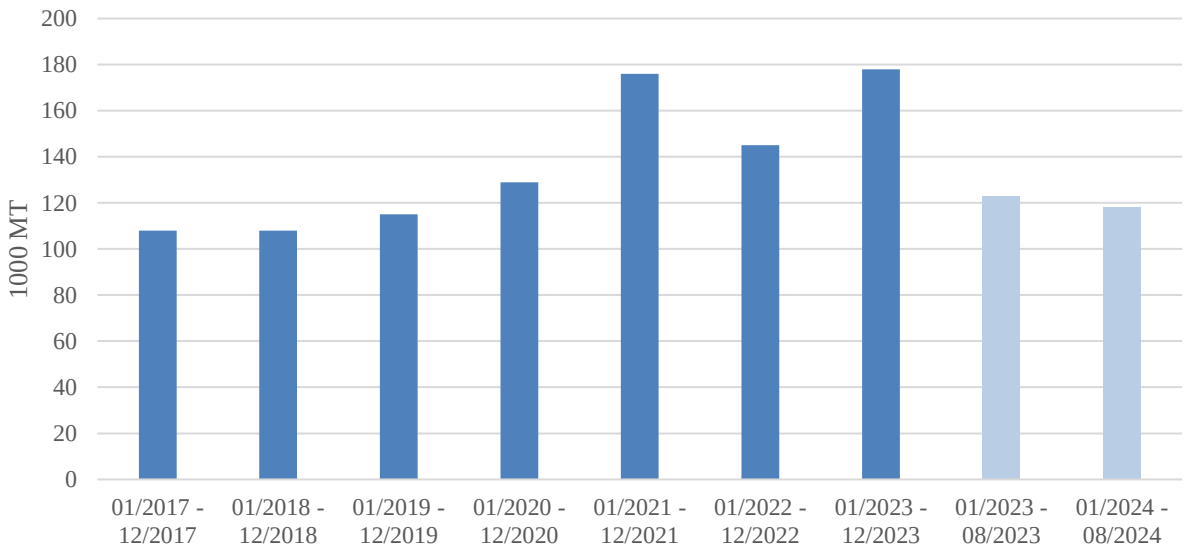
Mozzarella, cream cheese, and cheddar remain popular in the Chinese market. Mozzarella is mainly used on pizza. Cream cheese is mainly used in bakery products, while cheddar cheese is mainly used to produce processed cheese. String cheese recently has also become a popular type of snack food among young people. As some Chinese consumers have concerns of excessive daily salt intake, some salt-reduced Chinese cheese products have recently gained popularity.

TRADE

Post forecasts cheese imports to decline in 2025 due to decreased demand for processed cheese and high prices for imported cheese. Most Chinese cheese imports are used to produce processed cheese. Sources indicate some cheese importers are hesitant to order new cheese products that they have not imported before over concerns of market performance. Importers that have imported new cheese products have found mixed results from consumer.

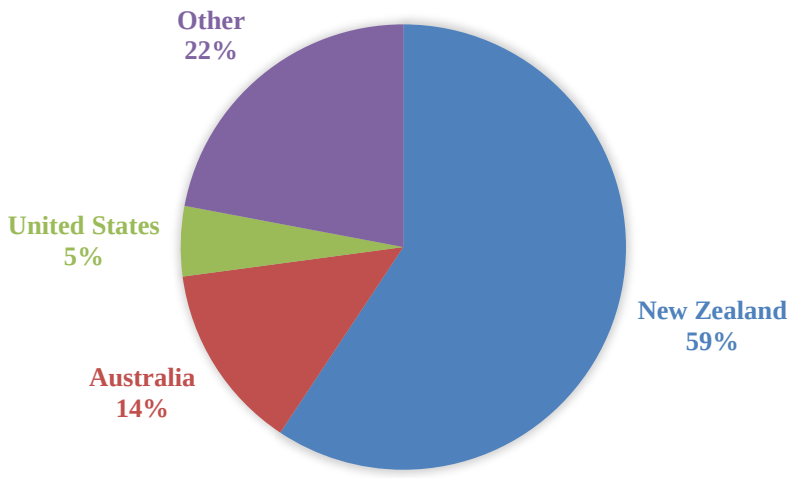
In the first 8 months of 2024, cheese imports declined by about 4 percent. (see **Chart 8)**. New Zealand remained the top cheese supplier, accounting for about 60 percent of the market share, followed by Australia and the United States (see **Chart 9)**. It's worth noting that despite the overall decline of cheese imports, cheese imports from the United States in the first 7 months of 2024 remained at similar levels compared to the same period of 2023.

Chart 8. China: Imports of Cheese



Source: Trade Data Monitor, LLC

Chart 9. China: Imports of Cheese in Jan. – Aug. 2024 (by Origin)



Source: Trade Data Monitor, LLC

BUTTER

Table 5. China: Production, Supply, and Distribution for Butter

Dairy, Butter	2023		2024		2025	
Market Begin Year	Jan 2023		Jan 2024		Jan 2025	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
						Units: 1000 MT
Beginning Stocks	0	0	0	0	0	0
Production	110	17	115	30	0	33
Other Imports	140	140	150	135	0	137
Total Imports	140	140	150	135	0	137
Total Supply	250	157	265	165	0	170
Other Exports	2	2	2	3	0	0
Total Exports	2	2	2	3	0	0
Domestic Consumption	248	155	263	162	0	170
Total Use	250	157	265	165	0	170
Ending Stocks	0	0	0	0	0	0
Total Distribution	250	157	265	165	0	170

Note: Not Official USDA Data

PRODUCTION

Post revised upwards its 2024 butter production estimate and forecasts butter production in 2025 to grow due to higher domestic raw milk and cream production. In 2024, both big-scale and small-scale dairy processors expanded their milk cream production due the oversupply of raw milk and low prices. However, as the cream market remains tepid and some cream users prefer imported milk cream, cream production surpassed cream consumption. As a result, some dairy processors started to produce butter from cream. For cream producers, it's relatively easy for them to produce butter from cream as they have ready-to-use cream production facilities and only need some additional steps to produce butter from cream.

Low milk prices are encouraging dairy processors to add new production lines to produce butter from raw milk. A dairy company in Shandong Province invested RMB 260 million ($37 million) for dairy processing facilities in phase one of their plan. The new facilities include a butter production line whose daily production capacity could reach 40 MT. The company has recently completed a major part of the new facilities in August 2024, including the facilities for butter production. The company has reported that the butter plant will be in production soon.

CONSUMPTION

Post forecasts butter consumption to continue to grow in 2025. There's a trend of replacing plant-based (or artificial) oil with butter among high-end food processors especially in high-end bakeries. The cost

of using butter is higher than using plant-based (or artificial) products for food processors. However, consumer preferences for a healthy diet is encouraging bakeries to use the more expensive butter over plant-based (or artificial) oil despite, despite challenges in the economy and consumption downgrading. There is an emerging perception that butter is healthier than plant-based oils, including margarine.

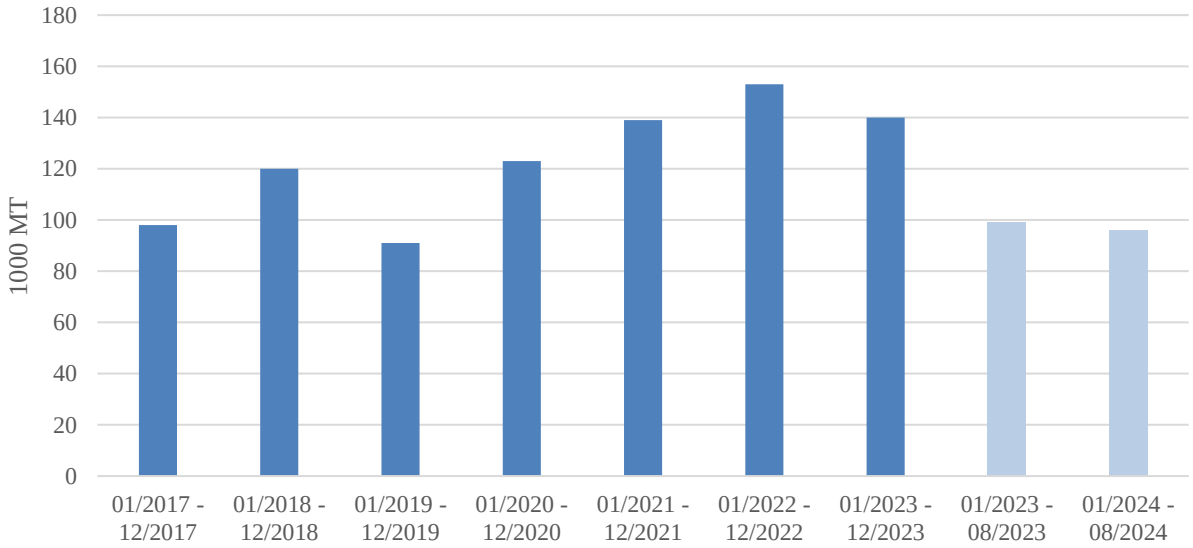
Although both butter and cheese can be used in bakeries and food service, butter consumption is trending up, while cheese consumption is trending down. Even though neither product is included in traditional Chinese cuisine, Chinese consumers have accepted products made with butter faster than those made with cheese. In addition, butter has a wider application such as ice cream, yoghurt, and milk drinks.

TRADE

Post forecasts butter imports to stay at similar levels in 2025 to that of 2024. Although Post forecasts consumption to grow in 2025, increased domestic production will offset the increased demand. Sources indicate some domestic butter products may have some quality issues. For instance, the taste of domestic butter can be lighter than imported butter. However, due to low cost of domestic raw milk and milk cream, prices of domestic butter can be as low as half of the price of imported butter. Low prices encourage more processors to shift from imported butter to domestic butter.

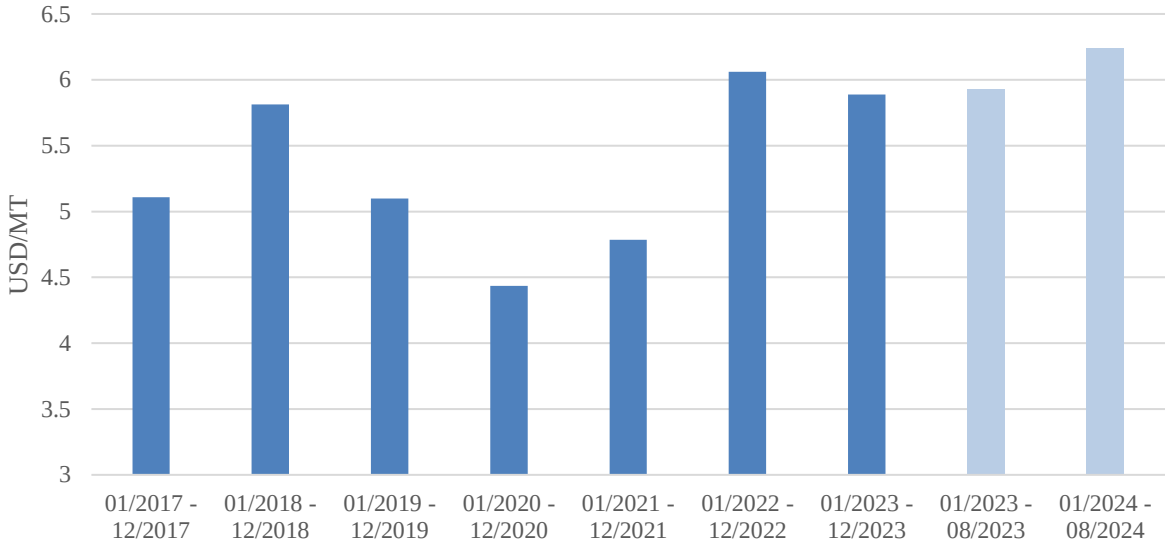
In the first 8 months of 2024, butter imports declined by 3 percent YOY (see **Chart 10**) as cheaper domestic butter takes more market share. In the first 8 months of 2024, average imported butter prices grew by 5 percent from the same period of last year, reaching an 8-year record high (see **Chart 11**). New Zealand remained the dominant supplier in the market accounting for 84 percent of the market share. The volume of butter imported from the United States is negligible.

Chart 10. China: Imports of Butter



Source: Trade Data Monitor, LLC

Chart 11. China: Imported Butter Prices



Source: Trade Data Monitor, LLC

WHEY AND WHEY PRODUCTS

Post forecasts China's whey production to remain minimal in 2025. The PRC encourages both domestic cheese and whey production as cheese is a high value product to store excess raw milk while whey is an important ingredient for both food and feed use. As mentioned in the Cheese Production Section, the General Office of the State Council of the PRC released guidance in September 2024 "to guide dairy companies to develop cheese, whey, and other product processing." However, Post does not expect large growth on either domestic whey or cheese production because the market demand for natural cheese is limited and natural cheese production is curbed by the lack of specialized technology and equipment.

As domestic whey production remains minimal, China relies on imported whey and whey-related products to meet domestic demand. The United States is China's dominant supplier of whey and modified whey products with around half of the market share. Sources indicate that all whey plants in the United States are eligible to register for market access to China. Importers of U.S. whey and whey related products are eligible for tariff exclusions under the Section 301 exclusion process (see Appendix section for more information).

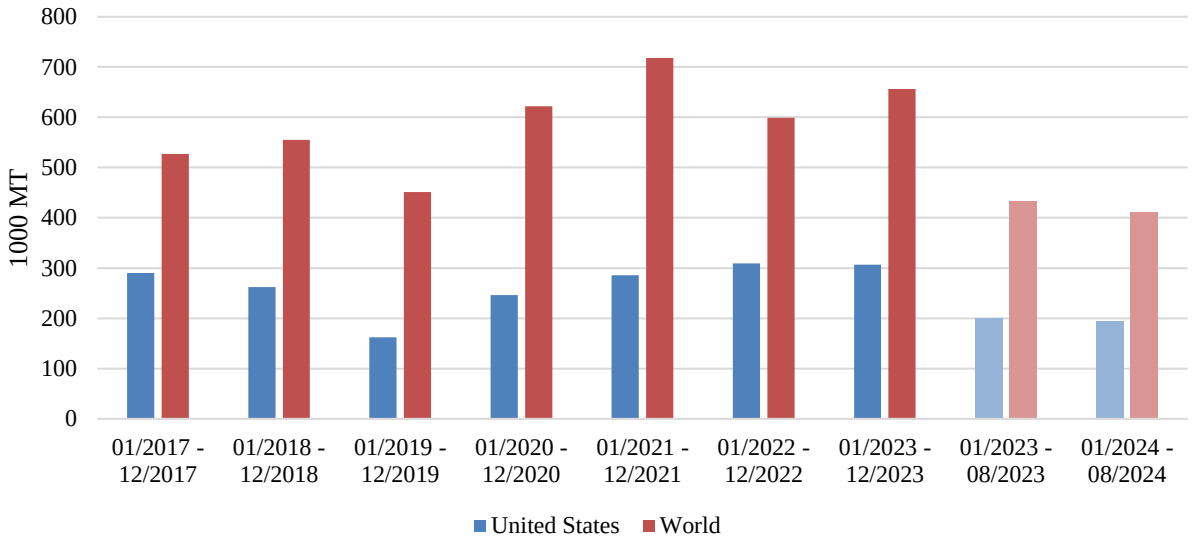
In 2025, Post forecasts whey imports from the United States to stay at similar levels to 2024. Imported whey products, depending on grades, can be used as food or feed ingredients. The United States can supply both food and feed grade whey products. Sources indicate that about 70-80 percent among of the whey products China imports from the United States is for feed use.

In feed use, whey products are mainly used in piglet feed. Post forecasts 2025 swine production to grow marginally due to higher 2024 sow inventories. Management and animal health techniques could improve the number of pigs per sow per year (PSY). Marginal growth on piglet inventory can support stronger imports for feed use. China's swine herd was decimated by ASF in 2019 followed by a major herd rebuilding phase in the next few years that required larger volume of whey products for feed use. Post believes whey imports for feed use in 2025 will not exceed the high levels seen in 2021 or 2023 as Chinese swine producers are better equipped for ASF prevention and improvements in control technologies and equipment have led to a more stabilized piglet herd.

Imports for food use, however, could further decline in 2025. Declining birth rates have reduced the demand for imported, food grade whey as it is mostly used in infant formula. In addition, contacts indicate some processors have started to shift to using more raw milk instead of milk powder and whey powder to produce processed foods such as ice-cream due to low prices of domestic raw milk.

In the first 8 months of 2024, imports of whey and modified whey products (HS040410) declined (see **Chart 12**) as demand shrank in both food and feed use. Lower piglet inventory curbed whey products consumption in feed use in 2024.

Chart 12. China: Imports of Whey and Modified Whey Products



Source: Trade Data Monitor, LLC

APPENDIX

Retaliatory Section 301 tariffs

The PRC maintains retaliatory Section 301 tariffs on most U.S. dairy products. In December 2023, the PRC extended tariff exclusions on whey for feed use (HS04041000, protein content by weight 2-7 percent and lactose content of 76-88 percent) through February 28, 2025 (See CH2024-0095 GAIN Report).

On February 18, 2020, the State Council Tariff Commission (SCTC) announced a tariff exclusion process for U.S. agricultural commodities impacted by Section 301 retaliatory tariffs levied by the PRC. Importers may apply for tariff exclusions, which are approved on a case-by-case basis. These exclusions do not automatically extend to all importers. Please refer to GAIN Report CH2020-0106 for more information on the exclusion process.

Dairy Facility Registration

U.S. dairy exporters should follow procedures for exporting to China as outlined by the relevant U.S. food safety regulator - FDA. Please refer to GAIN Report CH2024-0070 on New USA-Based Registration Applications Under Decree 248.

U.S. dairy exporters interested in registering to export products to China can get additional information by emailing Decree248Inquiry@usda.gov (for Decree 248 inquiries) or cfsanexportcertification@fda.hhs.gov (for dairy products for food use) or FASChinaDAPQRegistrations@usda.gov (for dairy products for feed use).

Table 6. China: Tariffs on U.S.-Origin Dairy Products

HS Code (8-digit)	Description	MFN Rate	Section 301	Total Applied Tariff
	Implementation Date	**Jan 1, 2024**	**Feb 14, 2020,**	**Jan 1, 2024**
04011000	Milk & Cream, Fat ≤ 1%, Not Concentrated or Sweetened	15%	27.5%	42.5%
04012000	Milk & Cream, 1%	15%	27.5%	42.5%
04014000	Milk & Cream, 6%	15%	27.5%	42.5%
04015000	Milk & Cream, Fat > 10%, Not Concentrated or Sweetened	15%	27.5%	42.5%
04021000	Milk & Cream in Solid Forms, Fat ≤ 1.5%, Concentrated*	10%	25.0%	35.0%
04022100	Milk & Cream in Solid Forms Of >1.5% Fat, Concentrated	10%	25.0%	35.0%
04022900	Milk & Cream in Solid Forms Of >1.5% Fat, Concentrated	10%	25.0%	35.0%
04029100	Milk & Cream Not in Solid Form, Concentrated	10%	25.0%	35.0%
04029900	Milk & Cream Not in Solid Form, Concentrated, Sweetened	10%	25.0%	35.0%
04032010	Yogurt: Whether or not concentrated, other than the permitted additives, only containing added sugar or other sweetened matter or flavored or containing added fruit, nuts, or cocoa	10%	27.5%	37.5%
04032090	Yogurt,	10%	25%	35%
04039000	Buttermilk, Curdled/Fermented/Acidified Milk & Cream	20%	27.5%	47.5%
04041000	Whey and Modified Whey**	2%	25%	27.0%
04049000	Products With Natural Milk Constituents	20%	25.0%	45.0%
04051000	Butter	10%	25.0%	35.0%
04052000	Dairy Spreads	10%	25.0%	35.0%
04059000	Other Fats & Oils Derived from Milk	10%	25.0%	35.0%
04061000	Fresh Cheese, Incl. Whey Cheese, Curd	12%	27.5%	39.5%
04062000	Grated Or Powdered Cheese	8%	27.5%	35.5%
04063000	Processed Cheese, Not Grated or Powdered	8%	27.5%	35.5%
04064000	Blue-Veined Cheese, Other-Veined Cheese Prod	8%	27.5%	35.5%
04069000	Cheese, Nesoi	8%	27.5%	35.5%

*****SCTC enumerated Milk & Cream in Solid Form (HS04021000) and Whey for Feed Use (HS0404100), among other products, in the February 18, 2020, announcement.
******SCTC announced a tariff exclusion for Whey for Feed Use (HS0404100), among other products, effective through February 28, 2025. See GAIN Report CH2024-0095 for more information.

Attachments:

No Attachments