

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **China - Peoples Republic of**

### **Dairy and Products Semi-annual**

#### **China's Fluid Milk Imports to Remain Strong in 2016**

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**Report Highlights:**

China is the world's fourth largest dairy milk producer and consumer, and also a major importer of milk. To reflect strong fluid milk import growth, Post revised 2015 imports upward to 460,000 tons and further increased the 2016 forecast to 650,000 tons. Low international milk prices and consumers preference for imported milk helped drive import growth. Despite increasing fluid milk imports, many U.S. dairy plants remain on the sidelines as a result of delays in gaining export approvals under China's newly implemented registration system.

**Commodities:**

Dairy, Milk, Fluid

Dairy, Dry Whole Milk Powder

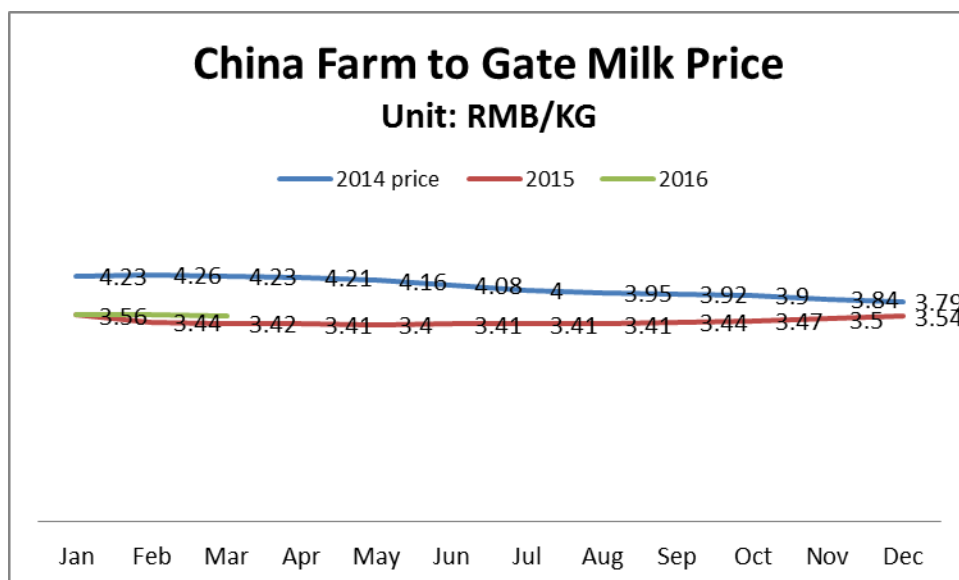
Dairy, Milk, Nonfat Dry

**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	8400	8400	8400	8400	8500	8500
Cows Milk Production	37250	37250	37250	37550	38000	38000
Other Milk Production	1550	1550	1550	1500	1600	1450
Total Production	38800	38800	38800	39050	39600	39450
Other Imports	320	320	400	460	475	650
Total Imports	320	320	400	460	475	650
Total Supply	39120	39120	39200	39510	40075	40100
Other Exports	26	26	25	25	25	25
Total Exports	26	26	25	25	25	25
Fluid Use Dom. Consum.	15150	15150	15200	15360	15545	15570
Factory Use Consum.	23944	23944	23975	24125	24505	24505
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	39094	39094	39175	39485	40050	40075
Total Distribution	39120	39120	39200	39510	40075	40100
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**Production:****Milk production continues to increase slightly in 2016**

Post raised 2015 fluid milk production to 37.55 million tons based on official Chinese government statistics. Post maintains 2016 milk production forecast of 38 million tons. Increased cattle imports from Australia and New Zealand since 2014, and their subsequent offspring, help support the slight expansion in fluid milk production in 2016. Offspring from the imported cattle is sufficient to support expansion in 2016 but imports of genetics play a key role in improving the quality of the dairy cattle.



Source: MOA

Domestic milk prices are expected to remain below 2014 levels and price rises are constrained by increased imports resulting from production increases in major exporting countries from Europe and New Zealand. In response, according to industry sources, some local dairy processors have reduced their milk collection volume by 20 percent, and reduced prices paid to farmers by as much as 10 percent. Consequently, small dairy farms continue to retreat from the business. Milk prices are also constrained by the stockpiling of whole milk powder, as Chinese dairy processors use whole milk powder to produce reconstituted milk.

## Consumption

### Demand up slightly in 2016

Post forecasts fluid milk consumption at 40 million tons, a slight increase from the previous year. Overall Chinese consumer's milk consumption is still very low by international standards, about 33kg per capita, less than one third of the world average. Milk consumption has plenty of growth potential but food safety concerns drag on increased consumer demand.

Some dairy farms, challenged by the reduced orders from dairy processors, have started to sell fresh milk directly to consumers in retail packages in their own retail outlets to increase their margins. Others have set up milk bars where they can sell milk directly to consumers. The format has proved popular as consumers can enjoy cheaper milk without the associated channel fees paid to supermarkets and hypermarkets.

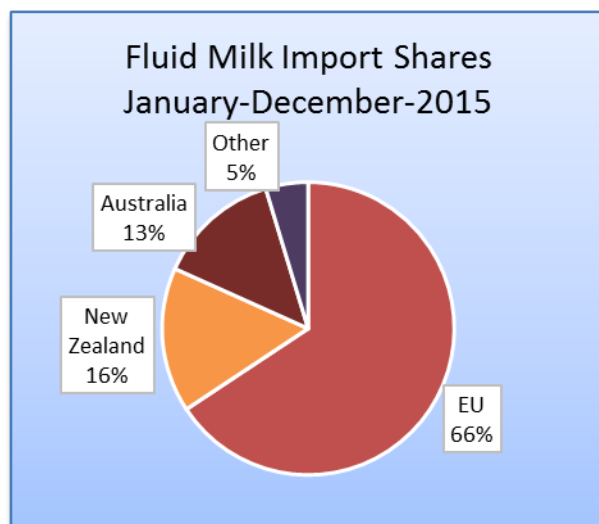
## Trade

### Imports of fluid milk will continue to grow in 2016

Post raised 2015 fluid milk imports to 460,000 tons and increased 2016 imports further to 650,000 tons. Perceived safety of imported milk with Chinese consumers, who still harbor memories of past food safety scandals, help growth of imports. Europe Union (EU) is the largest exporter to China supported from the continued ban by Russia of dairy products from the EU countries. With production quotas lifted in the EU and with the Russian ban on EU dairy products still in force, China has become a major sales outlet for EU exports.

Weak cold chain logistics also drive fluid milk imports. Dairy farms are largely located in central and northern China where the climate is more suitable for raising cattle but the majority of consumers are located in the northeast and south China. This makes shelf stable UHT milk a popular option for consumers. Also, e-commerce has become a major distribution channel for imported UHT milk that can easily reach China's second and third tier cities, adding millions more of potential consumers. The milk can be offered at lower prices since distributors do not have to pay associated supermarket stocking fees. Additionally, Chinese dairy firms have purchased foreign dairy companies, for the purpose of re-exporting back to China, aid in the growth of UHT imports.

The U.S. is a small player in the fluid milk market, with less than 1 percent market share. U.S. imports are constrained in part by 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 to China must be in compliance with Decree 145, administered by the Certification and Accreditation Administration (CNCA). Since the implementation of Decree 145 in 2014, many U.S. companies have noted delays in getting their dairy plants and products registered. 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/importsexports/cm378777.htm>

### Whole Milk Powder PS&D table

Dairy, Dry Whole Milk Powder 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
Beginning Stocks	130	130	300	300	109	350
Production	1350	1350	1375	1617	1500	1650
Other Imports	671	671	310	347	360	300
Total Imports	671	671	310	347	360	300
Total Supply	2151	2151	1985	2264	1969	2300
Other Exports	6	6	3	4	2	3
Total Exports	6	6	3	4	2	3
Human Dom. Consumption	1845	1845	1873	1910	1880	2120
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1845	1845	1873	1910	1880	2120
Total Use	1851	1851	1876	1914	1882	2123
Ending Stocks	300	300	109	350	87	177
Total Distribution	2151	2151	1985	2264	1969	2300

(1000 MT)

### Production

#### Low raw milk prices lift whole milk powder production

Post increased 2015 and 2016 whole milk powder (WMP) production to 1.6 and 1.65 million tons, respectively, due to low milk prices and increased milk production. To mitigate losses from low milk prices, farmers and processors turn excess milk into powder for storage. However, this is not a viable long-term solution since imported WMP is about half price of the domestically produced WMP. Furthermore, because of superior processing methods, imported WMP has a longer shelf life than the domestic product.

### Consumption

#### Consumption continues to increase in 2016

Post increased 2016 consumption forecast to 2.1 million tons, an increase of 11 percent from 2015. Consumption is largely driven by surging consumption of re-constituted milk and yogurt. Price is another driving factor for the consumption of reconstituted milk, as it's cheaper than fresh milk and

frequently offered at promotional prices. Furthermore, the increased demand for infant formula from a growing middle class, and China's relaxation of the one child policy in 2015, helped spur demand.

Milk based beverages are declining in popularity because of lack of product innovation, according to industry sources.

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

Source: Industry Publications

## Trade

### Imports to decline in 2016

Post lowered 2016 imports to 300,000 tons, due to larger than estimated carry-over stocks from 2015. The stockpile includes both domestic production and previous imports. New Zealand dominates the import market with a 95 percent share.

## Export

China exports negligible amounts of whole milk powder. Post forecasts exports will drop to 3,000 tons in 2016, mainly exports to Hong Kong, North Korea and Myanmar.

### Nonfat Dry PS&D table

Dairy, Milk, Nonfat Dry 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
Beginning Stocks	0	0	0	0	0	0
Production	49	49	45	45	40	40
Other Imports	253	253	195	200	210	180
Total Imports	253	253	195	200	210	180
Total Supply	302	302	240	245	250	220
Other Exports	2	2	1	1	0	0
Total Exports	2	2	1	1	0	0
Human Dom. Consumption	300	300	239	244	250	220
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	300	300	239	244	250	220
Total Use	302	302	240	245	250	220
Ending Stocks	0	0	0	0	0	0
Total Distribution	302	302	240	245	250	220

(1000 MT)

## Production

## Production of nonfat dry milk continues to decline in 2016

Post maintains 2016 nonfat dry milk production forecast at 2016 at 40,000 tons because of availability of lower cost imports. China has limited nonfat dry milk production and consequently relies on imports to meet demand in the food processing sector and infant formula sector.

## Consumption

Consumption is revised downward to 220,000 tons, a decrease of 10 percent from 2015 figure. Skim milk powder (SMP) is mainly used in infant formula and milk beverage drinks. Domestic infant formula production is going down and affected by two factors: most large infant formula companies went abroad especially New Zealand to acquire production bases as consumers prefer overseas infant formula products out of safety concern; CFDA implemented new registration requirements for domestic infant formula production that resulted in the reduction of the number of domestic brands in the market.

## Trade

Post adjusted 2016 imports downward to 180,000 tons, a decrease of 10 percent from 2015 estimates. New Zealand and the EU are supplying most of China's import demand.

