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GAIN Report #CH0037

China, Peoples Republic of

Dairy and Products

Annual

2000

U.S. Embassy, Beijing

Approved by:
Larry Senger

Prepared by:
Zhang Jianping

Report Highlights:

Consumption of fluid milk continues to grow strongly. Production also is increasing, but at a slower pace due to resource and technology constraints. Imports, particularly of dry and semi-dry processed products have risen to compensate for the shortfall.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Beijing [CH1], CH

I. SITUATION AND OUTLOOK

China's demand for dairy products increased greatly in 1999 and has continued strong in the first half of 2000. Demand grew most for fluid milk, including yogurt and flavored dairy drinks. A new State School Milk Program contributed significantly to the increase. Growth in domestic milk production is presently insufficient to meet increases in domestic dairy consumption. Increased use of raw milk in fluid milk production has limited raw milk supplies available to domestic dairy processing factories. Consequently, factory consumption of milk for use in making processed dairy products is flat and previously large stocks of powdered milk have diminished.

Even with recent strong growth, China's per capita milk consumption is approximately 6.3 kg per year, among the lowest in the world. For the long term, as incomes rise and consumers continue to develop a taste for dairy products, the potential for very large increases in consumption of dairy products is great

With strong growth in demand, during the next couple of years, the dairy cattle herd should continue growing at an annual rate of about 5 percent, but milk production will grow at a somewhat quicker rate as improved technology and breeding increases per-cow output. Although both the dairy cattle herd and milk production will continue to increase, it is unclear by what magnitude and for how long because there are several factors that may constrain development. Since the industry is still underdeveloped, it will take time for it to reach optimal efficiency. In the long term, limitations on arable land in China are also a concern. Obtaining high quality forage is already costly and will undoubtedly continue to be a constraint on future growth.

Soaring demand and flat powdered milk production has led to larger imports. Post forecasts that powdered milk imports will continue to grow for at least the next few years. Powdered milk exports have decreased slightly in 2000, reflecting increases in domestic consumption. Whey, cheese and butter imports also are up sharply and should continue strong in coming years.

II STATISTICAL TABLES

PSD Table						
Country	China, Peoples Republic of					
Commodity	Dairy, Milk, Fluid (1000 HEAD)(1000 MT)					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Cows In Milk	2220	4428	2280	4600	0	4850
Cows Milk Production	6900	7176	7150	7800	0	8550
Other Milk Production	870	893	900	927	0	950
TOTAL Production	7770	8069	8050	8727	0	9500
Intra EC Imports	0	0	0	0	0	0
Other Imports	15	24	18	21	0	25
TOTAL Imports	15	24	18	21	0	25
TOTAL SUPPLY	7785	8093	8068	8748	0	9525
Intra EC Exports	0	0	0	0	0	0
Other Exports	22	26	25	27	0	28
TOTAL Exports	22	26	25	27	0	28
Fluid Use Dom. Consum.	2813	2755	2943	3357	0	4082
Factory Use Consum.	4950	5312	5100	5364	0	5415
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	7763	8067	8043	8721	0	9497
TOTAL DISTRIBUTION	7785	8093	8068	8748	0	9525
Calendar Yr. Imp. from U.S.	1	1	1	0	0	1
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	China, Peoples Republic of					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	400	450	430	450	0	450
Intra EC Imports	0	0	0	0	0	0
Other Imports	50	69	52	70	0	71
TOTAL Imports	50	69	52	70	0	71
TOTAL SUPPLY	450	519	482	520	0	521
Intra EC Exports	0	0	0	0	0	0
Other Exports	10	1	11	0	0	0
TOTAL Exports	10	1	11	0	0	0
Human Dom. Consumption	440	518	471	520	0	521
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	440	518	471	520	0	521
TOTAL Use	450	519	482	520	0	521
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	450	519	482	520	0	521
Calendar Yr. Imp. from U.S.	6	3	6	2	0	2
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	China, Peoples Republic of					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	48	48	50	50	0	50
Intra EC Imports	0	0	0	0	0	0
Other Imports	16	20	17	30	0	40
TOTAL Imports	16	20	17	30	0	40
TOTAL SUPPLY	64	68	67	80	0	90
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	1	4	0	0	0
TOTAL Exports	3	1	4	0	0	0
Human Dom. Consumption	61	67	63	80	0	90
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	61	67	63	80	0	90
TOTAL Use	64	68	67	80	0	90
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	64	68	67	80	0	90
Calendar Yr. Imp. from U.S.	1	1	1	2	0	2
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

MILK PRODUCTION BY PROVINCE, 1999 (1,000 Metric Tons, %)				
PROVINCE	Total Milk Production	Share of Total Milk	Cow Milk Production	Share of Total Cow Milk
Beijing	241	3.0%	240	3.3%
Tianjin	129	1.6%	129	1.8%
Hebei	788	9.8%	684	9.5%
Shanxi	327	4.1%	302	4.2%
Inner Mongolia	712	8.8%	679	9.5%
Liaoning	203	2.5%	182	2.5%
Jilin	145	1.8%	138	1.9%
Heilongjiang	1,450	18.0%	1,428	19.9%
Shanghai	259	3.2%	259	3.6%
Jiangsu	163	2.0%	162	2.3%
Zhejiang	91	1.1%	91	1.3%
Anhui	36	0.4%	36	0.5%
Fujian	80	1.0%	77	1.1%
Jiangxi	52	0.6%	52	0.7%
Shandong	613	7.6%	356	5.0%
Henan	159	2.0%	103	1.4%
Hubei	40	0.5%	39	0.5%
Hunan	10	0.1%	10	0.1%
Guangdong	81	1.0%	78	1.1%
Guangxi	13	0.2%	13	0.2%
Hainan	n.a.	n.a.	n.a.	n.a.
Chongqing	47	0.6%	47	0.7%
Sichuan	269	3.3%	266	3.7%
Guizhou	15	0.2%	15	0.2%
Yunnan	135	1.7%	122	1.7%
Tibet	209	2.6%	167	2.3%
Shaanxi	557	6.9%	323	4.5%
Gansu	138	1.7%	134	1.9%
Qinghai	196	2.4%	190	2.6%
Ningxia	205	2.5%	205	2.9%
Xinjiang	704	8.7%	648	9.0%
TOTAL	8,069	100%	7,176	100.0%
Source: National Statistical Bureau (previously named State Statistical Bureau) (f:\shared\lotus\dairy\mlkprv99)				

PER CAPITAL CONSUMPTION OF SELECTED DAIRY PRODUCTS				
1992 - 1999 (Kilograms)				
	Urban Areas		Rural Areas	
Year	Fresh Milk	Powdered Milk	Yogurt	Fresh Milk
1992	5.52	0.43	0.37	1.46
1993	5.38	0.42	0.32	0.85
1994	5.25	0.42	1.04	0.67
1995	4.62	0.35	0.26	0.64
1996	4.83	0.41	0.32	0.8
1997	5.07	0.41	0.44	0.95**
1998	6.18	0.43	0.64	n/a
1999	7.88	0.44	0.87	n/a
** Refers to milk and other dairy products.				
Source: Urban data are from China Statistical Yearbook and the rural data are				
from China Rural Statistical Yearbook				
(f:\shared\lotus\dairy\consumpt)				

CHINA'S COMBINED DAIRY PRODUCTS IMPORTS, 1999-2000			
(Metric Tons)			
			Share of
			Product Trade
PRODUCTS	1999	2000	1999
		(Thru June)	
DIRECT			
Fluid Milk (0401)	14,839	6,895	9%
Powdered Milk and Cream (0402)	58,154	38,038	35%
Fermented and Acidified Milk (0403)	4,285	8,381	3%
Whey and Related Products (0404)	83,227	69,166	50%
Butter and Related Products (0405)	3,272	2,586	2%
Cheese and Related Products (0406)	1,171	817	1%
Total	164,948	125,883	100%
INDIRECT (Thru HK)			
Fluid Milk (0401)	8,551	3,479	16%
Powdered Milk and Cream (0402)	30,597	14,614	56%
Fermented and Acidified Milk (0403)	158	73	0%
Whey and Related Products (0404)	9,242	3,462	17%
Butter and Related Products (0405)	5,473	1,529	10%
Cheese and Related Products (0406)	737	373	1%
Total	54,758	23,530	100.00%
TOTAL			
Fluid Milk (0401)	23,390	10,374	12%
Powdered Milk and Cream (0402)	88,751	52,652	46%
Fermented and Acidified Milk (0403)	4,443	8,454	1%
Whey and Related Products (0404)	92,469	72,628	34%
Butter and Related Products (0405)	8,745	4,115	6%
Cheese and Related Products (0406)	1,908	1,190	1%
Total	219,706	149,413	100%
Source: China Customs and Hong Kong Customs			
(f:\shared\lotus\dairy\combned0)			

CHINA'S TOTAL DIRECT IMPORTS OR DAIRY PRODUCTS, 1999				
(Metric Tons, US\$ 1,000, %)				
Products (HS Code)	Volume	Share	Value	Share
Fluid Milk (0401)	14,839	9%	8,444	5%
Powdered Milk and Cream (0402)	58,154	35%	81,652	50%
Yogurt and Acidified Milk (0403)	4,285	3%	476	0%
Whey and Related Products (0404)	83,227	50%	58,086	36%
Butter and Related Products (0405)	3,272	2%	11,722	7%
Cheese and Related Products (0406)	1,171	1%	3,054	2%
TOTAL	164,948	100%	163,434	100%
Source: China Customs (f:\shared\lotus\dairy\ttlimp99)				

HONG KONG RE-EXPORTS OF DAIRY PRODUCTS TO CHINA, 1999				
(Metric Tons, US\$ 1,000, %)				
Products	Volume	Share	Value	Share
Fluid Milk (0401)	8,551	15.62%	7,545	6.38%
Powdered Milk and Cream (0402)	30,597	55.88%	91,457	77.38%
Yogurt and Acidified Milk (0403)	158	0.29%	324	0.27%
Whey and Related Products (0404)	9,242	16.88%	8,663	7.33%
Butter and Related Products (0405)	5,473	9.99%	7,685	6.50%
Cheese and Related Products (0406)	737	1.35%	2,515	2.13%
TOTAL	54,758	100%	118,189	100%
Source: Hong Kong Custom Statistics (f:\shared\lotus\dairy\hkree99.wk4)				

CHINA'S TOTAL DIRECT IMPORTS OF DAIRY PRODUCTS, 2000 (through June)
(Metric Tons)

Products (HS Code)	Volume	Share	Value	Share
Fluid Milk (0401)	6,895	5%	29,578	21%
Powdered Milk and Cream (0402)	38,038	30%	56,824	41%
Fermented and Acidified Milk (0403)	8,381	7%	2,055	1%
Whey and Related Products (0404)	69,166	55%	44,773	32%
Butter and Related Products (0405)	2,586	2%	3,962	3%
Cheese and Related Products (0406)	817	1%	1,951	1%
TOTAL	125,883	100%	139,143	100%
Source: China Customs (f:\shared\lotus\dairy\ttlimp00)				

HONG KONG RE-EXPORTS OF DAIRY PRODUCTS TO CHINA, 2000 (though June)				
(Metric Tons, US\$ 1,000, %)				
Products	Volume	Share	Value	Share
Fluid Milk (0401)	3,479	14.78%	3,159	5.73%
Powdered Milk and Cream (0402)	14,615	62.11%	44,910	81.43%
Yogurt and Acidified Milk (0403)	73	0.31%	160	0.29%
Whey and Related Products (0404)	3,462	14.71%	3,131	5.68%
Butter and Related Products (0405)	1,529	6.50%	2,514	4.56%
Cheese and Related Products (0406)	373	1.59%	1,279	2.32%
TOTAL	23,531	100%	55,153	100%
Source: Hong Kong Custom Statistics (f:\shared\lotus\dairy\hkreex00.wk4)				

CHINA'S FLUID MILK DIRECT IMPORTS BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 1999 (Metric Tons)				
COUNTRY	Fat \leq 1%	1% < Fat \leq 6%	Fat > 6%	TOTAL
	(HS# 0401.1000)	(HS# 0401.2000)	(HS# 0401.3000)	
Australia	454	4,257	5,595	10,306
New Zealand	382	780	961	2,123
United States	777	381	31	1,189
Malaysia	12	18	455	485
Netherlands	63	72	16	151
United Kingdom	20	73	4	97
Belgium	86	0	4	90
Others	97	101	200	398
TOTAL	1,891	5,682	7,266	14,839
Source: China Customs				
(f:\shared\lotus\dairy\fldimp99)				

CHINA'S DIRECT IMPORTS OF FLUID MILK BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2000 (through June) (Metric tons)				
COUNTRY	Fat \leq 1%	1% < Fat \leq 6%	Fat > 6%	TOTAL
	(HS# 0401.1000)	(HS# 0401.2000)	(HS# 0401.3000)	
Australia	391	1,957	2,458	4,806
New Zealand	299	217	486	1,002
Malaysia	0	2	714	716
Netherlands	100	0	38	138
Germany	75	0	0	75
United States	5	0	1	6
Others	19	57	76	152
TOTAL	889	2,233	3,773	6,895
Source: China Customs				
(f:\shared\lotus\dairy\fldim00)				

CHINA'S POWDERED MILK DIRECT IMPORTS BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 1999 (Metric Tons)				
ORIGIN	Fat < 1.5% 1/ (HS# 0402.1000)	Fat > 1.5% 2/ (HS# 0402.2100)	Fat > 1.5% 3/ (HS# 0402.2900)	TOTAL
New Zealand	8,725	24,876	8,611	42,212
Australia	1,937	1,065	1,424	4,426
Netherlands	753	989	312	2,054
United States	983	245	590	1,818
Ireland	1,125	257	197	1,579
Estonia	1,050	0	48	1,098
France	355	172	340	867
Taiwan	18	27	499	544
Germany	237	51	205	493
Czech Republic	225	0	0	225
Belgium	200	2	0	202
Malaysia	29	6	156	191
Poland	100	32	0	132
Singapore	0	0	131	131
Indonesia	22	95	0	117
Other	176	32	99	307
TOTAL	15,935	27,849	12,612	56,396
1/ with sugar or other sweetening matter				
2/ without sugar or other sweetening matter				
3/ with sugar or other sweetening matter				
Source: China Customs				
(f:\shared\lotus\dairy\pdrmqi99)				

CHINA'S POWDERED MILK DIRECT IMPORTS BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2000 (through June) (Metric Tons)				
ORIGIN	Fat < 1.5% 1/ (HS# 0402.1000)	Fat > 1.5% 2/ (HS# 0402.2100)	Fat > 1.5% 3/ (HS# 0402.2900)	TOTAL
New Zealand	4,729	18,166	2,716	25,611
Australia	2,412	410	605	3,427
France	344	1,341	25	1,710
Ireland	1,172	448	62	1,682
United Kingdom	508	0	325	833
Netherlands	566	173	72	811
United States	643	52	36	731
Germany	475	161	0	636
Belgium	600	0	0	600
Russia	335	60	0	395
Spain	264	0	100	364
Uruguay	250	0	0	250
Lithuania	175	0	0	175
Sweden	150	0	0	150
Canada	0	0	144	144
Other	21	25	79	125
TOTAL	12,644	20,836	4,164	37,644
1/ With sugar or other sweetening matter				
2/ Without sugar or other sweetening matter				
3/ With sugar or other sweetening matter				
Source: China Customs				
(f:\shared\lotus\dairy\pdrmqi00)				

CHINA'S DIRECT IMPORTS OF WHEY BY ORIGIN, 1999-2000		
(Metric Tons)		
ORIGIN	1999	2000
		(Thru June)
United States	30,054	24,116
France	20,283	18,901
Canada	8,975	6,384
Netherlands	4,119	5,896
Australia	8,391	5,667
Finland	5,372	3,290
Germany	247	1,477
Poland	1,297	910
New Zealand	2,524	822
Ireland	594	690
Sweden	330	450
Czech Republic	250	190
South Korea	100	75
Belgium	441	0
South Africa	200	0
Other	49	298
TOTAL	83,226	69,166
HS Code: 0404.1000, 0404.9000		
Source: China Customs		
(f:\shared\lotus\dairy\ttlwhey0)		

CHINA'S OTHER MILK IMPORTS BY COUNTRY OF ORIGIN, 1999			
(Full Fat) (Metric Tons)			
ORIGIN	HS# 0429.9100	HS# 0429.9900	TOTAL
New Zealand	804	133	937
Indonesia	527	2	529
Malaysia	32	78	110
Singapore	53	3	56
South Korea	38	0	38
Thailand	0	32	32
Vietnam	28	0	28
United States	11	4	15
Taiwan	4	3	7
Other	2	2	5
TOTAL	1,499	257	1,757
Source: China Customs (f:\shared\lotus\dairy\othrqi99)			

CHINA'S OTHER MILK IMPORTS BY COUNTRY OF ORIGIN, 2000			
(Full Fat) (Metric Tons)			
ORIGIN	HS# 0429.9100	HS# 0429.9900	TOTAL
New Zealand	4	247	251
Australia	33	61	94
Malaysia	36	0	36
Vietnam	0	3	3
United States	3	0	3
Singapore	3	0	3
Other	1	4	5
TOTAL	80	315	395
Source: China Customs (f:\shared\lotus\dairy\othrqi00)			
HONG KONG RE-EXPORTS OF FLUID MILK BY ORIGIN			

1999-2000 (Metric Tons)		
ORIGIN	1999	2000 (Thru June)
Australia	5,832	2,176
United States	2,155	167
France	59	98
New Zealand	401	84
Germany	0	16
Netherlands	0	5
United Kingdom	0	0
Other	104	933
TOTAL	8,551	3,479
Source: Hong Kong Custom Statistics (f:\shared\lotus\dairy\hk\dairy\hkrexorg)		

HONG KONG RE-EXPORTS OF POWDERED MILK TO CHINA BY ORIGIN		
1999-2000, (Metric Tons)		
ORIGIN	1999	2000
		(Thru June)
New Zealand	18,429	9,940
Ireland	1,819	1,154
United States	2,221	819
Australia	1,410	787
Netherlands	2,196	334
Denmark	493	114
United Kingdom	454	77
Germany	96	55
France	165	7
Belgium	9	0
Other	3,305	1,327
TOTAL	30,597	14,614
HS Code: 0402.1000, 0402.2110, 0402.2120, 0402.2190, 0402.2900		
Source: Hong Kong Custom Statistics		
(f:\shard\lotus\dairy\hk\dairy\hkpdm9-0)		

HONG KONG RE-EXPORTS OF WHEY TO CHINE BY ORIGIN		
1999-2000 (Metric Tons)		
ORIGIN	1999	2000 (Thru June)
United States	7,222	2,040
Australia	1,434	832
Netherlands	130	149
Germany	0	128
Canada	148	127
New Zealand	138	117
Denmark	35	45
France	0	16
Other	135	8
TOTAL	9,242	3,462
Source: Hong Kong Custom Statistics		
HS Code: 0404.1000, 0404.9000		
(f:\shared\lotus\dairy\hk dairy\whey9-0)		

HONG KONG RE-EXPORTS OF BUTTER AND DAIRY SPREADS		
TO CHINA BY ORIGIN, 1999-2000		
(Metric Tons)		
ORIGIN	1999	2000
		(Thru June)
New Zealand	1,602	724
Australia	1,258	462
United States	636	61
Belgium	38	58
France	13	0
Other	1,926	224
TOTAL	5,473	1,529
Source: Hong Kong Custom Statistics		
HS Code: 0405.1000, 0405.2000, 0405.9010, 0405.9090		
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CHINA'S TOTAL DIRECT EXPORTS DAIRY PRODUCTS, 1999				
(Metric Tons, US\$ 1,000, %)				
Products (HS Code)	Volume	Share	Value	Share
Fluid Milk (0401)	25,195	62%	18,158	41%
Powdered Milk and Cream (0402)	14,160	35%	23,902	54%
Fermented and Acidified Milk (0403)	334	1%	425	1%
Whey and Related Products (0404)	393	1%	377	1%
Butter and Related Products (0405)	47	0%	91	0%
Cheese and Related Products (0406)	308	1%	1,049	2%
TOTAL	40,437	100%	44,002	100%
Source: China Customs				
(f:\shared\lotus\dairy\ttlexp99)				

CHINA'S TOTAL DAIRY DIRECT EXPORTS, 2000 (through June)				
(Metric Tons, US\$ 1,000, %)				
Products (HS Code)	Volume	Share	Value	Share
Fluid Milk (0401)	13,435	59%	9,356	37%
Powdered Milk and Cream (0402)	8,612	38%	14,561	58%
Fermented and Acidified Milk (0403)	99	0%	131	1%
Whey and Related Products (0404)	218	1%	217	1%
Butter and Related Products (0405)	205	1%	315	1%
Cheese and Related Products (0406)	191	1%	608	2%
TOTAL	22,760	100%	25,188	100%
Source: China Customs				
(f:\shared\lotus\dairy\ttlexp00)				

CHINA'S DIRECT EXPORTS OF FLUID MILK BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 1999 (Metric Tons)				
ORIGIN	Fat \leq 1%	1% < Fat \leq 6%	Fat > 6%	TOTAL
	(HS# 0401.1000)	(HS# 0401.2000)	(HS# 0401.3000)	
Hong Kong	0	24447	16	24,463
Singapore	0	422	0	422
Macau	6	292	11	309
Other	0	1	0	1
TOTAL	6	25,162	27	25,195
Source: China Customs (f:\shared\lotus\dairy\fldexp99)				

CHINA'S DIRECT EXPORTS OF FLUID MILK BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2000 (through June) (Metric Tons)				
ORIGIN	Fat \leq 1%	1% < Fat \leq 6%	Fat > 6%	TOTAL
	(HS# 0401.1000)	(HS# 0401.2000)	(HS# 0401.3000)	
Hong Kong	0	12387	0	12,387
Singapore	0	934	0	934
Macau	0	114	0	114
Other	0	0	0	0
TOTAL	0	13,435	0	13,435
Source: China Customs (f:\shared\lotus\dairy\fldexp00)				

CHINA'S DIRECT EXPORTS OF POWDERED MILK BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 1999 (Metric Tons)				
ORIGIN	Fat < 1.5% 1/ (HS# 0402.1000)	Fat > 1.5% 2/ (HS# 0402.2100)	Fat > 1.5% 3/ (HS# 0402.2900)	TOTAL
Iraq	75	1,763	2,737	4,575
Myanmar	1	0	2,902	2,903
Philippines	0	969	0	969
Netherlands	475	0	0	475
Singapore	60	0	146	206
Indonesia	0	199	0	199
Vietnam	28	0	98	126
Other	0	58	48	106
TOTAL	639	2,989	5,931	9,559
1/ With sugar or other sweetening matter				
2/ Without sugar or other sweetening matter				
3/ With sugar or other sweetening matter				
Source: China Customs				
(f:\shared\lotus\dairy\pdrmge99)				

CHINA'S DIRECT EXPORTS OF POWDERED MILK BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2000 (through June) (Metric Tons)				
ORIGIN	Fat < 1.5% 1/ (HS# 0402.1000)	Fat > 1.5% 2/ (HS# 0402.2100)	Fat > 1.5% 3/ (HS# 0402.2900)	TOTAL
Iraq	0	3,000	500	3,500
Myanmar	5	1	686	692
Philippines	0	474	0	474
Thailand	0	112	0	112
Hong Kong	6	133	238	377
Other	5	16	47	68
TOTAL	16	3,736	1,471	5,223
1/ With sugar or other sweetening matter				
2/ Without sugar or other sweetening matter				
3/ With sugar or other sweetening matter				
Source: China Customs				
(f:\shared\lotus\dairy\pdrmqe00)				

CHINA'S TARIFF RATES FOR DAIRY PRODUCTS, 1999-2000				
(%)				
	1999		2000	
PRODUCTS	MFN	General	MFN	General
Fluid milk	25	40	25	40
Powdered milk	25	40	25	40
Milk and Cream not in solid form	90	50	90	50
Yogurt	90	50	90	50
Butter milk	90	50	90	50
Whey and modified whey	30	6	30	6
Other whey products	90	50	90	50
Butter and dairy spreads	90	50	90	50
Cheese and curd	90	50	90	50
Source: China Customs				
(f:\shared\lotus\dairy\tarff9-0)				

III. NARRATIVE ON SUPPLY AND DEMAND, POLICY AND MARKETING

PRODUCTION

Cattle and Raw Milk

The China Rural Statistical Yearbook published by the China National Statistical Bureau (NSB) shows that China's end-of-year inventory of dairy cattle in 1999 was 4.428 million head. It increased by 3.97 percent over 1998. The Ministry of Agriculture's data indicates that China's 1999 end-of-year dairy cattle population was 4.265 million head. The inventory number is 3.82 percent different between the two official organizations. Different opinions between them probably will continue in the future but all sources agree the herd is increasing quickly as demand for milk is increasing

As the Chinese economy should continue to improve sparking further demand increases, post forecasts that China's dairy cattle herd will continue to grow at least at an annual rate of 5 percent in the next few years. Even if China imports increase as they have over the past few years, there will still be plenty of demand to sustain growth.

Total milk production in 1999 increased by 8 percent over 1998. Cow milk production also increased by 8 percent over 1998. Cow milk production is increasing more quickly than cattle numbers because of improvements in breeding and technology. In June 2000, the Ministry of Agriculture published very ambitious long and medium term plans for milk production. Total milk production is targeted to increase more than 50 percent to 13.5 million metric tons by the end of 2005, the year which ends the "Tenth Five-Year Plan". The long term target is a five-fold increase to 42.5 million metric tons by the end of 2030.

Although post expects strong growth to continue, these targets may not be realistic. China has a number of constraints on production. China's dairy cattle production is still technologically very unsophisticated. Most cows are raised by family households. They lack knowledge of advanced technologies of feeding, genetic breeding and disease control. They also lack marketing information. Hand milking causes sanitary problems. It is difficult for small units to meet the milk quality requested by large modern dairy corporations. Switching to a more modern industry which can realize these large increases in production will take considerable time. Already, the pace of technology adoption varies greatly by region. In Beijing, for example average yield per cow is 6000 to 7000 KG a year. The national average yield per cow is below 3,000 KG a year.

In the long-run constraints on land are also a concern. Prices for fodder are already very high and low quality fodder has limited how much producers can introduce high-producing breeds. The Government has a program to take highly erodible land out of tilling. In 1999, the Government reported that 394,600 hectares of poor farming land was converted under this program. As much as half of this, they say, went to hay and pasture. This is significant given that China overall has 130,000,000 hectares of cultivated land. However, area devoted to forage still is not expanding quickly enough to meet demand and there would seem to also be absolute limits on how much land will be converted to fodder production.

Change of Regional Distribution of Fluid Milk Production

Generally, about 70 percent of raw milk is produced in North China and the minority regions of West China. These places have only 30 percent of the total population. Although Heilongjiang province in the far Northeast still ranked first in 1999, its share of total raw milk production dropped from 19 percent in 1998 to 18 percent in 1999. Its share of cow milk production dropped from 21 percent to 19 percent in 1999. Hebei Province, which surrounds Beijing and Tianjin, on the other hand was increasing its production. Its share of milk production was 9.8 percent, which makes it now the second largest producer. Strong demand, better climate and close location to large cities boosted Hebei's milk production. Shandong, another province with a large population has also become a major producer. It appears that the distribution of milk production is gradually moving from concentrated remote regions to more populated northern provinces. Large dairy corporations of Beijing, Shanghai and Tianjin are increasingly major players. In the South however, hot, humid climate and limited forage continue to restrict expansion.

Processed Dairy Products

Seventy percent of processed dairy production in China is powdered milk. In 1999, total powdered milk production was 480,000 metric tons. Powdered milk with full fat or with sugar dropped by 3 percent and 4 percent respectively. Compound powdered milk for babies and children increased slightly by 1.7 percent. Other powdered milk increased by 5.8 percent. Annual random sampling inspection of powdered milk showed that 70-80 percent of domestic powdered milk was qualified for consumption. The rest had problems with pathogens or other contamination. The top ten companies produced 30 percent of the total powdered milk produced. Among provinces Heilongjiang ranked first with a total powdered-milk production accounting for about 25 percent of the total in China. Hebei, Zhejiang, Inner Mongolia and Shandong ranked from second to fifth. These five provinces together produced about 70 percent of the total

Market players disagree as to whether powdered milk production is flat, increasing slightly, or even shrinking. All agree though that powdered milk growth is not as high as fluid milk. Demand for powdered milk is still strong and the shortfall in supply has been met by drawing down stocks and increasing imports. Because domestic consumption is growing more quickly than domestic fluid milk production, powder milk imports can be expected to continue to increase as stocks have now reached minimal levels.

Processed fluid milk production in 1999 was a record 950,000 metric tons, according to the China Dairy Industrial Association, this was up by 39.7 percent over 1998. Shanghai was the biggest producer with a total production of 253,400 metric tons. Beijing was second with a total production of 131,000 metric tons. Out of the total output of fluid milk, pasturized milk was 60%, UHT milk was about 21.1%, and yogurt was about 19%. Yogurt production in particular is growing quickly. One source reported that yogurt production was 1.15 million mt in 1998. It increased to 1.65 million mt in 1999. Local producers are finding that the fluid markets are more profitable than other milk markets particularly because fluid products face less competition from imports. Transportation costs and time constraints on delivery limit import access to the fluid market.

Production Policy

Most milking is still done by hand and sanitation is a very big problem for fluid milk production but currently there is very little government oversight. However, as fluid milk production is increasing sharply and trial implementation of the National School Milk Scheme has started, the Government is beginning to take a more active role in quality control. Last year the National Government published some guidelines for sanitation but implementation remains with local authorities. Dalian City announced new regulations for handling and processing fresh milk recently. Shanghai City just issued a new standard for fresh milk in October. Eight national government organizations are discussing specific rules for National School Milk Scheme.

Generally government support for dairy production is small. Among provinces, only Inner Mongolia is known to have instituted some modest policies to assist dairy farmers, such as milk exchange for feed, non-payment for contracted land if the land is used for feed production, subsidized cement for construction of silage facilities, subsidized funds for hay processing equipment, as well as some money to subsidize household purchases of cows.

The first national fluid milk seminar was held recently in Nanjing. Participants reached a consensus that China's accession to the WTO will sharpen competition in the dairy industry. They set seven goals for the years to come. These goals include: 1) strengthening fluid milk production, 2) building more dairy cattle production bases and applying more scientific methods for cow feeding and genetic breeding, 3) employing more highly qualified managers and marketing personnel and giving them full room to use their talents, 4) expanding the dairy industry through more investment or combining operations to reduce costs, 5) making overall market surveys, so as to identify ways to exploit and develop new economic growing points, 6) enhancing quality control of dairy products, and 7) exploring the opportunities offered by the Governments ongoing "Western Development Scheme" in order to increase more raw milk sources.

Consumption

Until the end of 1999, annual per capita milk consumption volume was about 6.3 KG, only one-fifteenth of the world average. If the Ministry of Agriculture's long and medium-termed plan is realized, per capita milk consumption will reach 10 KG by the end of 2005 and 25 KG by the end of 2030.

National Bureau of Statistics data indicate that annual per capita income of urban residents in 1999 increased by 7.8 percent, while that of rural residents increased by 2.2 percent. Both urban and rural residents spent more money on what Chinese consider to be healthy food, including dairy products. The Chinese particularly put a high-value on fresh products. In 1999, per capita fresh milk consumption in urban areas was 7.88 kilograms, up 28 percent over the previous year. Powdered milk consumption, by contrast, was 0.44 kilograms, up only 2 percent. Ministry of Agriculture data indicate that total milk consumption in rural areas increased by 3.2 percent. No rural breakdown by product exists.

Consumption patterns have changed greatly over the past 20 years. In the past, communist government policy identified main dairy consumers as babies, children, the sick and the old.

Now, consumption is much more evenly spread across the population. Sampling surveys in Beijing now show dairy consumption as 19 percent for babies and infants, 28 percent for people above 60 years old, and 53 percent for all others. Indications are that consumption is also spreading more evenly across income groups.

The Ministry of Agriculture, supported by 7 other government organizations, recently initiated the State School Milk Program. Beijing, Shanghai, Tianjin and Shenyang were selected as trial cities in 1999. Another 15 large and medium-sized cities will be selected next year. According to statistics, there are currently 2.08 million enrolled middle school and primary school students. There are thirty-three million students in urban areas which will initially be the focus of the program. So, if the State School Milk Program is implemented smoothly, fluid milk production could increase greatly.

Trade

Imports of dairy products in 1999 were much larger than expected. The suspension of imports between June 9 and July 2 from Belgium, Netherlands, France and Germany because of dioxin contamination did not affect China's dairy imports. Imports of the first half of 2000 were up substantially. This confirms that China's domestic demand is increasing. The greatest volumes of imports were powdered milk and whey. China's domestic consumption of cheese and butter has to rely almost completely on imports and these are also increasing. China's dairy exports compared with imports, are very small. Except for donations to Iraq of 4,600 MT in 1999 and 3,500 MT in the first half of 2000, most exports are fluid milke to Hong Kong. The donations to Iraq continued in the first half of 2000. Donations aside, it is likely that exports in the future, will continue to be largely restricted to this Hong Kong.

Chinese dairy industry officials say that 60 percent of imported whey is used for infant formula and other products for human consumption. The other 40 percent is used for the feed industry. Imported powdered milk is mainly used for making UHT milk or yogurt.

Marketing

Name brand recognition is important in China. Foreign name brands are increasingly popular. According to investigations, the market share of powdered milk products imported from other countries or produced by joint-ventures, was 40 percent in Beijing's large supermarkets and department stores in 1995. Now it is 62 percent. Although prices of foreign products like Nestle are higher than local made products, they are still popular, because they are believed to have superior quality. Market shares of high value-added products like butter, cheese, UHT milk and yogurt from other countries or joint ventures are 100 percent, 76 percent, 84 percent and 90 percent respectively.

Trade Policy

Tariff rates in 1999 and 2000 remained unchanged from 1998. Most tariff rates range from 25-

50 percent. Whey is an exception with 6 percent tariff rate. All dairy imports are subject to a 17 percent value added tax. For most dairy products, China will be required to lower their tariffs little if any after they enter the WTO. One notable exception is lactose, which will fall from 35 to 10 percent by 2004.

Prices

Average raw milk procurement prices in June 2000 increased slightly over the same month of 1999. Fluid milk production corporations offered higher procurement prices than other milk product producers. Twenty-six percent of corporations offered procurement prices over 2 RMB (\$.24) per kilogram. Thirty-seven percent of corporations offered prices below 1.50 RMB (\$.18) per KG. The rest were in between. The government recently lifted all controls on retail milk prices.