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Dairy and Products

Annual

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Report Highlights: During 2003 and beyond, China's skyrocketing consumer demand for dairy products, particularly fluid milk, is outstripping domestic supplies and driving-up imports. Imports of dairy products this year are forecast to exceed $400 million, an increase of 50 percent over the previous year. This unleashed demand for dairy products is also fueling a robust growth in the size of China's dairy industry. China's 2001 entry into the WTO, a new tariff scheme and increases in imported powder milk and whey products has negatively affected domestic powdered milk production. In response to the inability of China's industry to meet fluid milk demand, the Government of China announced the strategic "Advantageous Cow Milk Production Area Development Plan, 2003 - 2007".

Includes PSD Changes: Yes
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Annual Report
Beijing [CH1]
[CH]

Table of Contents

Situation and Outlook

China's dairy industry is rapidly expanding construction of new dairy barns and imports of live breeding cows, fueled by increased per capita consumption of dairy products. Milk output during 2002 in Inner Mongolia, China's second-largest dairy producing region, increased 143 percent from the previous year. This trend is forecast to continue in 2003 and into 2004. Domestic raw milk production cannot meet the growing demand, and the industry is striving to increase output through improved genetics, feed and management practices.

Australia, New Zealand and the United States are the primary beneficiaries of China's growing demand for imported breeder stock and livestock genetics. These same countries are also competing to sell China dairy products including fluid milk, powdered milk, and cheese and whey products. The United States is the largest whey supplier to China, accounting for 36 percent in volume during the first half of 2003, while New Zealand is the dominant powdered milk supplier. During 2003 U.S. breeding cow exports to China are more than double the previous year, reducing Canada's share after the BSE outbreak in that country.

The impact of WTO entry and the post-WTO tariff scheme has put pressure on domestic powdered milk production. Some companies are shifting production to the fluid milk sector, where imports are minimal. Despite the falling tariff levels, the effective tariff rate (MFN + VAT) still ranges between 24 and 47 percent for dairy products.

In response to insufficient domestic raw milk production, the Chinese Government announced a national strategic plan called the "Advantageous Cow Milk Production Area Development Plan, 2003-2007". It is difficult to estimate how effective the plan will be in increasing production, but in the long run the project could lead to import decreases.

Production: strong growth, industry concentration and investment to meet unleashed consumer demand for dairy products

China's dairy industry is rapidly growing in response to rising consumer demand for milk and yogurt products. In turn, the Chinese Government is announcing new policies that favor dairy sector development. Despite these efforts, the shortfall in milk supplies will result in continued imports of live cows and dairy products during 2003 and the next couple of years.

In the first quarter of 2003, cow milk production was 3.5 million MT, up 30.7 percent over the same period last year. The top three provinces are Heilongjiang, Inner Mongolia and Hebei. From January to June in 2003, the total output value of processed dairy products was RMB 19.12 billion (US$1.00 = RMB8.27), up 36.8 percent. The profitable dairy industry has attracted investment capital not only from the dairy sector, but also from other industries. During 2002, about 20 new fluid milk projects were completed with a total investment of RMB 1.9 billion. These new plants will produce a total of 4,300 MT of milk a day.

On the processing side, three new milk powder plants recently opened with a total investment of RMB100 million and a processing capacity of 25,000 MT a year. This capacity may not be fully achieved unless raw milk production keeps pace with processing.

China's large dairy companies and foreign joint ventures are battling for the limited supply of milk. Through mergers across the country, these large companies have quickly carved-up domestic milk sources. Small and medium-sized companies have turned to more use of imported milk powder, especially for fluid milk production. Inexpensive international dairy prices have also helped the margins of these smaller companies. This trend of using milk powder to blend fluid milk will continue unless new labeling regulations are implemented to indicate all ingredients.

National milk strategy: "Advantageous Cow Milk Area Development Plan"

In response to lagging raw milk supplies, the Ministry of Agriculture (MOA) announced a national strategic plan entitled "Advantageous Cow Milk Production Area Development Plan, 2003 - 2007". The three areas are the Northeast Area (Heilongjiang and part of Inner Mongolia), North China Area (Shanxi and Heibei), and Beijing-Tianjin-Shanghai Area. The purpose is to make better use of milk resources and increase production in these areas through improving genetics, feeding management and processing. By 2007, cow inventory in those areas will reach 2.8 million head and annual fresh milk production will increase by 15-18 percent.

China's main dairy constraints: genetics, feed and management

Despite China's efforts to expand dairy production, genetics, feed and disease control pose significant challenges for the industry. China's herds lack purebred cows. Last year, the dairy industry estimated purebred cows were only about 50 percent. According to the Ministry of Agriculture, this number in 2003 is even lower and approaches one-third.

The need to upgrade China's dairy genetics has led to increased imports of breeding cows and higher cow prices. Domestic heifers of 3-8 months age cost RMB 2,000-2,500 per head, 8-8 months are RMB 2,500-3,500 and pregnant or milking cows cost RMB 5,500-6,500. Prices for imported cows are RMB 11,000-17,000 for Australian cows (5-6 MT milk a year), and RMB 35,000 for U.S. cows (8-10 MT milk a year). Most farmers cannot afford for these prices, one of the major constraints faced by the U.S. export industry.

China has limited production of crops used specifically for feed and forage. Natural grassland has deteriorated to 135 million hectares, and the deterioration continues at 3 million hectares a year on average. The MOA announced the first national "Grassland Law" at the beginning of this year to curb grassland deterioration. The new law will help improve the situation, but it will still take years to see any benefits.

Disease problems have received significant media attention. Recently, two outbreaks of Bovine TB and Brucellosis on a farm in Guangzhou impacted consumer confidence and reduced consumption of fresh milk. Milk sales in Guangzhou dropped 20 percent when the farm disclosed the inefficiency of disease prevention. Some farmers reportedly sell their cows to other markets when TB cases are discovered.

Processing: fluid milk increased output

For the next five years, post estimates strong domestic demand for fluid milk due to increased consumer demand for dairy products. In the first half of 2003, total processed dairy products reached 681,000 MT, up 30.87 percent. Fluid milk production was 2.46 million MT, up 63.27 percent over the same period in 2002. UHT (ultra-high temperature) milk demand is increasing faster than pasteurized due to China's school milk program as well as its convenience of storage and transportation.

China's WTO entry: hurting domestic milk powder production, but new opportunity for fluid milk

China's imports of dairy imports in 2003, including re-export from Hong Kong, are forecast to exceed $400 million. Low international prices, coupled with the lowered tariff rates, will likely lead to increased dairy imports in 2004.

Strong domestic demand and production constraints, combined with low international prices and lowered import tariff rate, drove-up imports of powdered milk in the first half of 2003 to 87,624 MT (up 76 percent over the same period of 2002). This figure accounted for about 18 percent of total domestic powdered milk production. Total imports are forecast at 110,000 MT for 2003 and 150,000 MT for 2004. The profit margins of producing imported powder into fluid milk means this trend will continue unless labeling changes are implemented.

The industry estimates that 5 percent of total fluid milk is produced using imported milk powder. These imports have negatively impacted domestic powder processors. Some large dairy companies object to this trend because they rely on raw milk as a raw material and their production costs are much higher. These companies have appealed to the Government to formulate a new labeling standard that indicates the source of the raw materials. However the appeal has not progressed due to different opinions within government organizations. There have been no updates of the national standard for dairy products.

Despite China's accession to the WTO, the effective tariff rate on imported dairy products is still double-digit, ranging from 17 to 47 percent.

Consumption: urban, wealthier consumers drinking-up

Dairy consumption increases lie mainly in urban, wealthier areas. However, per capita milk is still only around 11 kilograms (KG), much lower than the world average of 98 KG. The low average illustrates the tremendous potential for future growth in the dairy market.

From January to May 2003, monthly urban consumption of dairy products was 2.05 KG, up 20.2 percent over the same period of the previous year. Per capita fresh milk consumption accounted for 1.53 KG (up 24.4 percent), powdered milk accounted for 0.05 KG (no change) and yogurt accounted for 0.17 KG (up 21.4 percent).

China's skyrocketing economic growth and rising incomes are behind the country's rising dairy consumption levels. Beijing and Shanghai rank first (per capital over 42 KG) and second (over 35 KG) in dairy consumption. The sluggish dairy consumption increase in rural areas reflects the slower pace of income growth over the last couple of years. Some experts believe that if the rural dairy market cannot be developed, the overall growth pace of China's dairy market may slow down after 10 years. Rural farm incomes remain stagnant.

Foreign milk powder products dominate China's high-end market. Among the top 10 milk powder sellers in the Chinese market, six are foreign companies. Quality is a concern. Sampling inspection by AQSIQ, China's inspection and quarantine authorities, showed that only 65.8 percent of domestic powdered milk is qualified for consumption based on the national domestic milk powder standard. Small dairy plants produce almost all the unqualified product.

Trade: United States the largest whey supplier to China

China's whey production is very small, and demand must be met by imports. The United States is the largest supplier and will remain the largest for the next couple of years.

In the first quarter of 2003, U.S. whey export volume and value to China was 29,166 MT valued at US$ 12.45 million, accounting for 36 percent and 24 percent respectively of China's total imports. Although the effective tariff rate for 2004 will remain unchanged (23 percent), it is already one of the lowest among dairy products. The U.S. whey export growth rate in 2004 is forecast to grow about the same level as 2003.

Excellent opportunities for U.S. breeding cows, but marketing, education and negotiations needed

China exempts import tariffs for breeding animals, but the VAT is still 13 percent. However, it is still much cheaper than importing commercial animals. As a result, some dairy companies reportedly import cows under the HS code of breeding cows. They use some of imported cows as milking cows rather than breeding cows or they sell them for profit. Since import numbers are so large, these companies often ignore the quality of the imported cows. To address this problem and improve China's dairy herd, the Government now limits cow imports to breeding purposes.

U.S. exporters of high quality breeding cows will benefit from this enforcement. While Australian cow exports dominate China's live cow trade, U.S. breeding cow exports have been increasing from a couple of hundred in 2001 to a forecast of 2,000 this year at the expense of Canada's export share.

Despite this growth, U.S. exported cows face price and cattle import (health) protocol constraints compared with Australian cow exports. Although Australian milk cow production is far lower than U.S. cows, import prices are much cheaper and affordable for Chinese companies or farmers. Because of the blue tong problem, the U.S. exporters can only sell to China between October and April. The Chinese quarantine procedure requires two months of isolated quarantine before transportation to China and 45-days isolated quarantine after arrival in China. This procedure does not leave much time for choosing cows. Australia does not have blue tongue problem and its industry can export year round.

One of the greatest challenges facing China's small-scale dairy producers is the poor management condition to sustain high quality cows, in part due to insufficient feeding technology. As a result, U.S. exporters should look for large dairy companies with better conditions and management. Some potential buyers may have not realized the balance of paying more to get better returns, and the U.S. side should focus on education of potential buyers.

The bilateral protocol for cattle and cattle genetic trade was signed in 1995. Part of the protocol needs updating. USDA's Animal and Plant Health Inspection Service and the Foreign Agricultural Service are working together to push for re-negotiation of the U.S.-China Cattle protocol in hopes of relaxing the quarantine difficulties. A couple of years ago, China also put forward to negotiate bilateral protocol for importation of U.S. in vitro fertilization embryos. FAS/Beijing places a high priority on continuing AQSIQ/APHIS technical talks with China.

U.S. Dairy Export Council (USDEC) active in China

USDEC's long-term strategy is to expand distribution and increase U.S. volume and market share of dairy products in China. Cheese and ice cream are the current targeted products. USDEC has put great efforts to educate U.S. suppliers about the opportunities and requirements of the Chinese cheese and ice cream markets, and also educate Chinese traders about U.S. cheese and ice cream product benefits and industry capabilities. China's imports of cheese and ice cream have grown considerably. The rapid growth is projected to continue and even accelerate in the next three years. Beginning on January 1, 2004, import tariffs for cheeses and ice cream will be reduced to 12 percent and 19 percent, respectively. The United States achieved a 34 percent market share in China's ice cream market in 2002 and has remained the largest ice cream supplier to China for the last three years. As imported ice cream faces limited competition from local products, U.S. exports are expected to continue to grow.

Hong Kong re-exports affected by SARS, but estimated to recover

The data of the World Trade Atlas for Hong Kong re-exports showed that re-export volume and value to China decreased by 59 percent and 65 percent respectively from January to June in 2003 over the same period of 2002. This was mainly due to SARS because Hong Kong was one of the most seriously hit areas and transportation was stopped for a couple of months. Hong Kong re-exports are forecast to return to normal in the latter half of 2003.

Large increases in cow imports will lead to reduced low-end beef imports

Normally, cows are slaughtered for beef after 6-7 years of milking. The beef is then sold to the low-end market. The large numbers of imported live cows and resulting increase in the cow inventory will likely lead to import decreases of low-end beef after 2010. On the other hand, steadily increasing beef consumption could result in most of this beef being consumed with room to spare for imported beef as well.

Export market flat and narrow

From January to June in 2003, China's powdered milk export volume and value was 9,236 MT and US$ 133.9 million, no increase over the same period of 2002. Hong Kong is China's largest export market accounting for 62.57 percent by volume and 54.87 percent by value of China's total powdered milk exports. This market may not change much in 2004.

PSD Table

Country	**China, Peoples Republic of**					
Commodity	**Dairy, Milk, Fluid**					(1000 HEAD) (1000 MT)
	2002	Revised	2003	Estimate	2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Cows In Milk	3164	3164	3417	3417	0	3690
Cows Milk Production	11075	12998	11961	15550	0	18505
Other Milk Production	1004	1006	1016	1120	0	0
TOTAL Production	12079	14004	12977	16670	0	18505
Intra EC Imports	0	0	0	0	0	0
Other Imports	6	5	6	6	0	6
TOTAL Imports	6	5	6	6	0	6
TOTAL SUPPLY	12085	14009	12983	16676	0	18511
Intra EC Exports	0	0	0	0	0	0
Other Exports	26	28	28	28	0	28
TOTAL Exports	26	28	28	28	0	28
Fluid Use Dom. Consum.	4909	5678	5400	6916	0	8299
Factory Use Consum.	7150	8303	7555	9732	0	10184
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	12059	13981	12955	16648	0	18483
TOTAL DISTRIBUTION	12085	14009	12983	16676	0	18511
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
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)
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Beginning Stocks	0	0	0	0	0	0
Production	577	577	606	606	0	640
Intra EC Imports	0	0	0	0	0	0
Other Imports	64	77	74	110	0	150
TOTAL Imports	64	77	74	110	0	150
TOTAL SUPPLY	641	654	680	716	0	790
Intra EC Exports	0	0	0	0	0	0
Other Exports	9	28	10	21	0	21
TOTAL Exports	9	28	10	21	0	21
Human Dom. Consumption	632	626	670	695	0	769
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	632	626	670	695	0	769
TOTAL Use	641	654	680	716	0	790
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	641	654	680	716	0	790
Calendar Yr. Imp. from U.S.	2	0	2	0	0	0
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)

	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Beginning Stocks	0	0	0	0	0	0
Production	80	72	83	73	0	75
Intra EC Imports	0	0	0	0	0	0
Other Imports	23	35	28	50	0	65
TOTAL Imports	23	35	28	50	0	65
TOTAL SUPPLY	103	107	111	123	0	140
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	103	107	111	123	0	140
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	103	107	111	123	0	140
TOTAL Use	103	107	111	123	0	140
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	103	107	111	123	0	140
Calendar Yr. Imp. from U.S.	0	1	0	2	0	3
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

CHINA'S MILK PRODUCTION B Y PROVINCE, 2001-2002 (1,000 Metric Tons, Percent)

	Total Milk Production (2001)	Cow Milk Production (2001)	Total Milk Production (2002)	Cow Milk Production (2002)	Share of Total Cow Milk (2002)	Change of Cow Milk 2001/2002
Beijing	241	240	551	551	4.2%	129.6%
Tianjin	129	129	336	336	2.6%	160.5%
Hebei	788	684	1,489	1,369	10.5%	100.1%
Shanxi	327	302	472	447	3.4%	48.0%
Inner Mongolia	712	679	1,689	1,652	12.7%	143.3%
Liaoning	203	182	308	281	2.2%	54.4%
Jilin	145	138	189	180	1.4%	30.4%
Heilongjiang	1,450	1,428	2,398	2,358	18.1%	65.1%
Shanghai	259	259	280	280	2.2%	8.1%
Jiangsu	163	162	455	453	3.5%	179.6%
Zhejiang	91	91	222	222	1.7%	144.0%
Anhui	36	36	74	74	0.6%	105.6%
Fujian	80	77	142	138	1.1%	79.2%
Jiangxi	52	52	79	79	0.6%	51.9%
Shandong	613	356	1,168	903	6.9%	153.7%
Henan	159	103	390	360	2.8%	249.5%
Hubei	40	39	101	101	0.8%	159.0%
Hunan	10	10	30	30	0.2%	200.0%
Guangdong	81	78	111	108	0.8%	38.5%
Guangxi	13	13	31	31	0.2%	138.5%
Hainan	n.a.	n.a.	0.4	0.4	0.0%	100.0%
Chongqing	47	47	81	81	0.6%	72.3%
Sichuan	269	266	393	389	3.0%	46.2%
Guizhou	15	15	25	25	0.2%	66.7%
Yunnan	135	122	190	175	1.3%	43.4%
Tibet	209	167	243	190	1.5%	13.8%
Shaanxi	557	323	831	540	4.2%	67.2%
Gansu	138	134	173	168	1.3%	25.4%
Qinghai	196	190	235	220	1.7%	15.8%
Ningxia	205	205	308	307	2.4%	49.8%
Xinjiang	704	648	1,011	949	7.3%	46.5%
TOTAL	8,069	7,176	14,005	12,997	100.0%	81.1%

Source: National Statistical Bureau (previously named State Statistical Bureau)
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PER CAPITAL CONSUMPTION OF SELECTED DAIRY PRODUCTS
1993 - 2002(Kilograms)

Year	Urban Area Fresh Milk	Powdered Milk	Yogurt	Rural Area Fresh Milk & Products
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	0.93
1999	7.88	0.44	0.87	0.96
2000	9.94	0.49	1.12	1.06
2001	11.9	0.50	1.36	1.2
2002	15.72	0.60	1.8	1.19

Source: China Statistics Bureau

SUMMARY OF CHINA'S DIRECT IMPORTS OF DAIRY PRODUCTS, 2001 - 2003
(Metric Tons, Thousands of US Dollars, %)

Products (HS Code)	Volume				Change
	2001	2002	2002	2003	2002-2003
			Jan-Jun	Jan-Jun	Jan-Jun
Fluid Milk (0401)	9,599	4,836	2,514	1,977	-21%
Powdered Milk and Cream (0402)	59,853	111,860	49,865	87,624	76%
Fermented and Acidified Milk (0403)	2,856	398	207	153	-26%
Whey and Related Products (0404)	119,780	137,846	73,510	81,915	11%
Butter and Related Products (0405)	1,452	5,154	1,213	6,626	446%
Cheese and Related Products (0406)	2,030	2,501	1,142	2,037	78%
TOTAL	195,570	262,595	128,451	180,332	40%
	Value				
	2,001	2,002	2,002	2,003	Change
			Jan-Jun	Jan-Jun	Jan-Jun
Fluid Milk (0401)	4,875	2,667	1,239	1,392	12%
Powdered Milk and Cream (0402)	115,462	161,530	78,108	133,949	71%
Fermented and Acidified Milk (0403)	1,703	594	320	264	-18%
Whey and Related Products (0404)	88,067	90,281	49,452	52,497	6%
Butter and Related Products (0405)	2,023	6,737	1,682	9,440	461%
Cheese and Related Products (0406)	3,975	5,720	2,780	4,328	56%
TOTAL	216,105	267,529	133,581	201,870	51%

Source: China Customs

SUMMARY OF HONG KONG RE-EXPORTS OF DAIRY PRODUCTS TO CHINA
2001 - 2003 (Metric Tons, Millions of US Dollar, %)

Products (HS Code)	Volume				Change
	2001	2002	2002	2003	2002-2003
			Jan-Jun	Jan-Jun	Jan-Jun
Fluid Milk (0401)	4,700	1,502	754	384	-49%
Powdered Milk and Cream (0402)	20,218	12,731	7,804	3,771	-52%
Fermented and Acidified Milk (0403)	33	11	13	9	-31%
Whey and Related Products (0404)	3,515	2,604	2,199	183	-92%
Butter and Related Products (0405)	6,720	1,970	1,210	504	-58%
Cheese and Related Products (0406)	1,207	1,273	700	352	-50%
TOTAL	36,393	20,091	12,680	5,203	-59%

	Value				
	2,001	2,002	2,002	2,003	Change
			Jan-Jun	Jan-Jun	Jan-Jun
Fluid Milk (0401)	4.018	1.426	0.739	0.396	-46%
Powdered Milk and Cream (0402)	99.855	75.014	52.997	18.363	-65%
Fermented and Acidified Milk (0403)	0.103	0.114	0.064	0.022	-66%
Whey and Related Products (0404)	2.486	1.827	1.543	0.113	-93%
Butter and Related Products (0405)	6.067	2.912	1.587	0.799	-50%
Cheese and Related Products (0406)	3.462	3.362	1.828	0.850	-54%
TOTAL	115.991	84.655	58.758	20.543	-65%

Source: World Trade Atlas Hong Kong re-exports to China

CHINA'S FLUID MILK IMPORTS BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2002 (Metric Tons)

COUNTRY	Fat 1% or lower (HS# 0401.1000)	Fat > 1% - 6 % (HS# 0401.2000)	Fat > 6% (HS# 0401.3000)	TOTAL Jan-Dec
Australia	289	2,606	627	3,522
New Zealand	160	201	396	757
France	0	1	377	378
Malaysia	0	0	73	73
Germany	0	0	31	31
United States	1	1		2
Others	14	34	25	73
TOTAL	464	2,843	1,529	4,836

Source: China Customs

CHINA'S FLUID MILK IMPORTS BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2003 (Metric Tons)

COUNTRY	Fat 1% or lower (HS# 0401.1000)	Fat > 1% - 6% (HS# 0401.2000)	Fat > 6% (HS# 0401.3000)	TOTAL Jan-Jun
Australia	138	1,183	40	1,361
New Zealand	62	169	305	536
France	0	0	77	77
Germany	0	1	0	1
Others	0	2	0	2
TOTAL	200	1,355	422	1,977

Source: China Customs

CHINA'S DIRECT IMPORTS OF POWDERED MILK BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2002 (Metric Tons)

ORIGIN	Fat < 1.5 % (HS# 0402.1000)	Fat > 1.5 % (HS# 0402.2100)	Fat > 1.5 % (HS# 0402.2900)	TOTAL Jan-Dec
New Zealand	18,220	39,853	12,229	70,302
Australia	11,512	15,747	7,259	34,518
France	1,019	545	191	1,755
United States	1,239	61	61	1,361
Finland	1,175	0	0	1,175
Canada	402	12	192	606
Ireland	578	16	0	594
Germany	450	0	24	474
Other	427	242	226	895
TOTAL	35,022	56,476	20,182	111,680

Source: China Customs
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CHINA'S FLUID MILK IMPORTS BY FAT CONTENT AND BY COUNTRY OF ORIGIN, 2003 (Metric Tons)

COUNTRY	Fat 1% or lower (HS# 0401.1000)	Fat > 1% - 6% (HS# 0401.2000)	Fat > 6% (HS# 0401.3000)	TOTAL Jan-Jun
Australia	138	1,183	40	1,361
New Zealand	62	169	305	536
France	0	0	77	77
Germany	0	1	0	1
Others	0	2	0	2
TOTAL	200	1,355	422	1,977

Source: China Customs

CHINA'S DIRECT IMPORTS OF WHEY BY COUNTRY OF ORIGIN, 2001-2003
(Metric Tons)

ORIGIN	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	Change 2002/2003 Jan-Jun
United States	40,460	51,161	25,243	29,166	15.54%
France	29,563	39,057	21,418	28,422	32.70%
Australia	12,139	15,001	6,312	10,302	63.21%
Finland	10,483	6,293	2,206	4,718	113.87%
Canada	12,351	10,470	6,190	4,080	-34.09%
Ireland	1,454	4,439	2,930	1,734	-40.82%
Germany	1,675	1,065	640	755	17.97%
Belgium	403	3,116	2,441	754	-69.11%
New Zealand	2,675	761	584	311	-46.75%
Netherlands	7,157	5,185	4,813	144	-97.01%
Other	1,420	1,298	727	1,529	110.32%
TOTAL	119,780	137,846	73,504	81,915	11.44%

Source: China Customs

SUMMARY OF CHINA'S DAIRY EXPORTS
2001 - 2003 (Metric Tons, US$ 1,000, %)

Products (HS Code)	Volume				Change
	2001	2002	2002	2003	2002-2003
	Jan-Dec	Jan-Dec	Jan-Jun	Jan-Jun	Jan-Jun
Fluid Milk (0401)	26,433	27,786	12,851	12,725	-1%
Powdered Milk and Cream (0402)	15,346	21,639	9,240	9,236	-0%
Fermented and Acidified Milk (0403)	74	151	77	37	-52%
Whey and Related Products (0404)	338	344	162	177	9%
Butter and Related Products (0405)	0	505	505	4	-99%
Cheese and Related Products (0406)	514	606	279	259	-7%
TOTAL	42,705	51,031	23,114	22,438	-3%

	Value				
	2,001	2,002	2,002	2,003	Change
	Jan-Dec	Jan-Dec	Jan-Jun	Jan-Jun	Jan-Jun
Fluid Milk (0401)	19,067	20,760	9,551	8,828	-8%
Powdered Milk and Cream (0402)	18,948	31,959	12,951	12,294	-5%
Fermented and Acidified Milk (0403)	62	111	54	37	-31%
Whey and Related Products (0404)	234	223	164	150	-9%
Butter and Related Products (0405)	0	586	586	8	-99%
Cheese and Related Products (0406)	1,307	1,604	750	732	-2%
TOTAL	39,618	55,243	24,056	22,049	-8%

Source: China Customs

CHINA'S FLUID MILK EXPORTS BY FAT CONTENT AND BY
COUNTRY OF DESTINATION, 2002 (Metric Tons)

ORIGIN	Fat 1% or lower (HS# 0401.1000)	Fat > 1% - 6 % (HS# 0401.2000)	Fat > 6% (HS# 0401.3000)	TOTAL Jan-Dec
Hong Kong	0	26,617	0	26,617
Macao	0	658	0	658
Singapore	0	417	0	417
Other	0	94		94
TOTAL	0	27,786	0	27,786

Source: China Customs

CHINA'S DIRECT EXPORTS OF FLUID MILK BY FAT CONTENT AND BY COUNTRY OF DESTINATION, 2003 (Metric Tons)

ORIGIN	Fat 1% or lower (HS# 0401.1000)	Fat > 1% - 6% (HS# 0401.2000)	Fat > 6% (HS# 0401.3000)	TOTAL Jan-Jun
Hong Kong	0	12,252	36	12,288
Macao	0	309	0	309
Singapore	0	128	0	128
Other	0	0	0	0
TOTAL	0	12,689	36	12,725

Source: China Customs

CHINA'S POWDERED MILK EXPORTS BY FAT CONTENT AND BY COUNTRY OF DESTINATION, 2002 (Metric Tons)

ORIGIN	Fat < 1.5 % (HS# 0402.1000)	Fat > 1.5 % (HS# 0402.2100)	Fat > 1.5% (HS# 0402.2900)	TOTAL Jan-Dec
Hong Kong	304	1,540	8,673	10,517
Iraq	0	5,633	0	5,633
Myanmar	0	250	2,145	2,395
Singapore	0	0	1945	1,945
Japan	0	0	804	804
Mongolia	0	0	22	22
U.A.E	0	0	0	0
Other	20	15	218	323
TOTAL	324	7,438	13,807	21,639

Source: China Customs

CHINA'S POWDERED MILK EXPORTS BY FAT CONTENT AND BY COUNTRY OF DESTINATION, 2003 (Metric Tons)

DESTINATION	Fat < 1.5% (HS# 0402.1000)	Fat > 1.5% (HS# 0402.2100)	Fat > 1.5% (HS# 0402.2900)	TOTAL Jan-Jun
Hong Kong	251	1,164	4,376	5,791
Myanmar	15	127	1,079	1,221
Other	1	262	663	926
Singapore	0	0	800	800
Iraq		498	0	498
TOTAL	267	2,051	6,918	9,236

Source: China Customs

Tariffs on Dairy Products, Effective January 1, 2003

		General	MFN	V.A.T.	Effective Rate (mfn&vat) 1/
Fluid milk	0401.1000	40%	17%	17%	36.9%
	0401.2000				
	0401.3000				
Powdered milk	0401.1000	40%	12.5%	17%	31.6%
	0402.2100	40%	15.0%	17%	34.6%
	0401.2900				
	0402.9100	90%	23.3%	17%	44.3%
	0402.9900				
Yogurt	403.1000	90%	18%	17%	38.1%
	0403.9000	90%	26%	17%	47.4%
Whey or modified whey	0404.1000	30%	6%	17%	24.0%
	0404.9000	90%	26%	17%	47.4%
Butter and dairy spreads	0405.1000	90%	23.3%	17%	44.3%
	0405.2000				
	0405.9000				
Cheese	0406.1000	90%	19.6%	17%	39.9%
	0406.2000				
	0406.3000				
	0406.4000	90%	22.0%	17%	42.7%
	0406.9000	90%	19.6%	17%	39.9%

1/ Calculation of VAT: (1 + 17%) * 17%
Source: China Customs