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Report Highlights:

China's milk production is forecast to increase by 4.5 percent to 34.5 MMT in 2021, largely because of improved productivity. Despite market disruptions due to Covid-19, the country's milk production and consumption have quickly recovered. The import of dairy products and dairy ingredients are expected to increase as well, driven by consumer demand and requirements for the food processing industry. The United States will likely see dairy exports, especially skim milk powder (SMP), cheese, and whey powder, increase following the implementation of Section 301 tariff exclusions.

FLUID MILK

PS&D table

Dairy, Milk, Fluid	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows in Milk	6100	6100	6150	6150	0	6200
Cows Milk Production	32000	32000	33000	33000	0	34500
Other Milk Production	1500	1000	1500	1100	0	1200
Total Production	33500	33000	34500	34100	0	35700
Other Imports	890	890	930	930	0	980
Total Imports	890	890	930	930	0	980
Total Supply	34390	33890	35430	35030	0	36680
Other Exports	25	25	20	20	0	30
Total Exports	25	25	20	20	0	30
Fluid Use Dom. Consum.	13200	13200	12800	12000	0	13800
Factory Use Consum.	21165	20665	22610	23010	0	22850
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	34365	33865	35410	35010	0	36650
Total Distribution	34390	33890	35430	35030	0	36680

(1,000 head), (1,000 MT)

Production

China's 2021 cow milk production is forecast to reach 34.5 million metric tons (MMT), an increase of nearly 5 percent from the previous year, largely due to improved productivity. The Ministry of Agriculture and Rural Affairs (MARA) in China estimated that the average milking cow yield at large-scale farms would reach 8 tons in 2020. According to the China Agriculture Outlook Report (2020-

2029) dairy cattle productivity is expected to continue improving as a result of the expansion of large-scale dairy farms (more than 100 head of dairy cattle per farm). For example, large-scale dairy farms have adopted state-of-the-art milking facilities and feed management techniques, both of which have increased productivity. Industry sources indicate that large-scale dairy farms account for nearly 70 percent of total dairy farms in 2020. Small dairy farms are less able to compete with large scale farms, due to higher feed costs and poorer herd genetics. Post revised the 2019 and 2020 production of other milk (non-cow milk) based on official statistics.

Dairy companies have invested in modernizing and enlarging their dairy farms in order to ensure the consistent quality of fresh milk supplies, as they shift production to low temperature milk products (e.g., pasteurized milk). This is triggered by growing demand among urban consumers (see Consumption). For example, on April 18, 2020 the country's largest dairy processing company, announced plans to build an eco-friendly dairy zone that will house 100,000 head of cattle in Inner Mongolia. Many dairy processing companies already acquire or buy shares of dairy farming companies to seek greater control of milk supply. It is reported that almost all large dairy farming companies are controlled by major dairy processing companies.

China continues taking steps to standardize and improve dairy sector efficiencies. For example, in July 2020, the China Dairy Association issued dairy farm grading and evaluation standards. For example, the Henan provincial government announced in August 2020 that it would provide a subsidy of RMB 5,000 (U.S. \$735) per head to farmers who build or expand their dairy farms with more than 100 heads of cattle. Additionally, the Henan government announced subsidies for farmers to import dairy cows (RMB 1,000 / U.S. \$147 per head) and breeding embryos (RMB 5,000 / U.S. \$ 735 each). According to the 2020 China Dairy Data Report, the Henan province is the sixth largest milk producer after Inner Mongolia, Heilongjiang, Hebei, Shandong, and Xinjiang. These six provinces, all located in northern China, produce nearly 66 percent of the country's total fresh milk.

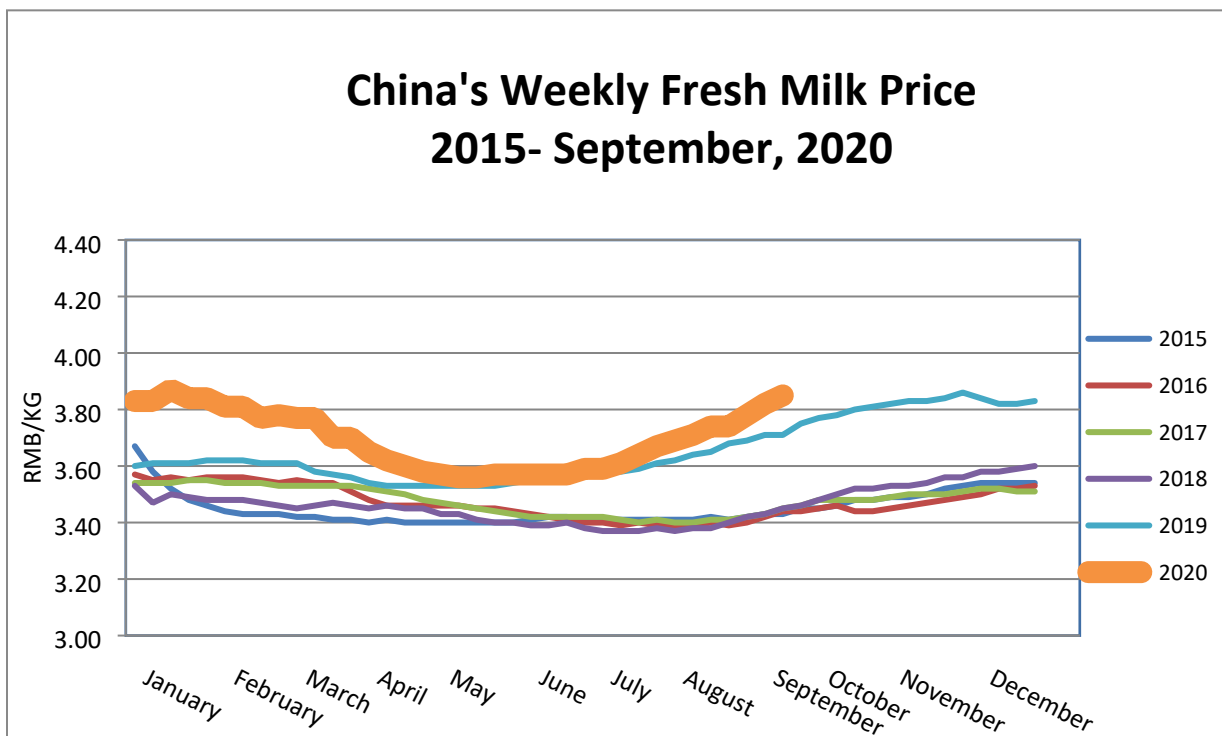
The current wave of expansion of modern dairy farms has incorporated new cattle genetics and standardized feed practices. For example, China's alfalfa imports (a feed ingredient for dairy cattle) reached 735,700 MT in the first 7 months of 2020, up 26 percent from the previous year. According to customs statistics, in the first 7 months of 2020, China imported 155,000 head of live cattle, an increase of 42 percent from the same period last year. Importers comment that 75 percent of the imported cattle are breeding dairy cows. The price of imported Holstein cows has increased to RMB 25,000 (\$3,623) per head in September 2020 from RMB 18,000 (\$2,608) in January 2020. The increased number of high yield cows has contributed to improved domestic milk quality. According to the 2019 China Dairy Quality Report, MARA sample testing found that the protein and fat values in raw milk were 3.25g/100g and 3.84g/100g, respectively. According to the 2020 China Dairy Data Report, the average farm gate price for raw milk in China was quoted at RMB 3.65 (\$0.53) per kilo in 2019 (See Chart 1 for prices over time).

Despite the market disruptions caused by the Covid-19 pandemic, China's cow milk production should maintain moderate growth in 2020. Disruptions primarily affected small farms unable to sell their milk

due to transportation restrictions and reduced dairy processing activities. However, larger dairy farms, were less affected due to signed procurement contracts with major dairy processors.

During the first four months of the year, milk prices fell sharply due to reduced domestic consumption (see Consumption). According to the National Bureau of Statistics, the production of most dairy products, including fluid milk dropped between 5 to 11 percent in the first quarter of 2020. Dairy producers responded to decreased demand by processing raw milk into whole milk powder (WMP). As the pandemic situation has improved, dairy consumption, production, and prices are recovering.

Chart 1: China Weekly Fresh Milk Prices RMB/kg



Source: Ministry of Agriculture and Rural Affairs

Consumption

According to the China Agriculture Outlook Report (2020-2029), Chinese consumers' daily intake of dairy products is reported at 97 grams (on fluid milk basis) in 2019, compared to the global average of 303 grams. The Dietary Guidance for Chinese Residents (2016) recommends a daily intake of dairy products to be 300 grams (on fluid milk basis), indicating potential for continued growth in dairy consumption. Fluid milk, especially UHT milk and room temperature yogurt still dominate dairy consumption, but the market share for pasteurized milk has increased to 26 percent in 2019 and is expected to increase by an annual rate of 10 to 15 percent over the near term. Consumption of low temperature yogurt also shows strong growth opportunities among consumers in large cities.

Pasteurized milk and low temperature yogurt have shown strong growth in tier 1 and tier 2 cities. Additionally, the consumption of UHT milk and room temperature yogurt is increasing. Industry sources predict fluid milk, especially UHT in tier 3 and tier 4 cities, will be a major growth opportunity. Additionally, government promotion of processed dairy products as good sources of protein, such as cheese and butter, indicates additional opportunities for expansion.

In the first quarter of 2020, dairy consumption at retail outlets, schools, hotels, and restaurants diminished due to the Covid-19 pandemic. In the second quarter, total dairy consumption rebounded as consumer perceptions of milk as a high protein nutritional food, increased consumption of adult milk powder and purchases of these products through online platforms, according to news reports.

Trade

China's imports of fluid milk, mainly pre-packaged UHT milk, are forecast at 980,000 MT in 2021, an increase of 5 percent from 2020, driven by continued consumer and food processing sector demand. The European Union (EU) remains the largest supplier of fluid milk to China, followed by New Zealand. The EU may further benefit from China's recent opening of its dairy market to more European countries in 2020 (see Import Policy).

China exports limited dairy products, mainly fluid milk, to Hong Kong and the volume remains unchanged.

Import Policy

The Phase One economic and trade agreement signed by the United States and China on January 15, 2020, provided the United States with expanded access to China's growing market for imported dairy and infant formula products. For example, China now allows ovine and caprine origin dairy product imports from the United States. Additionally, China Customs updated the registration list for dairy facilities from the U.S. on July 16, 2020.

On February 14, 2020 the State Council Tariff Commission (SCTC) announced that it would reduce Section 301 tariffs on certain U.S. agricultural products, including dairy products. The table below provides an updated tariff schedule on U.S. dairy products.

On March 2, SCTC launched a tariff exclusion process that allowed importers to apply for tariff exclusions for specific consignments from the United States. If an exclusion application is approved, the Section 301 tariffs imposed on U.S. products are exempted for one year from the date of approval. Although only Milk and Cream in Solid Forms (HS 04021000) and Whey and Modified Whey (HS 04041000) are eligible for exclusion application under this process, other dairy products may also be included in importers' applications for tariff exclusion provided with justifications (refer to GAIN report [CH2020-0017](#)).

Table 1. China: Additional Tariffs on U.S.-Origin Dairy Products

HS Code (8-digit)	Description	MFN Rate	301	Total Applied Tariff
		Jan 1, 2020	Feb 14, 2020	Feb 14, 2020
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, Concentra	10%	25.0%	35.0%
04022900	Milk & Cream in Solid Forms Of >1.5% Fat, Concentra	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%
04031000	Yogurt	10%	27.5%	37.5%
04039000	Buttermilk, Curdled/Fermented/Acidified Milk & Cream	20%	27.5%	47.5%
04041000	Whey and Modified Whey *	2%	25%	27.0%
04049000	Products Consisting of 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. By P	8%	27.5%	35.5%
04069000	Cheese, Nes	8%	27.5%	35.5%

*Note: SCTC announced a tariff exclusion for Whey for Feed Use (HS Code 0404100) effective September 16, 2020 to September 17, 2021. See GAIN Report [CH2020-0122](#) for more information.

On September 14, 2020 the SCTC announced the extension of Section 301 tariff exclusions for U.S. products on the First Exclusion List for another year. In other words, Whey for Feed Use (HS0404100,

protein content by weight 2%-7% and lactose content of 76%-88%), Alfalfa Meals and Pellets (HS 12141000), and other Alfalfa (HS12149000) will be exempted from retaliatory Section 301 tariffs until September 17, 2021 (see [CH2020-0122](#)).

China is the world largest importer of whey products due to strong demand for animal feed. The United States, the single largest supplier of whey powder to China, is expected to see its exports remain steady after the Chinese government announced the extension of the exclusion of Section 301 tariffs on U.S. whey and modified whey until September 17, 2021.

In a reported effort to diversify import sources of dairy products, China Customs published protocols for dairy product imports and eligible dairy facilities from Vietnam, Kazakhstan, Croatia, Serbia, and Slovakia. Since the beginning of 2020, China opened its markets officially to these dairy-producing countries.

CHEESE

PS&D table

Dairy, Cheese	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	244	40	250	48	0	53
Other Imports	115	115	120	133	0	155
Total Imports	115	115	120	133	0	155
Total Supply	359	155	370	181	0	208
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	359	155	370	181	0	208
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	359	155	370	181	0	208
Total Use	359	155	370	181	0	208
Ending Stocks	0	0	0	0	0	0
Total Distribution	359	155	370	181	0	208

(Unit: 1,000 MT)

Production

China's cheese production is forecast at 53,000 MT in 2021, an increase of 10 percent from the Post revised 2020 estimate. Cheese production is expected to maintain growth driven by strong demand from the food service and bakery sectors and growth in cheese-based snacks for children. China produces

mostly reprocessed cheese that uses imported cheese as an ingredient. Relatively high domestic milk prices have made the production cost of natural cheese much higher than other countries. The share of natural cheese production should increase to 30 percent in 2020 from 20 percent in 2019, as more raw milk was processed into cheese products during the pandemic outbreak. Post revised the 2020 cheese production estimate upward accordingly. In addition to high production costs for natural cheese, cheese making technology and equipment is underdeveloped.

Consumption

The rise in cheese consumption is expected to continue, driven by the developing food service sector and increasing consumption of cheese among younger generations. Most cheese is consumed in western style restaurants and pizza places, but more Chinese restaurants and beverage shops have incorporated cheese into their food products in order to attract Chinese customers. According to an online survey, some mothers are using spreadable cheese in their cooking and baking at home. Cheese snacks are another important source of consumption and the volume is increasing. Some examples of successful new products include lollipop cheese, which targets children and students in medium and large cities. Industry sources indicate that consumers born after 1995 will become the main driver for future cheese consumption.

The per capita consumption of cheese in China, compared to other cheese consuming countries, remains low due to differences in dietary habits. For example, most Chinese consumers are not used to the taste of natural cheese, preferring reprocessed and sweetened dairy products. Consumer group and product varieties are quite limited. With improved knowledge of cheese nutrition and development of more cheese products, consumption is expected to grow at an increasing rate. The China Dairy Association reports that the per capita consumption of cheese will likely reach 0.5 kilograms in 2028, around 5 times the current level.

Trade

China's cheese import is forecast to increase by nearly 17 percent to 155,000 in 2021, supported by strong demand. The top cheese suppliers remain New Zealand and Australia both of whom have signed a free trade agreement with China (Note: New Zealand is subject to the terms of the free trade agreement, with certain safeguards quotas). The United States, the third largest cheese supplier, is expected to increase its cheese exports to China, following the tariff exclusion process put in place since March 2020. In the first 8 months of 2020, China's cheese imports from the United States increased by more than 6 percent on a yearly basis. EU cheese makers will likely benefit from a draft [agreement](#) signed on September 14, 2020 between China and the EU providing additional protection for geographic indicators that cover many European cheese brands.

BUTTER

PS&D table

Dairy, Butter	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	97	10	100	11	0	11
Other Imports	91	91	121	128	0	150
Total Imports	91	91	121	128	0	150
Total Supply	188	101	221	139	0	161
Other Exports	3	1	2	2	0	2
Total Exports	3	1	2	2	0	2
Domestic Consumption	185	100	219	137	0	159
Total Use	188	101	221	139	0	161
Ending Stocks	0	0	0	0	0	0
Total Distribution	188	101	221	139	0	161

(Unit: 1,000 MT)

Production

China's butter production is forecast at 11,000 MT in 2021, unchanged from the revised Post figure in 2020. Chinese dairy processors produce very limited butter during a couple of winter months when milk fat content is higher. In addition, the production cost remains high due to the high price of local milk. For this reason, Chinese food processors prefer to use imported butter.

Consumption

Butter is consumed and marketed primarily by the bakery sector. Home baking has gained popularity in recent years and butter is an important ingredient. Female consumers aged 26-40, accounting for 94 percent of the home baking population, are strong drivers for butter consumption. According to an online survey, female consumers in southern China more likely than consumers elsewhere to try butter when baking and cooking at home.

Trade

The import forecast for butter imports is 150,000 MT in 2021, an increase of 17 percent from the revised number in 2020. The high growth rate for butter imports is due to the rapidly developing bakery industry and its reliance on imported butter. New Zealand butter supply market share is more than 80 percent. The EU is the second largest supplier of butter to China. Post has revised the 2020 import estimate upwards due to lower butter prices on the world market.

WHOLE MILK POWDER (WMP)

PS&D table

Dairy, Dry Whole Milk Powder	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	50	50	50	50	0	100
Production	1334	1052	1400	1200	0	1080
Other Imports	671	671	680	630	0	715
Total Imports	671	671	680	630	0	715
Total Supply	2055	1773	2130	1880	0	1895
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	2004	1722	2104	1779	0	1869
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2004	1722	2104	1779	0	1869
Total Use	2005	1723	2105	1780	0	1870
Ending Stocks	50	50	25	100	0	25
Total Distribution	2055	1773	2130	1880	0	1895

(Unit: 1,000 MT)

Production

China's whole milk powder (WMP) production forecast is 1.08 MMT in 2021, down 10 percent from the revised Post figure in 2020. The 2021 WMP production is expected to drop from the higher production level in 2020 when large quantities of raw milk were processed to WMP during the outbreak of Covid-19 in the first few months of 2020, according to industry sources. Post has revised the 2020 WMP production estimate upwards accordingly.

Chinese dairy companies normally process surplus fresh milk into WMP when dairy consumption is lower during the winter months, according to industry sources. The production cost of WMP in China is not as competitive as global prices, due to the price of domestic fresh milk. In addition, the shelf life of China-made WMP is much shorter than imported product, according to industry sources.

Consumption

WMP is widely used in food processing for such products as low-end milk powder, dairy beverages, reconstituted milk, yogurt, ice cream, and bakery goods. Chinese dairy and food processors, especially those in southern China prefer to use imported WMP. The consumption of WMP is expected to

continue increasing in the foreseeable future along with the rapid development of the food processing industry.

Trade

China's import of WMP is forecast at 715,000 MT in 2021, a rebound of 13 percent from lower imports in 2020. China is estimated to import less WMP in 2020 due to the increased production of WMP by local producers, due to market disruptions caused by the Covid-19 pandemic. New Zealand should remain the dominant supplier of imported WMP to China, benefiting from low prices and zero tariffs under a free trade agreement.

NONFAT DRY MILK (SKIM MILK POWDER)

PS&D table

Dairy, Milk, Nonfat Dry	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	15	15	20	20	0	22
Other Imports	344	344	320	310	0	340
Total Imports	344	344	320	310	0	340
Total Supply	359	359	340	330	0	362
Other Exports	1	1	1	0	0	1
Total Exports	1	1	1	0	0	1
Human Dom. Consumption	358	358	339	330	0	361
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	358	358	339	330	0	361
Total Use	359	359	340	330	0	362
Ending Stocks	0	0	0	0	0	0
Total Distribution	359	359	340	330	0	362

Production

China's production of skim milk powder (SMP) is forecast at 22,000 MT in 2021, an increase of 10 percent from the revised production in 2020. The production gain in SMP is a result of increased cheese production as SMP is a by-product derived from cheese processing. The overall production of SMP is very small and the Chinese food industry relies heavily on imported SMP.

Consumption

SMP can be used as an ingredient to produce many food and dairy products such as ice cream, dairy beverages, puffed food, and mostly infant formula milk powder. In some cases, SMP and WMP can substitute each other during food processing. SMP consumption is dependent on world prices. The booming food processing industry will drive the consumption of SMP.

Trade

The import of SMP into China is forecast at 340,000 MT in 2021, an increase of nearly 10 percent from the revised number in 2020. SMP imports should rebound in 2021 from the reduced import level in 2020 when domestic WMP supplies increased during the Covid-19 pandemic. Although New Zealand dominates SMP imports, the share of SMP imports from the United States is expected to increase, benefiting from cheaper domestic prices and a tariff exclusion process started in March 2020. China imported a total of 10,534 MT of SMP from the United States in the first 8 months of 2020, up 680 percent from the previous year, when the SMP price in the United States became very competitive.

Attachments:

No Attachments