

Required Report: Required - Public Distribution

Date: May 16, 2021

Report Number: CH2021-0056

Report Name: Dairy and Products Semi-annual

Country: China - People's Republic of

Post: Beijing

Report Category: Dairy and Products

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Report Highlights:

China's milk production is forecast to reach 34.6 MMT in 2021, benefiting from high raw milk prices and continued investment by large milk producers. Dairy and dairy ingredient imports are forecast to grow driven by limited domestic supply and strong demand by the food processing sector. The United States will likely benefit from strong demand for imported dairy ingredients like skim milk powder (SMP), cheese and whey powder in 2021.

EXECUTIVE SUMMARY

Fluid milk

Fluid milk production is forecast to reach 34.6 million metric tons (MMT) in 2021. Dairy producers have responded to strong consumer demand by increasing the size and scale of dairy facilities. However, China's dairy producers need to improve dairy herd genetics, address animal diseases, and meet a deficiency in qualified farm managers in order to make significant strides in dairy herd management.

In 2021, fluid milk imports are forecast to grow by 15 percent year-on-year to 1.2 MMT. Ultra-high temperature (UHT) milk products remain the dominant fluid milk import. However, as consumers increase demand for pasteurized milk products, Post expects imports of refrigerated fluid milk products to increase.

Whole Milk Powder (WMP)

In 2021, domestic whole milk powder (WMP) production is forecast to decrease by 4 percent to 950,000 MT as producers shift towards meeting consumer demand for pasteurized milk. Additionally, lower priced WMP imports are forecast to increase to 700,000 MT, as WMP usage in food processing grows.

Skim Milk Powder (SMP)

In 2021, domestic skim milk powder (SMP) production is forecast to increase by 10 percent to 22,000 MT. Strong consumer demand for processed cheese has led to increased domestic production of SMP, a by-product of the cheese production process. Imports of SMP are also forecast to increase by 7 percent to 360,000 MT driven by demand for low-fat dairy ingredients for food processing.

Butter

In 2021, domestic butter production is forecast to remain unchanged at 11,000 MT due to limited production capacity and limited expansion by the industry. Butter imports are forecast to increase by 6 percent to 130,000 MT as bakery and food processing drive import demand.

Cheese

In 2021, cheese production is forecast to grow to 80,000 MT driven by strong consumer demand and government support programs. China's cheese imports are forecast to grow by 24 percent to 160,000 MT in 2021, as domestically produced cheese products cannot meet the quantity or diversity of products demanded by consumers.

Whey

In 2021, China's imports of whey and whey related products from the world increased by nearly 60 percent (HS40410) and nearly 15 percent (HS350220), respectively. Imports from the United States saw strong growth in both products.

FLUID MILK

TABLE 1. CHINA: PRODUCTION, SUPPLY AND DISTRIBUTION FOR FLUID MILK

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	6200	6200
Cows Milk Production	32000	32012	33000	34400	34500	34600
Other Milk Production	1000	964	1100	1100	1200	1100
Total Production	33000	32976	34100	35500	35700	35700
Other Imports	890	891	930	1040	980	1200
Total Imports	890	891	930	1040	980	1200
Total Supply	33890	33867	35030	36540	36680	36900
Other Exports	25	25	20	25	30	30
Total Exports	25	25	20	25	30	30
Fluid Use Dom. Consum.	13200	13200	12000	12000	13000	14020
Factory Use Consum.	20665	20642	22715	23010	23650	22850
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	33865	33842	34715	35010	36650	36870
Total Distribution	33890	33867	34740	35030	36680	36900

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

Not Official USDA Data

PRODUCTION

Fluid milk production forecast to increase slightly from 2020 to 2021

China's fluid milk production has benefited from investments in higher quality genetics, modern equipment and vertically integrated production. Recent national environmental regulations encourage producers to incorporate land and resource management practices, which have forced out smaller farms unable to meet the new requirements. China's top dairy companies have responded by shifting production to Ningxia and Inner Mongolia. These provinces have become hubs for China's modernizing dairy industry and incorporate animal husbandry, production, and dairy processing in a central location. As the government continues to prioritize dairy cattle milk production, other milk

production is forecast to remain at the same level as 2020. However, animal disease issues and a limited number of professional farm managers will limit dramatic increases in total milk production.

In 2020, China's National Bureau of Statistics (NBS) published year-end data for milk production. NBS noted that China produced 34.4 million tons (MT) of raw milk, representing a year-on-year increase of 7.5 percent or 2.4 MT increase in 2020. The FAS China revision to calendar year 2020 milk production reflects this data. The COVID-19 pandemic affected fluid milk consumption in the first half of the year by institutional organizations. This led to producers processing more fluid milk into whole milk powder (WMP) (see WMP section below). As COVID-19 restrictions lifted, fluid milk consumption resumed and less was processed in WMP in the latter half of the year. For this reason, a decrease in WMP production is forecast in 2021.

IMAGE 1. CHINA: MODERN DAIRY PEN IN INNER MONGOLIA, CHINA



Genetics and ruminant feed

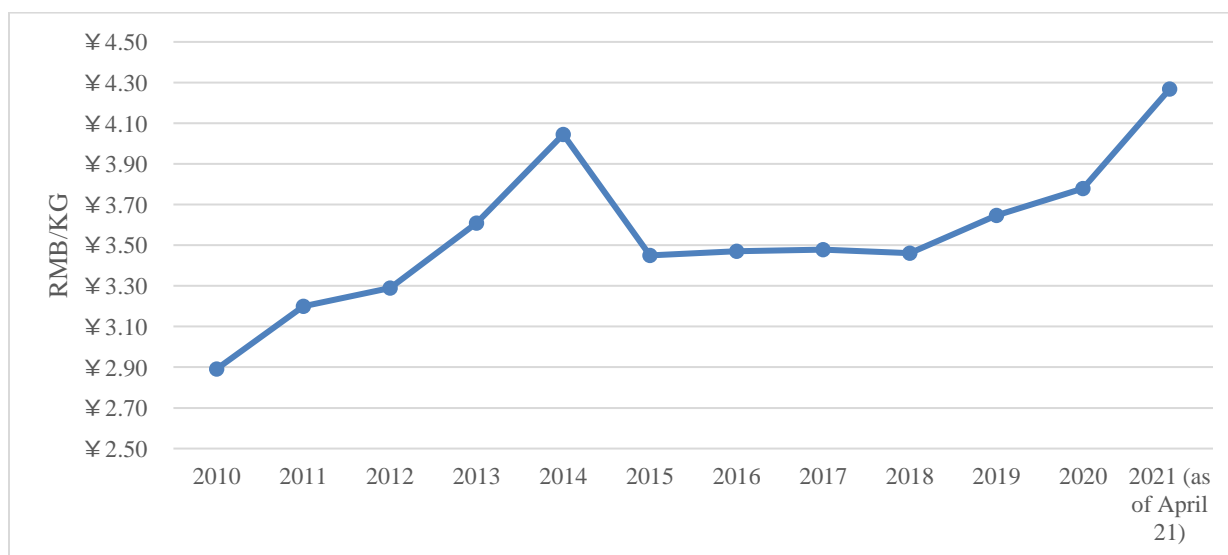
China's dairy cows produce approximately 80 percent as much milk as cattle in other countries with modern dairy industries. This is due to differences in genetics, feeding practices, and disease issues. Most of the Chinese domestic breeding companies are not able to meet the needs for high quality genetics. China will continue to rely on imported bovine genetics and live cattle to improve the quality of its dairy herd.

The No. 1 Document, China's annual agricultural policy announcement, noted the goal of "self-sufficiency" in dairy production. China is striving to upgrade the domestic breeding herd through

government policies - including the development of a germplasm bank. In March 2021, the Minister of Ministry of Agriculture and Rural Affairs (MARA) during the National People's Congress and Chinese People's Political Consultative Conference (i.e., “*Lianghui*”) announced that China plans to establish and support commercial breeding and production programs to develop China’s dairy industry (among other agricultural sectors). These plans are still in the early stages and will require significant long-term investment.

As China’s dairy companies increasingly modernize, there is increased demand for ruminant feed products to meet farm needs, consequently the demand for professional ruminant feed has seen substantial growth. China’s Feed Industry Association noted that ruminant feed production in 2020 increased nearly 18.9 percent year-over-year. Imports of alfalfa have increased as large-scale dairy farms upgrade feed inputs to improve the quantity and quality of milk production. China primarily imports alfalfa from the United States, along with Australia to a lesser extent. Industry sources indicated that while China produces alfalfa in Inner Mongolia and other provinces, imported alfalfa is considered to be of higher quality.

CHART 1. CHINA: FRESH MILK ANNUAL AVERAGE PRICE



Source: MARA Weekly Prices

Raw milk price remains high

Strong consumer demand for pasteurized milk, increased labor and feed costs, and greater concentration of production in fewer dairy companies may be contributing factors supporting increased raw milk prices. Consequently, China’s high raw milk prices have continued to incentivize production and investment by large milk producers. In 2021, some of China’s largest domestic milk producers and processors announced construction plans on multiple new dairy breeding farms and scaled dairy production farms. For example, a major dairy producer announced the construction of a farm designed

to accommodate a 10,000 head dairy herd in Inner Mongolia, while another intends to build five facilities housing between 2,000 and 12,000 dairy breeding cows.

Constraints on fluid milk production

Animal diseases in China's dairy herd remain an issue. For example, foot and mouth disease, brucellosis, lumpy skin, and other diseases remain prevalent. Disease issues are one reason China's dairy herd productivity remains below international competitors. As the number of large dairy facilities increase so has the need to improve biosecurity measures to mitigate against disease outbreaks. One effort indicative of the move towards managing diseases is MARA's October 2020 "Technical Specification for the Prevention and Control of Lumpy Skin Disease". Additionally, the General Administration of Customs of China (GACC) and MARA have implemented import restrictions on cattle from countries with lumpy skin disease reported to the World Organization for Animal Health (OIE).

Additional, education and engagement across China's dairy industry will be necessary to inform producers of best practices and processes to mitigate the spread of disease. Sources report that China's lag in developing a robust farm management labor force will be a constraint on the dairy industry's growth.

CONSUMPTION

Total domestic consumption for fluid milk is forecast to increase slightly

Fluid milk consumption is forecast to increase by only 1 percent, driven by strong growth in the pasteurized milk and yogurt demand. However, Post forecasts a decline in factory use, which accounts for over 60 percent of the fluid milk use in China, in 2021. Consumers are forecast to increase fluid milk consumption driven by consumption of traditional and new-to-market pasteurized milk products. The Chinese government has also increased support for domestic pasteurized milk and yogurt products by including these products in the 2021-2025 national school milk program. These policies aim to grow China's fluid milk consumption over the coming years.

Although gradual, Chinese consumers are gaining confidence in domestically produced dairy products. China's largest dairy producers have made significant investments in modern facilities and improved food safety standards, which have bolstered public opinion. Smaller dairy producers are increasingly leaving the market as they are unable to comply with enforced, new food safety standards.

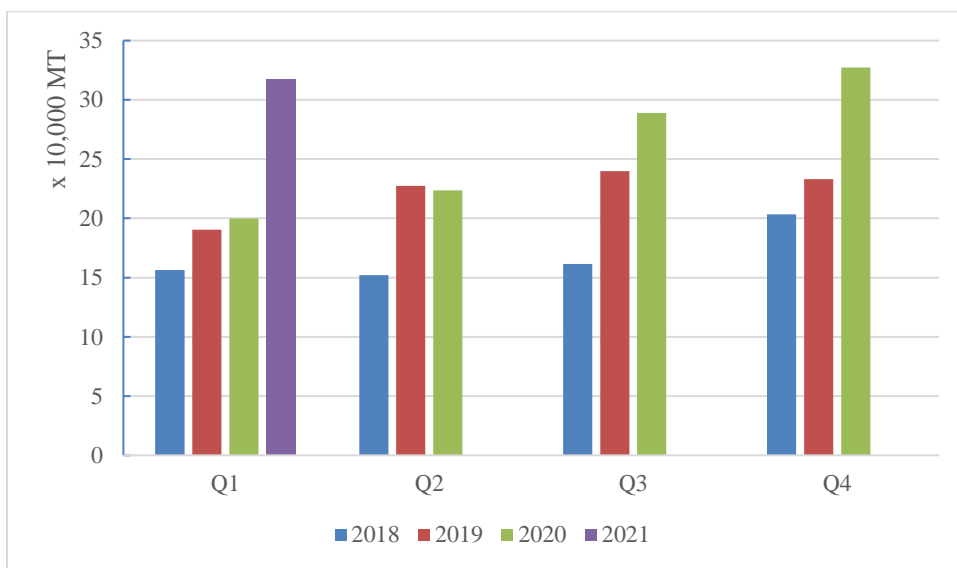
Retail purchases remain strong through e-commerce platforms as consumers increase consumption of pasteurized milk products, which are considered to possess greater nutrition than further processed milk products. Particularly, new-to-market pasteurized milk products such as extended shelf life (ESL) milk and A2 milk have shown strong growth potential in China's urban areas.

Trade

Milk imports are forecast to grow 15 percent driven by strong consumer demand

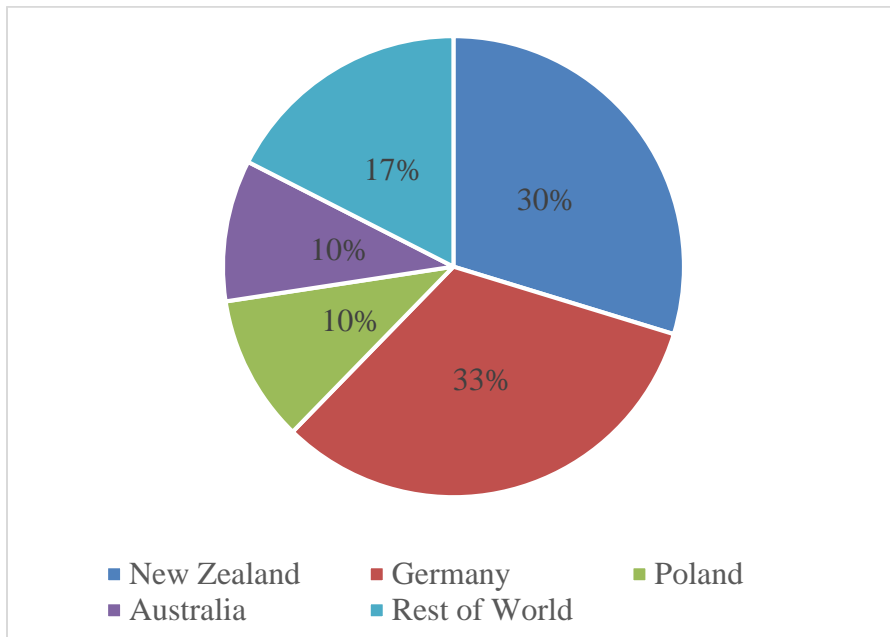
China's imported fluid milk, primarily pre-packaged UHT milk, is forecast by FAS China at 1.2 MMT in 2021 driven by continued consumer and food processing demand. In the first quarter of 2021, China's fluid milk imports reached 318,000 MT exceeding those of prior years. This increase in imports is due to strong consumer demand for fluid milk and food service sectors, which domestic supply is unable to meet. This higher level of demand is forecast to continue throughout the year and result in higher imports than the USDA forecast for 2021. Consumer demand is moving towards greater consumption of shorter shelf-life pasteurized milk products such as ESL milk. A2 milk products which may allow for easier digestion, for populations that are sensitive to traditional milk products, are also gaining in popularity. This trend may create new opportunities for high-value imports.

CHART 2. CHINA: FLUID MILK IMPORTS BY QUARTER



Source: TDM

CHART 3. CHINA: 2020 FLUID MILK IMPORTS BY COUNTRY



Source: TDM

In 2020, China imported 1 MMT of fluid milk products, showing a steady year-on-year growth of 17 percent despite first quarter disruptions in transportation both domestically and overseas due to the COVID-19 pandemic. The European Union (EU), New Zealand, and Australia remain China’s largest suppliers.

In 2021, China is forecast to increase exports of fluid milk to 30,000 MT. In 2021, Hong Kong’s economic situation is forecast to continue to improve as restrictions associated with the COVID-19 pandemic decrease. Hong Kong is China’s primary export market for fluid milk.

Genetics and Live Cattle Imports

China is making efforts to improve dairy herd genetics through the use of imported bovine semen (overwhelmingly from the United States) and imported live cattle (New Zealand, Australia, Uruguay and Chile). The United States does not currently have an agreement in place to export live cattle to China.

Competitor producers/importers

The largest dairy exporters to China include New Zealand, Australia, and the EU for fluid milk (i.e., UHT), milk powder (whole and skim milk powders), and processed products (cheese and butter). New Zealand and Australia both have free trade agreements (FTAs) with China. Under the New Zealand FTA all dairy products may enter China duty free, however certain products are subject to safeguard

levels – levels will increase annually through 2021 (or 2023, depending on the products). Australia has a “discretionary safeguard” on WMP otherwise the country benefits from unlimited FTA access.

The China – New Zealand FTA can be found here: <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/nz-china-free-trade-agreement/>

The China – Australia FTA can be found here: <https://www.dfat.gov.au/trade/agreements/in-force/chafta/Pages/australia-china-fta>

COVID-19 testing restrictions, quarantine and disinfection slowing imported products

China has published multiple central and local government regulations on the testing and disinfection of imported cold chain products and outer packaging of these products. These measures have added market uncertainty for the importation of cold chain products, including refrigerated dairy products. Industry sources indicate that retailers and wholesalers are avoiding certain imported cold chain products to mitigate the burdensome documentation requirements and additional costs associated with these regulations. China has not published laboratory results, testing methodology or other detailed information regarding alleged positive tested products. Some delisted facilities have been unable to successfully relist their facilities, even after providing extensive documentation of mitigation measures.

MFN tariff rates temporarily lowered for certain dairy products

On December 23, 2020, the State Council Tariff Commission (SCTC) announced its annual tariff adjustment plan that sets tentative import and export tariff rates for select tariff lines in 2021. In this announcement, China lowered the tentative tariff rates for certain dairy products such as anhydrous lactose (HS 17021100) tentatively lowered to 5 percent from the current 10 percent. Whey protein powder and lactoferrin, both under HS 35022000, have been added and tentatively lowered from 10 percent to 5 percent. Special dairy-based infant formula food (HS 19011010) for premature /low birth weight babies and nutrition supplement for breast milk, set to 0 percent in 2021. However, the tentative tariffs for regular infant formula milk powders that share the same code HS 19011010 will remain unchanged at 5 percent.

More details can be found in [*China Lowers Applied MFN Tariff Rates and Revises Out of Quota TRQ Rates.*](#)

Section 301 Retaliatory Tariffs

China continues to maintain Section 301 retaliatory tariffs on most U.S. dairy products. On September 14, 2020 China extended the tariff exclusions on whey for feed use ([GAIN Report](#)). Previously, on March 2, 2020 China launched a tariff exclusion process for a broader range of dairy products impacted by Section 301 retaliatory tariffs. More details can be found in [*Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process for US Products.*](#)

TABLE 2. CHINA: Tariffs on U.S.-Origin Dairy Products

HS Code (8-digit)	Description	MFN Rate	Section 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, Concentrated	10%	25.0%	35.0%
04022900	Milk & Cream in Solid Forms Of >1.5% Fat, Concentrated	10%	25.0%	35.0%
04029100	Milk & Cream Not in Solid Form, Concentrated	10%	25.0%	35.0%
04029900	Milk & Cream Not in Solid Form, Concentrated, Sweetened	10%	25.0%	35.0%
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 March 2, 2020 the 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 would be 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 applications 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](#)).

On September 14, 2020 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](#)).

Whey and Whey Related Products

Whey and whey related products (HS040410, HS350220) have seen imports grow in 2020 and 2021, following declines in 2019. In the first quarter of 2021, imports of whey and modified whey products (HS040410) saw substantial growth. The United States remained the dominant supplier to China for products under HS040410. Importers of U.S. whey and whey related products are eligible for tariff exclusions under the Section 301 exclusion process and under the "First Exclusion List" (see section above).

CHART 4: CHINA IMPORTS OF WHEY AND MODIFIED WHEY (HS040410)

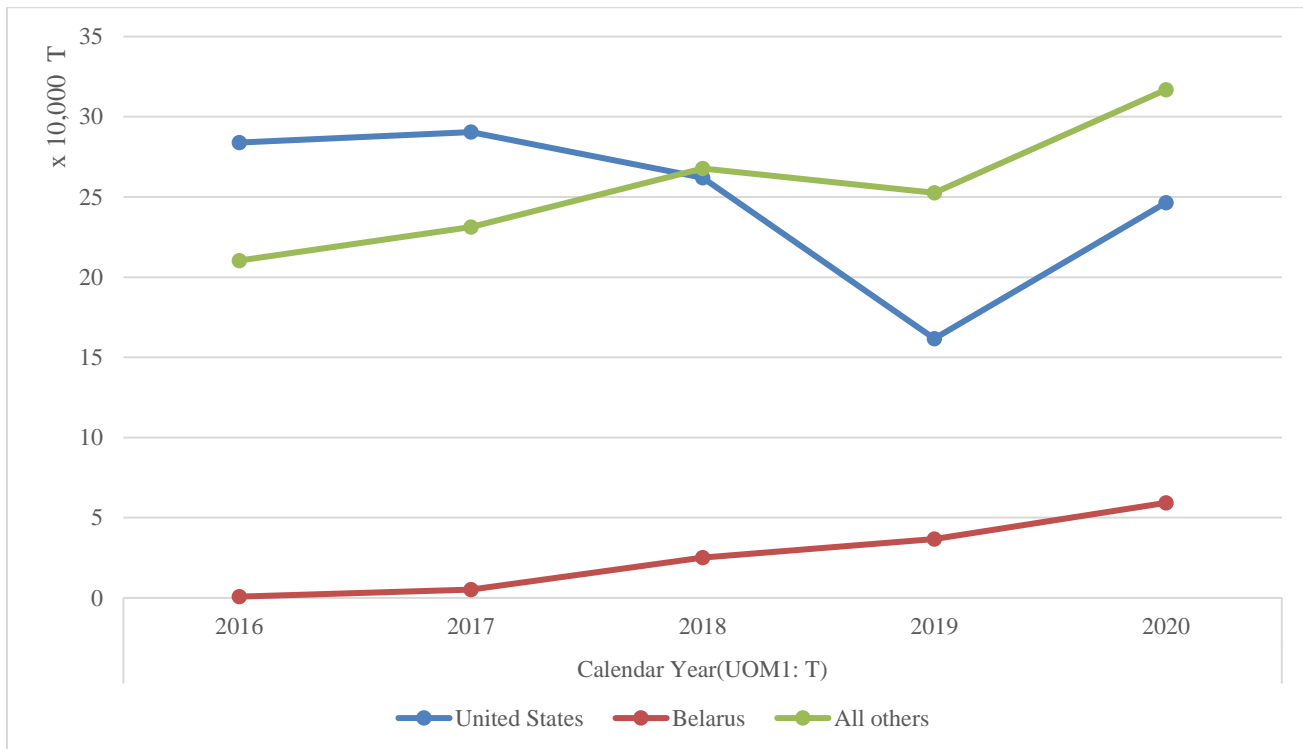


CHART 5: CHINA Q1 IMPORTS OF WHEY AND MODIFIED WHEY (HS040410)

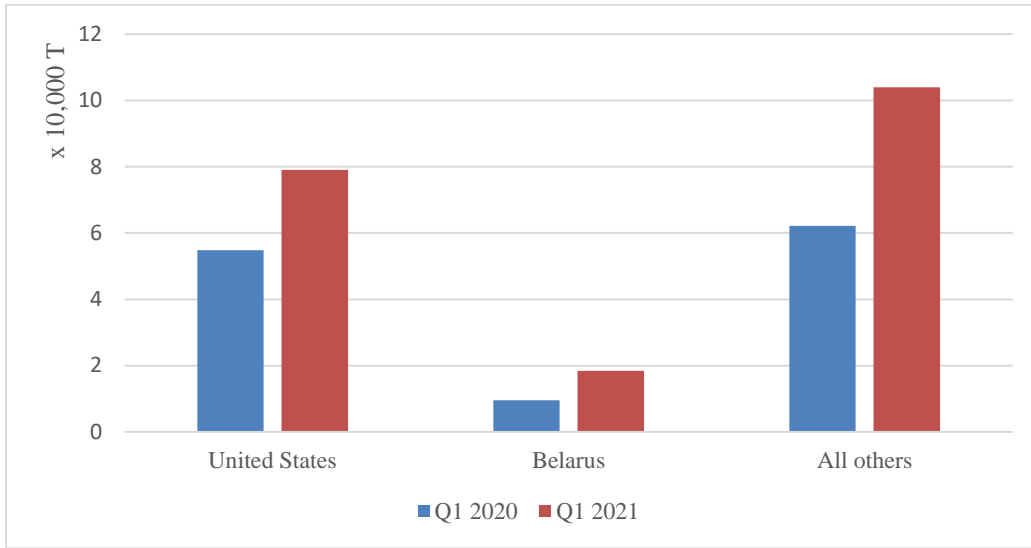
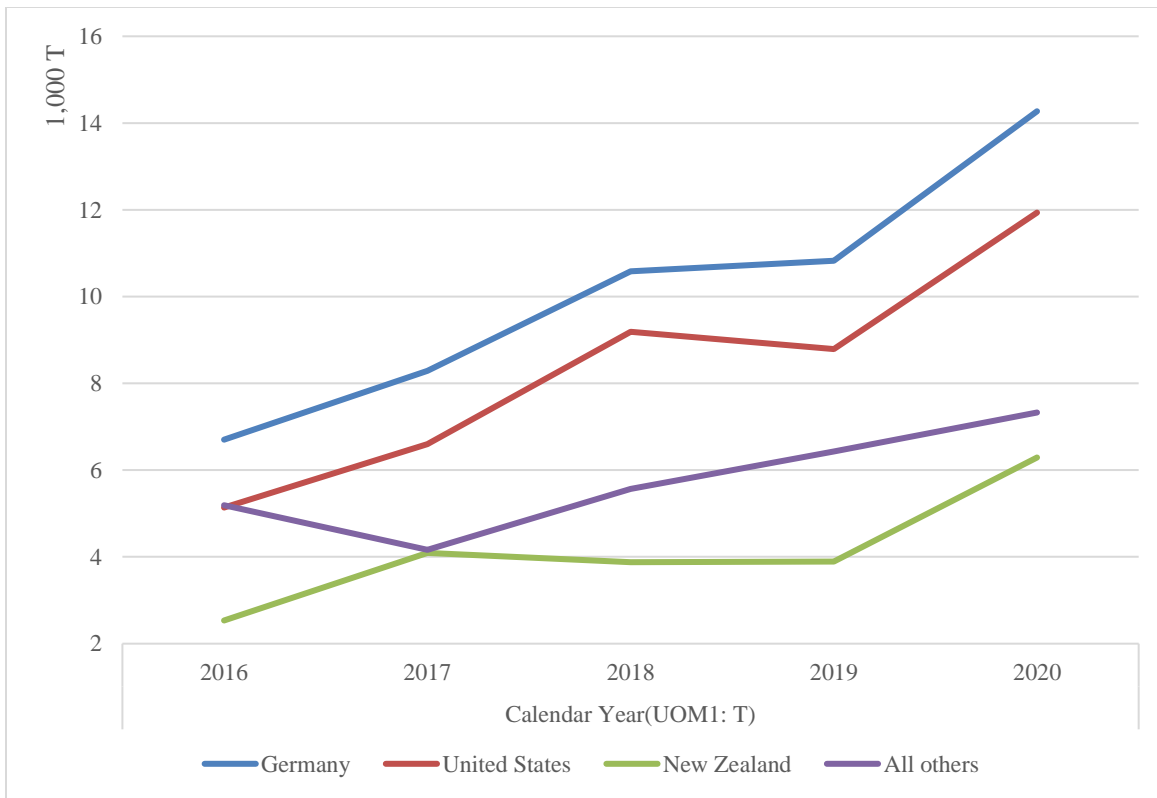


CHART 6: CHINA IMPORTS OF MILK ALBUMIN (INCL. WHEY PROTEINS) (HS350220)



WHOLE MILK POWDER

TABLE 3: PRODUCTION, SUPPLY AND DISTRIBUTION FOR WHOLE MILK POWDER

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	100	100
Production	1052	1052	1200	992	1200	950
Other Imports	671	671	690	644	715	700
Total Imports	671	671	690	644	715	700
Total Supply	1773	1773	1940	1686	2015	1750
Other Exports	1	1	1	1	1	1
Total Exports	1	1	1	1	1	1
Human Dom. Consumption	1722	1722	1839	1585	1939	1724
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1723	1723	1839	1585	1939	1724
Total Use	1723	1723	1840	1586	1940	1725
Ending Stocks	50	50	25	100	75	25
Total Distribution	1773	1773	1940	1686	2015	1750

Not Official USDA Data

PRODUCTION

WMP production is forecast to fall

In 2021, domestically produced WMP is forecast to decrease from 2020, as high domestic raw milk prices and strong consumer demand for fresh milk lower milk quantities available for WMP production. Industry sources indicate that having excess production capacity for China's WMP processors is likely to continue until such as time as China's milk production becomes more competitive with imported WMP. Additionally, China continues to issue new safety standards for milk powder producers which has increasingly concentrated WMP production in relatively few producers.

CONSUMPTION

WMP use in HRI and retail is forecast to rebound to pre-COVID rates

In 2021, WMP consumption is forecast to rebound from FAS China’s estimated levels for 2020 as consumers increasingly consume more processed dairy products, which use WMP as a food ingredient in food service, dairy beverages and petfood products.

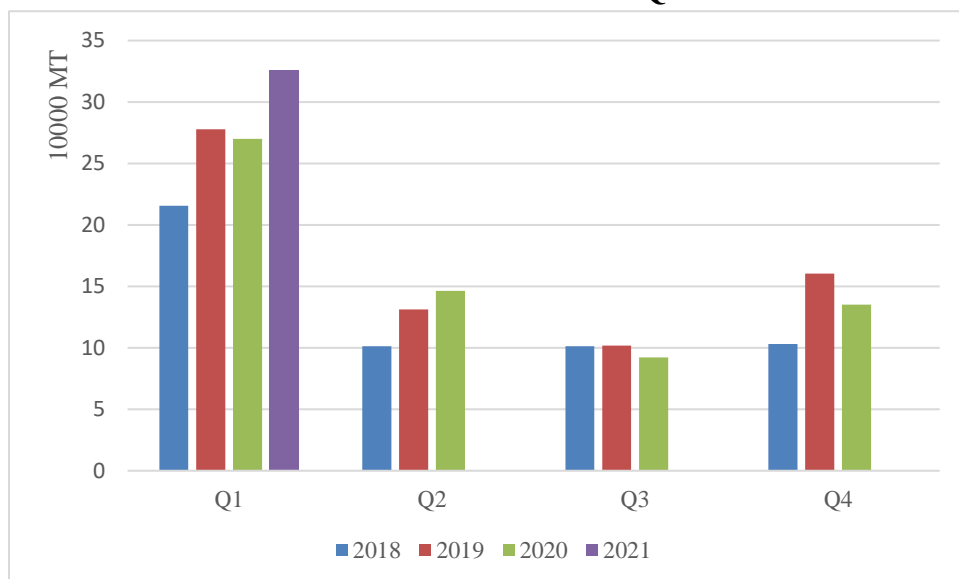
WMP is used as an ingredient in the production of different processed products. Demand for WMP use in infant formula is shrinking as China’s birth rates continue to decline. On the other hand, WMP is increasingly used in products for elderly consumers, petfood products and nutritional supplement products. WMP utilization has benefited from the gradual expansion of e-commerce and increasing disposable income levels.

TRADE

WMP imports are forecast to exceed to pre-pandemic levels

In the first quarter (Q1) of 2021, WMP imports reached 326,000 MT. These are strong figures, but imports in Q1 are usually the strongest quarter of the year. In 2020, first quarter import figures were lower than usual due to the outbreak of COVID-19 and disruptions in global transportation routes. Post expects overall WMP imports in 2021 to surpass pre-COVID-19 levels but not at the rates expected by USDA official numbers.

CHART 7. CHINA: IMPORTS OF WMP BY QUARTER



Source: TDM

In 2020, China’s WMP imports declined by 4 percent as imports were partially displaced by domestic production and impacted by the logistical disruptions as a lingering consequence of the global COVID-19 pandemic.

SKIM MILK POWDER

TABLE 4: PRODUCTION, SUPPLY AND DISTRIBUTION FOR SKIM MILK POWDER

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	22	22
Other Imports	344	344	345	337	365	365
Total Imports	344	344	345	337	365	365
Total Supply	359	359	365	357	387	387
Other Exports	1	1	0	1	1	1
Total Exports	1	1	0	1	1	1
Human Dom. Consumption	358	358	365	356	386	386
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	358	358	365	356	386	386
Total Use	359	359	365	357	387	387
Ending Stocks	0	0	0	0	0	0
Total Distribution	359	359	365	357	387	387

Not Official USDA Data

There are no significant changes in FAS China's forecast with USDA's official forecast for skim milk powder.

PRODUCTION

The year-over-year increase in the skim milk powder (SMP) domestic production forecast is 22,000 MT in 2021 and attributed to increased cheese production. SMP is a by-product of processed cheese production. Demand for processed cheese products has seen substantial growth as large dairy processors and new-to-market cheese-focused companies expand domestic production.

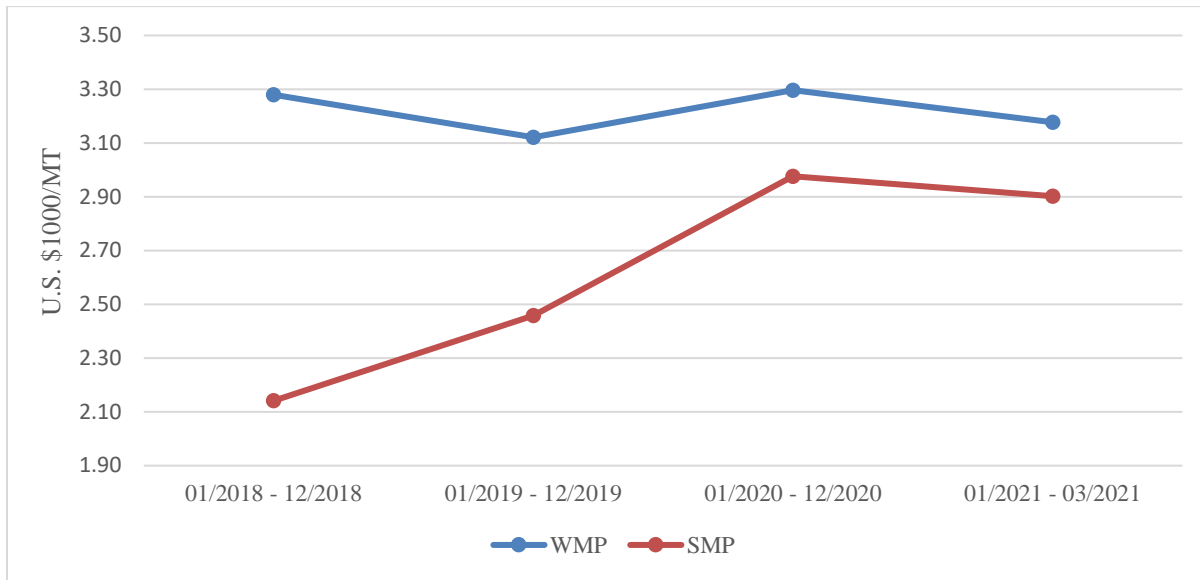
CONSUMPTION

SMP consumption is forecast to grow in 2021 driven by strong demand in food processing

SMP and WMP are primarily used as an ingredient to produce food and dairy products such as ice cream, dairy beverages, bakery use, and infant formula powder. In some cases, SMP can be substituted for WMP during food processing. Currently, the price difference between the two ingredients is advantageous for imported SMP (see graph below). Domestically produced SMP is unable to meet the

demand for SMP. For this reason, imports of SMP are forecast to grow as consumers increase purchases of products that utilize SMP.

CHART 8. CHINA: IMPORT UNIT PRICES OF WMP & SMP FROM NEW ZEALAND



Source: TDM

TRADE

SMP imports are forecast at 360,000 MT in 2021, based on a rebound in demand by the food processing sector following the COVID-19 closures in 2020. In the first quarter of 2020, restaurants, schools, and other institutional closures caused imports of SMP to fall. In 2021, SMP imports exceeded pre-COVID highs. Domestic production of SMP is driven by increased demand for processed cheese. Consumption of these products is a good indicator that Chinese dietary habits are changing. Specifically, Chinese consumers are increasingly incorporating dairy and dairy-based products into daily consumption. For this reason, imports of SMP are forecast to continue to grow in the coming years.

New Zealand and Australia remain the overwhelming suppliers for SMP to China. Imports of SMP by the United States also rebounded in 2020, an indicator of future market potential.

CHEESE

TABLE 5: PRODUCTION, SUPPLY AND DISTRIBUTION FOR CHEESE

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	282	60	283	70	300	80
Other Imports	115	115	126	129	130	160
Total Imports	115	115	126	129	130	160
Total Supply	397	175	409	199	430	240
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	397	175	409	199	430	240
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	397	175	409	199	430	240
Total Use	397	175	409	199	430	240
Ending Stocks	0	0	0	0	0	0
Total Distribution	397	175	409	199	430	240

*Post estimates lower domestic cheese production than USDA official figures as the number of production facilities remains relatively low and industry sources support lower production rates.

Not Official USDA Data

PRODUCTION

Cheese production increases in 2021 driven by consumer demand and government policies.

According to industry contacts, China has 45 certified cheese producing enterprises, half of which are currently in operation. The facilities that produce cheese products either only manufacture cheese products or are traditional milk processors that have incorporated cheese processing. In 2021, the number of companies solely manufacturing processed cheese expanded operations. For example, in March 2021, one of China's leading cheese manufacturers began construction on its fifth cheese production plant in Shanghai with planned investment of RMB 1.2 billion (approximately U.S. \$190 million). Approximately 90 percent of China's domestically produced cheese is processed cheese. Chinese consumers continue to prefer processed cheese products to natural cheese products due to their milder taste.

CONSUMPTION

Cheese consumption is forecast to grow spurred by food service and retail sector demand

In 2021, cheese consumption is forecast to grow more than 20 percent as consumers increase restaurant, retail, and e-commerce purchases of cheese products. For example, pizza restaurants serving mozzarella cheese products have grown in popularity. In retail and e-commerce sectors, consumers have increased purchases of cheese products as snack foods for children considered to be nutritious. Additionally, large domestic producers are competing with imported cheese products in first and lower tier cities. Industry sources indicate that cheese consumption will grow rapidly over the next five years as consumers purchasing power and product availability increase nationally.

TRADE

Imports forecast to reach 160,000 MT to meet consumer demand

In 2021, China's cheese imports are forecast to increase by nearly 25 percent driven by strong consumer demand. The top suppliers of imported cheese, New Zealand and Australia, both have Free Trade Agreements allowing the importation of cheese products at lower duty rates than other countries. In 2020, Denmark surpassed the United States as the third largest supplier of cheese products to China. The United States is the fourth largest supplier of imported cheese products to China.

BUTTER

TABLE 6: PRODUCTION, SUPPLY AND DISTRIBUTION FOR BUTTER

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	110	10	110	11	111	11
Other Imports	91	91	123	123	140	130
Total Imports	91	91	123	123	140	130
Total Supply	188	101	233	134	251	141
Other Exports	3	3	2	1	2	2
Total Exports	3	3	2	1	2	2
Domestic Consumption	185	98	231	133	249	139
Total Use	188	101	233	134	251	141
Ending Stocks	0	0	0	0	0	0
Total Distribution	188	101	233	134	251	141

*Post estimates lower domestic butter production than USDA official figures as the number of production facilities remains relatively low and industry sources share that production is limited.

Not Official USDA Data

PRODUCTION

Butter production is forecast to remain unchanged in 2021

FAS China's butter production is forecast to remain unchanged at 11,000 MT from year to year due to limited production capacity. Butter production is concentrated in Inner Mongolia and Heilongjiang. Compared to other dairy products such as pasteurized milk or yogurt, China's butter production has lagged in terms of the number of butter producers and butter production technology utilization.

CONSUMPTION

Butter consumption in 2021 is forecast to reach 139,000 MT

Butter and cream consumption among young consumers through bakery products, fusion cuisine, "new tea" products and restaurants is growing. Particularly, industry sources indicate that the HRI sector has increasingly switched from margarine to butter and whipping cream products. Although strongest in

first tier cities, these trends are expanding to lower tier cities as well. In the case of “new tea” products, these innovative drinks are incorporating whipping cream, butter, cream cheese and whole milk powder. According to industry contacts, new tea sales are expected to continue growing in 2021 and beyond.

TRADE

Butter imports are forecast to reach 130,000 MT in 2021, driven by low domestic supply and strong demand in the HRI, bakery and beverage sectors. In 2020, butter imports rose nearly 35 percent year-on-year. New Zealand remains the dominant importer for butter. Imports from the United States saw significant growth in 2020.

In 2021, China butter exports are expected to rebound but remain below COVID-19 levels, as export market economies continue address closures and logistical disruptions caused the by pandemic.

Attachments:

No Attachments