Required Report - public distribution

Date: 12/23/2013

GAIN Report Number: 13072

China - Peoples Republic of

Dairy and Products Annual

Annual

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Report Highlights:
Post forecasts that China's 2014 fluid milk production will reach 36.7 million tons, a six percent increase from the previous year. China's 2014 fluid milk imports are forecast at 30,000 tons, a 67 percent increase from the previous year; meanwhile, exports are forecast to remain flat at 25,000 tons. Post estimates that China's 2014 nonfat dry milk production will decline six percent to 51,000 tons, which is expected to drive 2014 imports 11 percent higher to 280,000 tons. China's 2014 whole milk powder (WMP) production is estimated at 1.3 million tons, a seven percent increase from the previous year. Strong demand for WMP is attributed to infant formula production or reconstitution to make UHT milk, yogurt, lactose beverage and drinks. China's 2014 WMP exports are expected to remain flat at 50,000 tons.

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

Dairy, Cheese

Dairy, Whey

Executive Summary

Post forecasts that China's fluid milk production in 2014 will rise six percent over last year to 36.7 million tons. China's consumption of total fluid milk consumption in 2014 is forecast to reach 38.5 million tons, a seven percent increase from the previous year. 2014 fluid milk imports are expected to reach 30,000 tons, a 67 percent increase from the previous year, partially due to lower-than-expected Chinese milk prices. U.S. exports in 2014 are expected to rise 25 percent to 5,000 tons. Imported UHT milk is a new trend in first-tier cities.

Post forecasts that China's 2014 nonfat dry (NFD) milk production will drop around 6 percent from last year to 51,000 tons due to tight domestic raw milk supplies and producers preference to reduce NFD production in favor of traditional whole milk powder. In response, 2014 NFD imports are expected to rise 11 percent to 280,000 tons.

Strong consumer demand for WMP is expected to increase China's 2014 WMP production by seven percent to 1.3 million tons. WMP imports in 2014 are forecast at 650,000 tons, a 25 percent increase from the previous year. China's 2014 WMP exports are forecast to remain flat at 5,000 tons.

China's whey imports in 2013 are forecast to increase 20 percent to 442,000 tons. The United States supplied nearly half of China's total whey imports in 2013. Cheese imports are expected to increase 18 percent to 45,000 tons in 2013. The United States is the third largest exporter to China after New Zealand and Australia. U.S. exports in the first three quarters in 2013 reached 6,711 tons valued at $28.83 million.

US alfalfa exports to China in response to growing dairy feed demands are expected to continue strong in 2013 and 2014, reaching 513,181 tons valued at $192.0 million and accounting for 94 percent of China's total imports in the first three quarters of 2013.

New administrative measures for imported infant formula powder packaging and labeling will go into effect April 1, 2014 and facilities must be in compliance with registration requirements by May 1st.

Fluid milk PS&D table

Dairy, Milk, Fluid China	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Cows In Milk	8,000	8,000	8,400	8,380		8,900	(1000 HEAD)
Cows Milk Production	32,600	32,600	34,650	34,500		36,740	(1000 MT)
Other Milk Production	1,360	1,360	1,450	1,450		1,550	(1000 MT)
Total Production	33,960	33,960	36,100	35,950		38,290	(1000 MT)
Other Imports	94	94	150	180		300	(1000 MT)
Total Imports	94	94	150	180		300	(1000 MT)
Total Supply	34,054	34,054	36,250	36,130		38,590	(1000 MT)
Other Exports	27	27	30	25		25	(1000 MT)
Total Exports	27	27	30	25		25	(1000 MT)
Fluid Use Dom. Consum.	13,517	13,517	14,450	14,350		15,330	(1000 MT)
Factory Use Consum.	20,510	20,510	21,770	21,755		23,235	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	34,027	34,027	36,220	36,105		38,565	(1000 MT)
Total Distribution	34,054	34,054	36,250	36,130		38,590	(1000 MT)
CY Imp. from U.S.	0	3	0	4		5	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0	(1000 MT)
TS=TD		0		0		0	

(Data included in this report is not official USDA data. Official USDA data is available at http://www.fas.usda.gov/psdonlineonline)

Production:

Post forecasts that China's 2014 fluid dairy milk production will reach 36.7 million tons, a six percent recovery from 2013 decline from the revised 2013 estimate, due to continuing consumer demand and expanding herd size. For 2013, Post lowered its estimate for China's fluid milk production to 34.5 million tons after adverse weather conditions in key producing areas, such as Heilongjiang Province caused lower-than-expected milk yield per cow. Future production gains may also be influenced by impacts from China's new dairy standards which are expected to influence a reduction in backyard production and improve efficiencies and result in higher unit production by large-scale producers.

To continue support for higher production, China will continue its dairy breeding subsidy throughout the 2014 subsidy year (July 2014-June 2015). On July 11, 2013, China's Ministry of Agriculture (MoA) and Ministry of Finance (MOF) jointly announced the "Guidance of Implementation of Breeding Animal Subsidy 2013" which covers almost all productive (breeding?) dairy cows, including 7.5 million head of Holstein cows, 52,000 head of dairy buffalos, and 51,500 head of Simmental dairy cows. According to this Guidance, each Holstein cow will receive subsidies for artificial insemination with two straws of frozen semen from high-quality dairy bulls. (One straw is priced at RMB15 or $2.50.) Other dairy cows, except dairy buffalos, will also receive insemination subsidies for two straws, each straw priced at RMB10 ($1.64). Dairy buffalos will receive breeding subsidies for three straws; each straw priced at RMB10 ($1.64).

Encouraging growing productivity and herd size is important for China to address rising consumption. China's per capita milk consumption is roughly 26 kilograms per year. With a growing population and changing dietary demands from increasingly urban dwellers, China's milk demand will likely continue to outpace its local milk production, resulting in additional dairy imports in 2013 and 2014.

Prices:

Strong domestic milk demand and limited supply, combined with higher feed and labor costs, have driven China's farm-gate raw milk price to record levels. According to MoA data and the China Dairy Industry Association (CDIA), China's farm-gate raw milk price was about $582 (RMB 3,575) per ton against the world average price of $357 per ton for the first half of 2013. China's domestic raw milk price in September 2013 rose by 12 percent to $624 (RMB 3,830) per ton. The significant price difference caused some large Chinese dairy companies to establish joint ventures or purchase farms and processing plants overseas. [To date, at least eight Chinese dairy producers have invested in the Netherlands, New Zealand, France, Australia and Ireland.]

Consumption:

Post forecasts that China's 2014 total fluid milk consumption will reach 38.5 million tons, a seven percent increase from the newly revised 2013 estimate of 36.1 million tons. Population growth, continued urbanization and increased incomes will drive consumption in 2014.

Fluid milk consumption is expected to rise faster than that of processed milk products supported by strong consumer demand for pasteurized and ultra high temperature (UHT) milk, yogurt and lactose beverages. After the 2008 melamine crisis, pasteurized consumption increased faster than other products due to consumer preference for fresh products. Before the crisis, pasteurized milk accounted only for 20 percent. Now, China's total fluid milk use consists of 40 percent pasteurized milk and 60 percent UHT milk products. Yogurt accounts for nearly 18 percent of China's total drinking fluid milk products.

Imported UHT milk products are a new trend in first-tier Chinese cities. Retailers note that lower-priced pasteurized or UHT milk is one of the fastest selling products in China's marketplace. When price competitive with domestic products, consumers prefer imported milk products as a safe and healthier option. In addition, imported milk products offer more choices (such as skim, low-fat and whole) than domestic which are mainly full fat. China's growing population of older consumers located in the first-tier cities tend prefers to consume skim or low fat milk, which should continue to support a positive trend for imported UHT milk products in large urban areas.

Trade

Imports:

Post forecast China's 2014 fluid milk imports at 300,000 tons, an increase of 67 percent from the newly revised 2013 estimate of 180,000 tons. Strong milk demand and tight domestic supplies support a growth trend of imported milk products in China's first tier cities. All imported milk is UHT milk due to transportation limitations. Post estimates that China's 2013 fluid milk imports will increase to 180,000 tons, largely due to lower import prices. Strong import demand is narrowing the price gap between domestic high-end pasteurized/UHT milk and imported UHT milk. Shipments from the United States in 2014, primarily full-fat UHT products, are expected to increase by 25 percent to 50,000 tons. The U.S. export price is competitive with New Zealand and France. Between January and September 2013, the U.S. price climbed by seven percent to nearly $1,356 per ton. This price was 24 percent and 18 percent lower than New Zealand and France prices, respectively.

Germany is China's largest fluid milk supplier due to price competiveness, accounting for 41 percent of China's total imports. New Zealand and France are the second and third largest suppliers with 17 percent and 16 percent export market shares, respectively. Germany's export price (between January-September 2013) increased by 16 percent to $916.40 per ton. During that time, this price was 27 percent lower than the world's average export price to China at $1,260 per ton, and 49 percent lower than New Zealand's price to China.

Exports:

Post estimates that China's 2014 fluid milk exports will remain at 25,000 tons. China's 2013 exports is lowered to 25,000 tons due to tight domestic milk supplies and high export prices.

Alfalfa Imports [Harmonized System (HS) Code: 121490]

The Chinese dairy industry believes that China's 2013 alfalfa imports will increase by over 70 percent to nearly 800,000 tons due to growing import demand for quality feed. China's imports (between January-September) increased by 61 percent to 546,408 tons, surpassing China's total imports in 2012. The United States is the dominant supplier to China, accounting for 94 percent with 513,181 tons valued at nearly $192 million. U.S. alfalfa is a high quality product that can be easily handled and transported in large quantities.

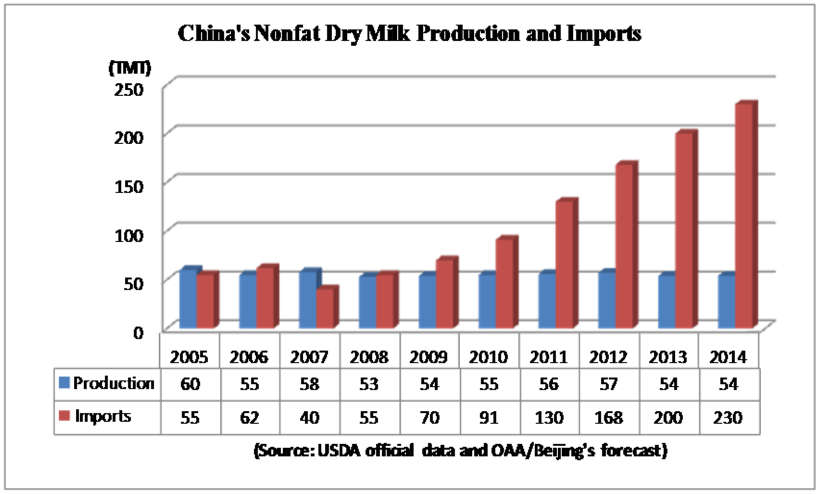
Nonfat dry PS&D table

Dairy, Milk, Nonfat Dry China	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	57	57	58	54		51	(1000 MT)
Other Imports	168	168	155	200		230	(1000 MT)
Total Imports	168	168	155	200		230	(1000 MT)
Total Supply	225	225	213	254		281	(1000 MT)
Other Exports	0	0	0	1		1	(1000 MT)
Total Exports	0	0	0	1		1	(1000 MT)
Human Dom. Consumption	225	225	213	253		280	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	225	225	213	253		280	(1000 MT)
Total Use	225	225	213	254		281	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	225	225	213	254		281	(1000 MT)
CY Imp. from U.S.	18	18	18	47		54	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0	(1000 MT)
TS=TD		0		0		0	

(Data included in this report is not official USDA data. Official USDA data is available at http://www.fas.usda.gov/psdonlineonline)

Production:

Post estimates that China’s 2014 nonfat dry (NFD) milk production will decrease by six percent to 51,000 tons. Production continues to trend downward as producers focus more on traditional fluid milk and whole milk powder (WMP) production than on nonfat dry production.



Post also lowered its forecast for China’s 2013 NFD production to 54,000 tons. This decrease is due to limited production from the few large Chinese dairy companies that produce NFD milk powder. When raw milk supplies are limited in China, domestic producers reduce NFD production and expand production for traditional pasteurized milk, UHT milk, yogurt and other milk beverage products.

Consumption:

Post forecasts that China’s 2014 NFD consumption will reach 280,000 tons, an 11 percent increase from the 2013 estimate of 253,000 tons, primarily supported by demand as an ingredient in formula milk powder and yogurt products.

Trade:

Post forecasts that China’s 2014 NFD imports will reach 230,000 tons, a 15 percent increase from the newly revised 2013 estimate of 200,000 tons. NFD is normally substituted for whole milk powder (WMP) when prices are too high. This year, the NFD import price increased by 14 percent to an average of $3,834 per ton, making it higher than the WMP price for the first time since 2008. Negative reports about New Zealand milk powder quality reduced demand for New Zealand exports and provided an import opportunity from other sources. As a result, U.S. exports to China more than doubled, despite the price increase of 26 percent to $3,865 per ton. U.S. export market share in September 2013 increased to 23 percent from 12 percent during the same period last year.

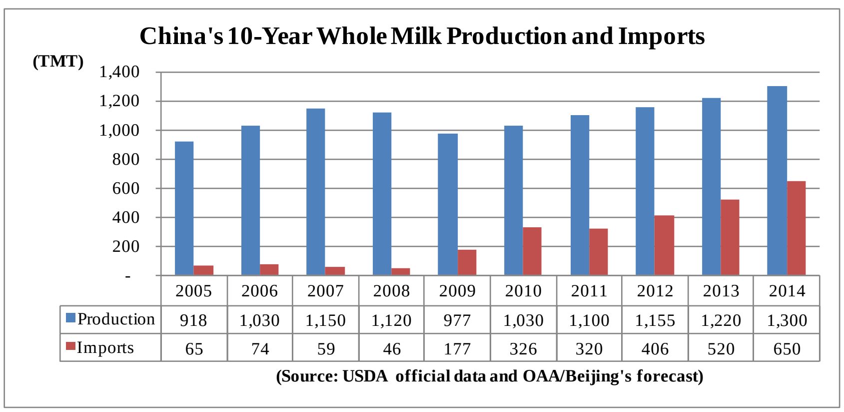
China’s domestic origin or re-export after processing NFD exports are forecast at about 1,000 tons. The only export markets are Hong Kong and Malaysia.

Whole milk powder PS&D table

Dairy, Dry Whole Milk Powder China	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	50	50	60	60		30	(1000 MT)
Production	1,160	1,160	1,220	1,220		1,300	(1000 MT)
Other Imports	406	406	510	520		650	(1000 MT)
Total Imports	406	406	510	520		650	(1000 MT)
Total Supply	1,616	1,616	1,790	1,800		1,980	(1000 MT)
Other Exports	9	9	9	5		5	(1000 MT)
Total Exports	9	9	9	5		5	(1000 MT)
Human Dom. Consumption	1,540	1,540	1,725	1,762		2,005	(1000 MT)
Other Use, Losses	7	7	6	3		0	(1000 MT)
Total Dom. Consumption	1,547	1,547	1,731	1,765		1,975	(1000 MT)
Total Use	1,556	1,556	1,740	1,770		1,980	(1000 MT)
Ending Stocks	60	60	50	30		0	(1000 MT)
Total Distribution	1,616	1,616	1,790	1,800		1,980	(1000 MT)
CY Imp. from U.S.	0	0	0	2		3	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0	(1000 MT)
TS=TD	0	0	0	0		0	

(Data included in this report is not official USDA data. Official USDA data is available at http://www.fas.usda.gov/psdonlineonline)

Production



Post estimates that China's 2014 whole milk powder (WMP) production will reach 1.3 million tons, nearly a seven percent increase from the 2013 figure of 1.2 million tons. Strong population growth, continued urbanization, higher incomes and nutritional concerns will drive whole milk powder production, which is expected to consume half of 2014's beginning stocks.
China mainly uses two methods to produce whole milk powder: the wet method which uses domestic raw milk and the dry method which uses imported whole milk powder as material for further processing. According to the Chinese dairy industry, about one-third of domestic processing plants are using the dry-method.

Consumption

Post estimates China's 2014 WMP consumption at slightly over 2 million tons, a 14 percent increase from the revised 2013 estimate of 1.7 million tons. Most WMP is used after processing in infant formulas or reconstituted to make UHT milk, yogurt, and milk based beverages. Food processing also consumes a significant share of WMP stocks.

Trade

Imports

Post forecasts that China’s 2014 WMP imports will reach 650,000 tons, a 25 percent increase from the newly revised 2013 estimate of 520,000 tons. Post estimates that China’s 2013 whole milk powder imports will increase to 520,000 tons based on tight domestic milk supplies and strong demand. Import volume has increased 28 percent through the first three quarters of 2013, despite a seven percent increase in import price. Strong demand has made importers less sensitive to price. Import volume is expected to reach 50 percent of China’s domestic production. Most imports arrive in large bulk packaging destined for further processing primarily into infant formula products.

Importers are uncertain about China’s new infant formula policies and how they will impact next year’s trade (See policy section below). As a result, importers are increasing imports of WMP in anticipation of the policy change.

Exports

Post forecasts that China’s 2014 WMP exports will remain flat at 5,000 tons. Post’s downward revision to its 2013 export estimate is due to continued weak demand from overseas buyers. Hong Kong, China’s largest whole milk powder export market, accounts for 45 percent of China’s total exports.

Tight domestic supplies and high exports prices, combined with concerns about quality and safety, dampened demand for China’s milk exports. China’s exports have not fully recovered from the melamine scandal of 2008; before this crisis, Chinese dairy exports reached 760,000 tons. Chinese media continues to highlight domestic production issues.

Infant formula milk powder [Harmonized System (HS) Code: 190110]

According to the Chinese dairy industry, China has 127 infant formula manufacturers with a total annual output of 600,000 tons. However, only three manufacturers can produce over 30,000 tons a year. There are 54,500 enterprises handling infant formulas in China. Domestic brands only account for 20-25 percent of the high-end infant formula market.
This year, the Chinese government announced new quality sourcing control measure requiring that Chinese infant formula processing plants utilize their own or outside quality controlled raw milk sources. The government also suggested additional controls such as infant formula processors should not outsource infant formula production, nor produce OEM (Original Equipment Manufacturers) infant formulas, nor use a single ingredient to produce different infant formula brands, nor use any product besides cows milk to produce infant formula.

In June 2013, the National Reform and Development Commission (NDRC) started an anti-monopoly price investigation of infant formula companies selling product in China. In August, NDRC fined several international companies a total of over $100 million for illegal pricing practices. This is the largest anti-monopoly fine in China to date.

Other Dairy Products

Whey: Post estimates that China's 2013 whey imports will rise by 20 percent to 442,000 tons. The United States is China's largest whey supplier, accounting for 49 percent of China's total imports valued at over $200 million in the first three quarters in 2013. However, U.S. low -protein whey cannot be exported to China for human consumption because China does not have a national safety standard for human consumption of low-protein whey.

Cheese: Like whey, China is a net cheese import country.

Post forecasts that China's 2013 cheese imports will increase by 18 percent to nearly 45,000 tons. New Zealand, Australia and the United States are the top three suppliers and combined account for about 87 percent of China's total imports. In the first three quarters of 2013, China imported 6,711 tons of U.S. cheese valued at $28.8 million, accounting for 20 percent of China's total imports. Strong demand is partially driven by the increased acceptance of western style fast food which will continue to support import demand into 2014.

Trade policy change

On September 23, 2013, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) announced Public Notice ([2013] No. 133) on Strengthening Administration of Imported Infant Formula Powder, to enforce the State Council's instructions related to infant formula powder quality and safety. The order states:

Foreign processing facilities exporting infant formula powder to China are requested to comply with the "Administrative Measure on Inspection and Quarantine of Import and Export of Dairy Products" (AQSIQ Order152 issued on January 24 and effective on May 1, 2013), the "Administrative Measure of Registration of Overseas Manufacturers of Imported Foods" (AQSIQ Decree 145 issued on March 22 and effective on May 1, 2013), and the "Notice Publishing the Implementation of Catalogue for Registration of Overseas Manufacturers of Imported Foods ([2013 No. 62] announced on April 28 and effective on May 1, 2014.

The measure forbids the import of infant formula powder with less than three months of shelf life remaining, and forbids imports of infant formula powder in large bulk packages for subsequent repackaging into small retail-sized packaging.
Beginning April 1, 2014, labels in Chinese must be printed on the smallest package for retail distribution before entering China. Companies are no longer allowed to apply Chinese labels over existing labels after export. Products that do not have appropriate labeling on the product, or if the Chinese labeling fails to comply with relevant Chinese laws, regulations or national food safety standards then the products will be returned or destroyed as unqualified products.

Farm-Gate raw milk prices

China Farm-Gate Mil Prices on Average, 2008-2013 (Year-to-Date)							
(RMB/KG, $1=RMB6.14)							
MONTH	2008	2009	2010	2011	2012	2013	% Change 2013/12
January	2.98	2.79	2.79	3.22	3.36	3.53	5.06
February	3.03	2.74	2.83	3.24	3.38	3.56	5.33
March	2.96	2.69	2.84	3.25	3.40	3.56	4.71
April	2.94	2.65	2.87	3.25	3.40	3.57	5.00
May	2.93	2.61	2.91	3.26	3.40	3.59	5.59
June	2.98	2.59	2.93	3.28	3.40	3.64	7.06
July	2.86	2.60	2.96	3.29	3.40	3.69	8.53
August	2.81	2.60	3.00	3.29	3.41	3.75	9.97
September	2.81	2.61	3.04	3.31	3.43	3.83	11.66
October	2.79	2.65	3.08	3.32	3.45		
November	2.80	2.68	3.14	3.33	3.46		
December	2.82	2.75	3.18	3.34	3.50		
Source: The Ministry of Agriculture collected from over 400 markets of farm produce.							

(End of report)