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## **China - Peoples Republic of**

### **Dairy and Products Semi-annual**

#### **Fluid Milk Consumption Continues to Increase**

**Approved By:**

Michael Ward

**Prepared By:**

Abraham Inouye

**Report Highlights:**

Post forecasts that China's fluid milk production will grow slightly due to productivity gains on large-scale farms, but the overall herd size will remain unchanged in 2018. Consumption also continues to grow in 2018, primarily due to Chinese consumer perceptions that dairy products are a health food, especially yogurt. Furthermore, Whole Milk Powder (WMP) and Nonfat Dry Milk, or Skim Milk Powder (SMP) production and consumption forecasts generally remain unchanged.

## FLUID MILK

### Slight growth in production due to stable herd size and continued productivity growth

Post forecasts China's 2018 milk production will increase to 39 million metric tons (MMT), a roughly 1 percent annual increase compared to 2017.

China's dairy cattle herd will remain stable in 2018, following a roughly 10 percent reduction in 2017. Small and mid-sized farms are being squeezed out of the market due to the implementation of strict environmental rules and low milk prices. For example, in the Beijing area, the dairy cattle number has decreased by about 30,000 head, or 20 percent of the total herd in Beijing. In Shanghai, 52 dairy operations have closed. But most of these reductions have occurred on small or mid-sized farms while the large-scale farms continue to grow. The milk production from the top 15 large farms accounts for 19 percent of total milk production, and their production increased by about 10 percent in 2017. So while the total cattle number remains unchanged in 2018, fluid milk production will increase by 1 percent to reach 39 million tons due to productivity improvements.

**Percentage of Large-Scale Livestock Farms in China (2005 -2020)**

	Large-scale swine farms	Large-scale poultry farms	Large-scale dairy/cattle farms
2020*	52%	Data unavailable	Data unavailable
2016	50% (est.)	92%	50%/27.5%
2010	34%	82%	28%
2005	16%	66%	11%

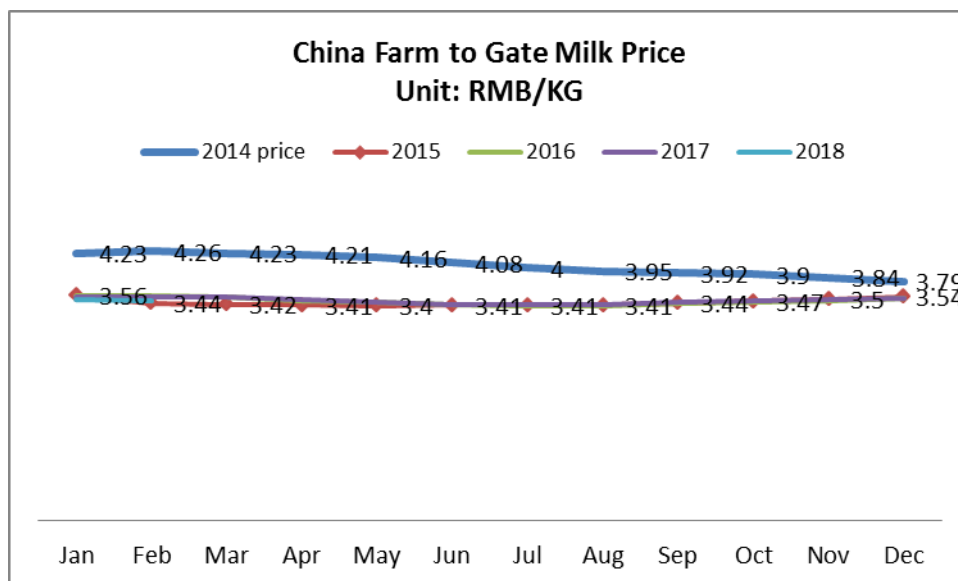
Note: For purposes of this metric, MOA considers large-scale to mean swine farms that slaughter 500 pigs or more annually; dairy farms with an inventory of 100 dairy cattle or above; and cattle farms that slaughter 50 cattle or above annually. Source and Estimates: MARA

China will continue decreasing its dairy cattle imports in 2018. China mainly imports live cattle for genetic improvement and with the large number of imports in the past, the demand for new genetics is waning. China mainly imports live dairy cattle from Australia, New Zealand, Chile, and Uruguay.

Feed costs will increase slightly in 2018 due to increased corn prices. Corn farmers reduced their corn planting acreage for this year due to high stockpiles in the past. As the central government encourages expanding corn usage into further processing (i.e., ethanol and starch production), this policy will also exert an upward pressure on corn prices.

Post forecasts that the domestic milk price will slightly improve in 2018. Towards the end of 2017, the international milk price was slowly recovering and Post anticipates China's domestic milk price will continue to improve in 2018. This anticipated increase in the milk price will be welcome relief to dairy production facilities many of which continue to operate at a loss. The milk price in 2017 averaged roughly 3.4 RMB per kilogram. Meanwhile, the average milk production cost in China was 3.5 RMB per kilogram.

Due to the seasonality problem, China also needs to import WMP to make up for a shortage in fresh milk production during the summer time. Therefore, the domestic milk price is also influenced by international milk prices and the WMP price. In 2018, international milk prices will be constrained by the estimated production increase in major dairy producing countries. Another factor that constrains milk prices in China is the strong market position of China's dairy processors. The top 8 dairy processing companies account for over 70 percent of all dairy purchasing in China and as such, exert pressure to maintain low dairy prices.



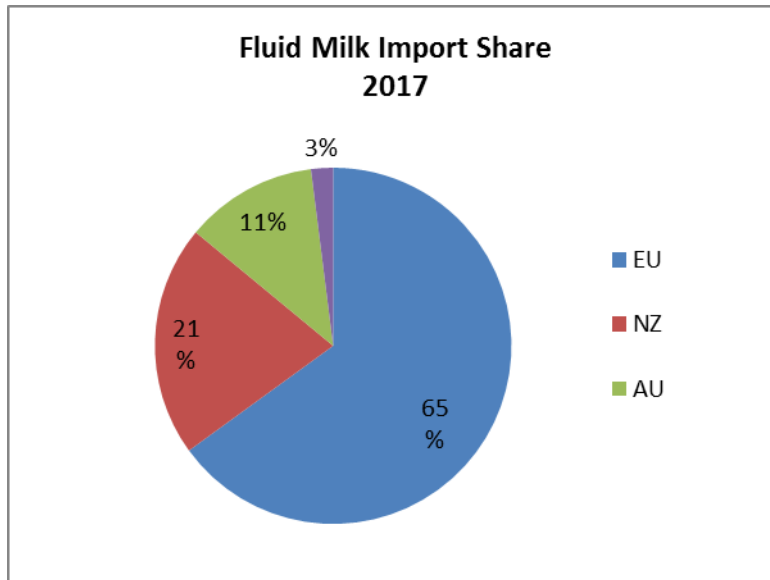
Source: MOA.

### Consumption will increase by 9.5 percent due to continued growth in second and third tier cities

Post forecasts 2018 consumption will reach 41 million tons, about 9.5 percent higher than 2017. The growth is mainly driven by consumers from second and third tier cities in China. China's per capita milk consumption is about 36kg/person, which is less than 1/3 of the world average and less than 1/10 when compared to developed countries. But Chinese consumers are increasingly health conscious and dairy products are generally viewed as a healthy beverage option. Furthermore, Chinese consumers are becoming more selective about the quality and safety of the dairy products they consume. In short, there appears to be room for substantial growth of high-quality dairy product consumption in China.

### Imports of fluid milk will remain flat in 2018

Post forecasts 2018 fluid milk imports at 670,000 tons, which is less than 2 percent of total consumption. The majority of imported fluid milk is mainly UHT milk, marketed to lower middle-class consumers with a shelf life ranging from 9 to 18 months. As Chinese consumers become savvier, especially among the urban middle-class, UHT milk loses its attractiveness and consumers gravitate towards high-end fresh milk. The EU, led by Germany, occupies over half of the total fluid milk import market. Benefited by beneficial terms negotiated through free trade agreement, New Zealand and Australia have both started to increase that amount of fresh milk and UHT milk to China.



Source: China Customs

### Import Policy

Those interested in exporting dairy to China must be in compliance with Decree 145, administered by the Certification and Accreditation Administration (CNCA). Since Decree 145 entered force in 2014, many U.S. companies have noted delays in getting their dairy plants and products registered for export to China. For further background information, please see the following GAIN report [Registration of Overseas Food Manufacturing Facilities](#) and visit the U.S. FDA website for registration guidance at:

<http://www.fda.gov/food/guidanceregulation/guidancedocumentsregulatoryinformation/importexports/cm378777.htm>

## Fluid Milk Production Supply and Demand Table

Dairy, Milk, Fluid Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>China</b>						
<b>Cows In Milk</b>	8000	8000	7500	7200	7500	7200
<b>Cows Milk Production</b>	36020	36020	35500	35450	36500	39000
<b>Other Milk Production</b>	1600	1600	1500	1500	1500	1500
<b>Total Production</b>	37620	37620	37000	36950	38000	40500
<b>Other Imports</b>	634	634	667	668	700	670
<b>Total Imports</b>	634	650	667	668	700	670
<b>Total Supply</b>	38254	38270	37667	37618	38700	41170
<b>Other Exports</b>	23	23	22	23	20	20
<b>Total Exports</b>	23	20	22	23	20	20
<b>Fluid Use Dom. Consum.</b>	14600	14600	14792	14792	14880	15000
<b>Factory Use Consum.</b>	23631	23650	22853	22803	23800	26150
<b>Feed Use Dom. Consum.</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	38231	38250	37645	37595	38680	41150
<b>Total Distribution</b>	38254	38270	37667	37618	38700	41170
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## WHOLE MILK POWDER

### Production will decrease by 3.7 percent in 2018

Post adjusted the 2018 WMP production estimate to 1.3 million tons, 3.7 percent lower than 2017. China's domestic milk price is closely tied to the international milk price, especially the international WMP price. Milk production in China is counter-cyclical to consumption, meaning that the peak production season from December to March is the low consumption season. As a result, many dairy facilities convert their milk to WMP during this time. During the peak consumption season from July to September, milk production is at its lowest, leading many dairy producing companies to rely on WMP instead of fluid milk.

Another reason for the reduction of domestic WMP production is the increase usage of imported WMP. The imported WMP occupies a larger percentage year by year in China's WMP consumption due to its stable quality, cheaper price, and longer shelf life. All major dairy processors in China have established

overseas WMP production facilities, and the products produced there are targeting the Chinese domestic market. Post adjusted the 2017 WMP production estimate to 1.35 million tons, about 2 percent lower than 2016.

### **Consumption will decrease by 3.6 percent in 2018**

Post forecasts 2018 consumption will decrease by 3.6 percent to about 1.8 million tons. The main reason is the much cheaper price of SMP. WMP and SMP can generally be substituted for each other. Due to the high SMP stockpile in Europe, the SMP price is very competitive. As a result, Chinese dairy processors will use more SMP to substitute for WMP in their products. Combined with changing consumer preferences for “healthier” products (i.e., less processed food), the usage of WMP in reconstituted milk, yogurt and ice cream, etc. will go down. Consumers are increasingly seeking out products made from fresh milk.

### **Imports will continue to grow in 2018**

Post forecasts WMP imports will grow to 500,000 tons in 2018, about 6.3 percent higher than 2017.

Imported WMP occupies an increasingly large percentage of consumption year by year due to its stable quality, cheaper price, and longer shelf life. Domestic producers of WMP will continue losing money.

Currently, New Zealand dominates the import market with about 92 percent market share. Exports from the United States tripled in 2017 to reach 6,197 tons, but market share remains only 1.3 percent of China’s total imports.

### **Exports**

China exports a negligible amount of WMP. Post forecasts exports will remain at 2,000 tons in 2018. The main export markets are Hong Kong, North Korea, and Burma.

## WHOLE MILK POWDER PRODUCT SUPPLY AND DEMAND TABLE

Dairy, Dry Whole Milk Powder Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Beginning Stocks	350	350	150	150	50	50
Production	1375	1375	1400	1350	1450	1300
Other Imports	420	420	500	470	600	500
Total Imports	420	420	500	470	600	500
Total Supply	2145	2145	2050	1970	2100	1850
Other Exports	3	3	2	2	2	2
Total Exports	3	3	2	2	2	2
Human Dom. Consumption	1992	1992	1998	1918	2073	1848
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1992	1992	1998	1918	2073	1848
Total Use	1995	1995	2000	1920	2075	1850
Ending Stocks	150	150	50	50	25	0
Total Distribution	2145	2145	2050	1970	2100	1850

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### NONFAT DRY MILK (SKIM MILK POWDER)

#### Production will decrease 33 percent to 20,000 tons in 2018

Post adjusts 2018 production downwards to 20,000 tons, a 33 percent drop compared to 2017. This drop is directly related to the low international SMP price.

#### Consumption

Posts adjusted the 2018 consumption estimate upwards to 320,000 tons, 15.5 percent higher than 2017.

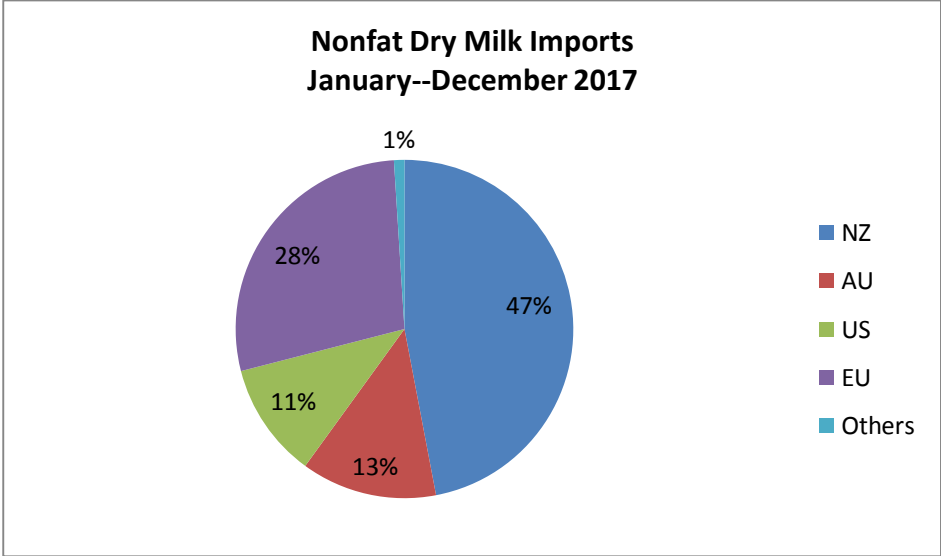
The increased consumption is driven by low and competitive international SMP prices. Because many processors will regularly use SMP to substitute for WMP, the low SMP price means that more SMP will be substituted for WMP.

#### Trade

Post adjusts the 2018 SMP import estimate to 300,000 tons. China has limited nonfat dry milk (SMP) production and consequently relies on imports to meet demand in the food processing sector and infant

formula sector. Due to the high stockpile in the EU and a competitive international SMP price, China will import more SMP to substitute for WMP.

U.S. maintains its position as the third largest SMP exporter to China, following New Zealand and the EU.



Source: China Customs

(see table on following page)



### Nonfat Dry Milk Powder (Skim Milk Powder) Production Supply and Demand Chart

Dairy, Milk, Nonfat Dry Market Begin Year China	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	40	40	35	30	40	20
<b>Other Imports</b>	184	184	255	247	275	300
<b>Total Imports</b>	184	184	255	247	275	300
<b>Total Supply</b>	224	224	290	277	315	320
<b>Other Exports</b>	1	1	0	1	0	0
<b>Total Exports</b>	1	1	0	1	0	0
<b>Human Dom. Consumption</b>	223	223	290	277	315	320
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	223	223	290	277	315	320
<b>Total Use</b>	224	224	290	278	315	320
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	224	224	290	278	315	320

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