

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

China's MY 2012 cow milk production forecast has been increased to 32,350 thousand metric tons (MT), up nearly 1% from the previous forecast. Whole milk powder (WMP) production is forecast at 1.16 MMT, which is 4% lower than the previous forecast. The forecast for non-fat dry milk (NFD) production remains unchanged at 57,000 MT. Import demand remains firm, despite slower economic growth. NFD imports are forecast to increase 38% to 180,000 MT and whey imports are expected to increase at least 30% to 445,000 MT.

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PS&D Tables

Fluid milk PS&D table

Dairy, Milk, Fluid China	2010		2011		2012		
	Market Year Begin: Jan 2010				Market Year Begin: Jan 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Cows In Milk	7,320	7,320	7,620	7,620	7,975	8,000	(1000 HEAD)
Cows Milk Production	29,300	29,300	30,700	30,700	32,150	32,350	(1000 MT)
Other Milk Production	1,228	1,228	1,280	1,280	1,350	1,355	(1000 MT)
Total Production	30,528	30,528	31,980	31,980	33,500	33,705	(1000 MT)
Other Imports	16	16	33	41	40	55	(1000 MT)
Total Imports	16	16	33	41	40	55	(1000 MT)
Total Supply	30,544	30,544	32,013	32,021	33,540	33,760	(1000 MT)
Other Exports	22	22	25	25	28	28	(1000 MT)
Total Exports	22	22	25	25	28	28	(1000 MT)
Fluid Use Dom. Consum.	12,060	12,060	12,590	12,600	13,140	13,400	(1000 MT)
Factory Use Consum.	18,462	18,462	19,398	19,396	20,372	20,332	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	30,522	30,522	31,988	31,996	33,512	33,732	(1000 MT)
Total Distribution	30,544	30,544	32,013	32,021	33,540	33,760	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD	0	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>)

Nonfat dry PS&D table

Dairy, Milk, Nonfat Dry China	2010		2011		2012		
	Market Year Begin: Oct 2010				Market Year Begin: Oct 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	55	55	56	56	57	57	(1000 MT)
Other Imports	89	89	118	130	140	180	(1000 MT)
Total Imports	89	89	118	130	140	180	(1000 MT)

							MT)
Total Supply	144	144	174	186	197	237	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	144	144	174	186	197	237	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	144	144	174	186	197	237	(1000 MT)
Total Use	144	144	174	186	197	237	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
Total Distribution	144	144	174	186	197	237	(1000 MT)
CY Imp. from U.S.	14	14	19	21	23	28	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD	0	0	0	0	0	0	

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Whole milk powder PS&D table

Dairy, Dry Whole Milk Powder China	2010		2011		2012		
	Market Year Begin: Jan 2010				Market Year Begin: Jan 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	110	110	80	80	50	50	(1000 MT)
Production	1,030	1,030	1,100	1,100	1,200	1,155	(1000 MT)
Other Imports	326	326	350	320	375	342	(1000 MT)
Total Imports	326	326	350	320	375	342	(1000 MT)
Total Supply	1,466	1,466	1,530	1,500	1,625	1,547	(1000 MT)
Other Exports	3	3	9	9	11	12	(1000 MT)
Total Exports	3	3	9	9	11	12	(1000 MT)
Human Dom. Consumption	1,373	1,373	1,463	1,433	1,556	1,499	(1000 MT)
Other Use, Losses	10	10	8	8	8	6	(1000 MT)
Total Dom. Consumption	1,383	1,383	1,471	1,441	1,564	1,505	(1000 MT)
Total Use	1,386	1,386	1,480	1,450	1,575	1,517	(1000 MT)
Ending Stocks	80	80	50	50	50	30	(1000 MT)
Total Distribution	1,466	1,466	1,530	1,500	1,625	1,547	(1000 MT)
CY Imp. from U.S.	1	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD	0	0	0	0	0	0	

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Production

Dairy Cow Numbers and Fluid Milk Production

The number of dairy cows in milk is forecast to increase to 8 million head in CY 2012, up 25,000 head from Post's previous forecast. The number for CY 2011 remains unchanged at 7.62 million head. Although small producers are continuing to withdraw from the sector, the number of large operators is increasing. These operators are constructing larger and more modern commercial

farms and importing breeding cows to access improved genetics. According to the Ministry of Agriculture (MOA), the percentage of dairy farms with an annual inventory at or above 100 head reached 28% by the end of 2011, up 17% from the previous year. Although detailed 2011 data on the size of dairy farms is not yet available, data from the past four years supports the general trend toward a growing numbers of farms with at least 50 head and declining numbers for farms with less than 50 head.

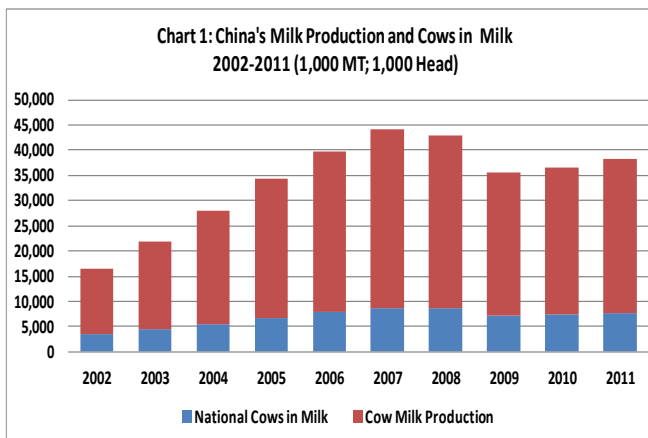


Table 1: Number of Chinese Dairy Cow Farms at Different Herd Sizes (2007-2010)

	2,007	2,008	2,009	2,010	% Change 2010/09
Annual inventory (Head)	Farms	Farms	Farms	Farms	Farms
1-4	2,159,701	1,970,755	1,816,359	1,750,895	-3.6
5-9	295,789	398,744	374,541	345,667	-7.7
10-19	149,106	143,358	138,265	138,246	0.0
20-49	42,079	51,804	49,490	49,450	-0.1
50-99	14,175	13,842	13,685	14,758	7.8
100-199	4,421	4,425	4,324	4,640	7.3
200-499	2,336	2,679	3,341	3,579	7.1
500-999	768	1,026	1,773	2,061	16.2
1,000 and above	339	454	706	898	27.2

Source: The Ministry of Agriculture

Cow milk production in 2012 is forecast at 32,350 thousand metric tons (MT), which is nearly 1% percent higher than the original forecast. Factors contributing to the slight increase include a slight upturn in per cow production, partly driven by improved feed.

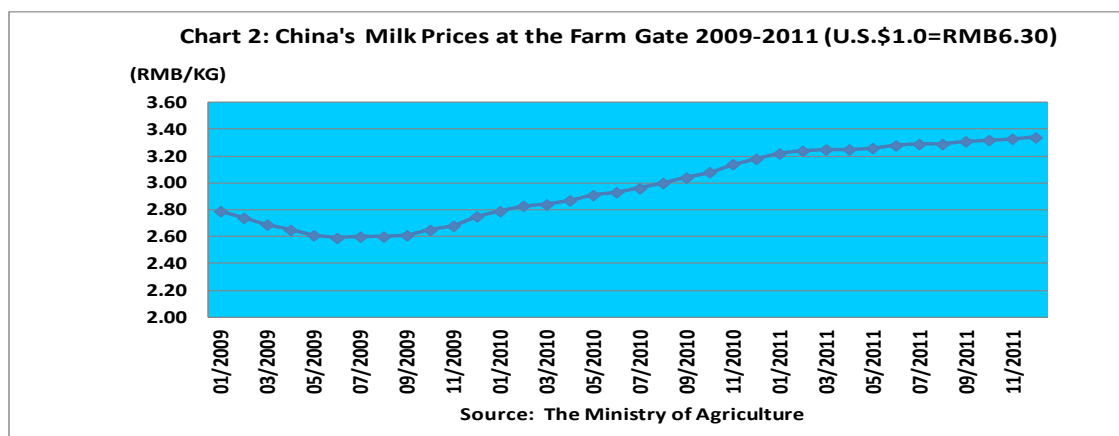
China's larger and more modern farms are responding to the upward trend in milk prices, and the premium for quality, by adding alfalfa and other forage to feed rations, which is having an impact on productivity per cow. Alfalfa and other forage imports from the United States, the dominant supplier, increased 25% to 276,478 MTs in 2011. During the first quarter of 2012, total imports from the United States (accounting for 96% of China's total imports) reached 91,690 MTs, a 95% increase over the level imported during the same time period the previous year. Future import levels will be partly dependent on the success of the central government in encouraging domestic alfalfa production. During the 12th

Five-Year-Plan (2011-2015), the central government plans to invest RMB1.2 billion (\$333.3 million) to improve domestic alfalfa production.

According to the China Feed Industry Association, domestic ruminant feed production during January-February 2012 increased about 16 percent, as compared to the same period the previous year. In addition, the natural grass harvest in 2011 hit a record, surpassing the one billion metric ton (MT) mark.

Another factor encouraging domestic production is the expansion of the central government's dairy cow insurance subsidy scheme. As of January 1, 2012, the central government's insurance scheme for dairy cows, which is a relatively new program, was extended beyond the major producing areas to include the entire country. Under the terms of the scheme, the central government pays 40% of the total insurance payment, while local provincial governments in the eastern region pay 30 percent and the farmers pay the remaining 30%. For provinces in the Western part of China, the central government pays 65%. The difference in central government subsidy levels largely reflects the relative wealth of the eastern and western regions.

The target for raw milk production set by China's 12th Five-Year-Plan (2011-2015) is 50 MMT by the end of 2015. However, limited land resources, increasingly strict environmental protection and food safety requirements, and higher production costs, including higher wage rates, will constrain the growth of dairy production in the future. The rate of increase in production has fallen from nearly 30% in 2003 to an estimated 5% in 2012.



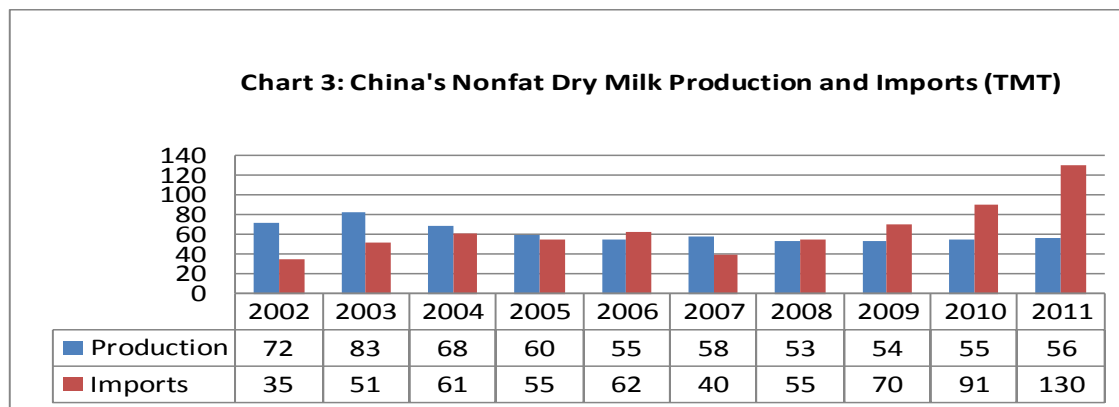
Milk Price Table

MONTH	2009	2010	2011	% Change 2010/09
January	2.79	2.79	3.22	15.41
February	2.74	2.83	3.24	14.49
March	2.69	2.84	3.25	14.44
April	2.65	2.87	3.25	13.24
May	2.61	2.91	3.26	12.03
June	2.59	2.93	3.28	11.95
July	2.60	2.96	3.29	11.15
August	2.60	3.00	3.29	9.67
September	2.61	3.04	3.31	8.88
October	2.65	3.08	3.32	7.79
November	2.68	3.14	3.33	6.05
December	2.75	3.18	3.34	5.03

Source: The Ministry of Agriculture collected from over 400 markets of farm produce

Nonfat Dry (NFD) Milk Powder

China's CY 2012 NFD milk powder production is forecast unchanged at 57,000 MT. NFD is not a traditional domestic product and very few processing plants have the facilities to produce it. Although total NFD milk powder production in CY 2012 will increase by an estimated two percent, NFD's share of total milk powder production continues to fall and now stands at five percent of total milk powder production.

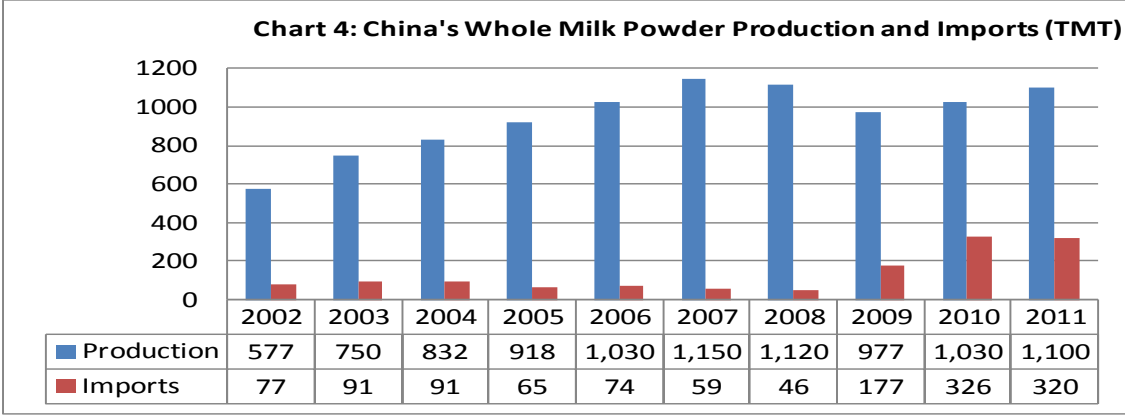


Whole Milk Powder (WMP)

China's WMP production is forecast at nearly 1.16 MMT in CY 2012, which is 45,000 MTs or 4% lower than Post's previous forecast. The main reasons are:

- China closed over 30% of small processing plants in 2011 due to safety concerns. Most of them either produced WMP or used WMP to produce other dairy products;
- part of the demand for WMP is reportedly being filled by NFD;

- WMP stock levels are being drawn down to meet consumption demand; and,
- Demand for traditional yogurt, which is mainly produced from WMP, is expected to fall after press reports of it being produced with industrial-grade gelatin derived from leather from shoe factories.



Consumption

Ongoing urbanization and economic growth will continue to drive dairy consumption in 2012. The urban population reached 691 million in 2011 accounting for 51.3 percent of the total population, up from just 26 percent in 1990. During the first quarter of 2012, the per capita income of urban residents jumped 14 percent to RMB 6,796 (US \$1,079). Rural residents experienced a 17% increase to RMB 2,560 (US \$406). After adjusting for inflation, real per capital income growth was 9.8 and 12.7 percent, respectively.

Fluid milk consumption is forecast at 13.4 MMT, a 2% higher than Post’s previous forecast. Consumer demand for pasteurized milk due to preference for freshness in urban areas is stronger than previously expected. Fluid milk consumption for 2011 was revised 10,000 MTs higher due to larger imports.

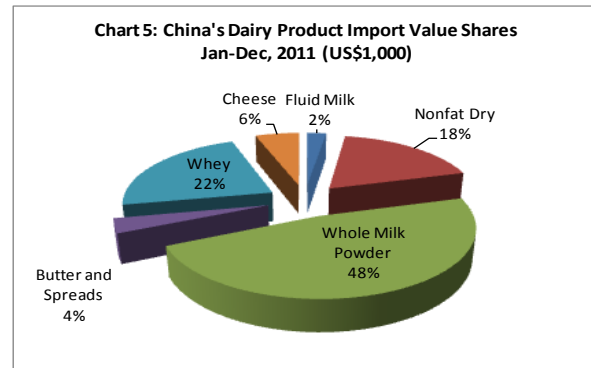
The 2012 consumption estimate for NFD milk powder, which is largely used for producing infant formula, is now forecast at 237,000 MT, an increase of 20% from the previous estimate. Although import prices were up approximately 11% during the first quarter of 2012, imports still satisfy approximately three-quarters of total demand.

WMP consumption is now forecast to increase 4% to 1.51 MMT, which is 59,000 MT lower than the previous forecast. Relative pricing between NFD milk powder and WMP is the major factor driving the drop in demand for WMP. A string of melamine scandals during the second half of 2011, involving plants using contaminated WMP left over from 2008, has also driven some processors to turn to imported NFD.

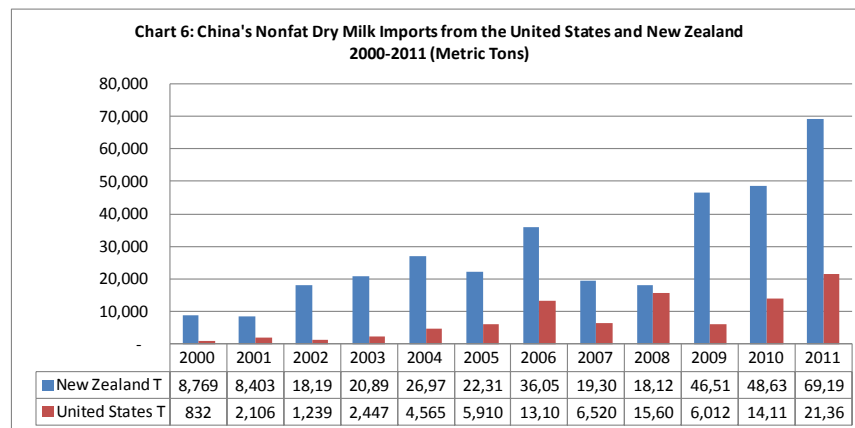
Trade

Imports:

Fluid milk imports for 2012 are forecast at 55,000 MT, which is 15,000 MT higher than Post's previous forecast. On-going food safety concerns are continuing to drive wealthy consumers to imported fluid milk. New Zealand, Germany and Australia are the three top suppliers of fluid milk to the Chinese market accounting for nearly 85% of China's total imports. There are also opportunities for U.S. suppliers and U.S. market share is expected to increase from 0.2 to approximately 3 percent.



NFD imports for 2012 are forecast at 180,000 MT, which is 40,000 MT higher than the previous forecast. Although the average import price of NFD milk increased 11 percent during the first quarter of 2012 compared to the same period last year, it is still \$157/MT less expensive than WMP. The price differential is driving demand for NFD milk powder.



Despite a 4% increase in U.S. NFD milk powder exports to China, the U.S. export market share is shrinking due partly to competition from New Zealand, which benefits from a bilateral Free Trade Agreement signed on April 7, 2008. Under the terms of the agreement, China's tariff on imports of NFD milk powder imported from New Zealand have been reduced from 15% in 2008 to 6.7% in 2011. The tariff is scheduled to decline further to 5.8% in CY 2012. By contrast, the tariff on U.S. imports of NFD milk powder is 10% in 2012.

WMP imports in 2012 are forecast at 342,000 MT, which is 33,000 MT lower than the previous forecast. The decrease is mainly attributable to a decline in demand from smaller Chinese processing plants as international price levels have put WMP out of their reach. These processors are turning to NFD milk imports and WMP domestic stocks.

China's whey imports in 2012 are forecast to increase 30 percent to 445,000 MT due to strong demand from China's domestic infant formula, food processing and feed production industries. The United States is expected to continue to be the dominant supplier of whey to the Chinese market accounting for nearly half of total imports. France and Argentina are the second and third largest suppliers accounting for 15% and 6% of China's total imports, respectively. Argentina's exports jumped to 16,803 MTs in 2011 from 4,805 MT the year before. Strengthened bilateral dairy industry exchanges and falling prices for Argentine whey have helped exports.

Exports

The estimate for China's 2012 fluid milk exports remains unchanged at 28,000 MT. Hong Kong continues to be the main export market. China's fluid milk exports have still not recovered from the 2008 melamine scare. WMP exports for 2012 are forecast at 12,000 MT, which is 1,000 MT higher than the previous forecast.

(End of the report)